SCHAEFFLER

Annual Report 2015 | Mobility for tomorrow

Technological Expertise and Systems Know-how

Company profile

The SCHAEFFLER GROUP is a global integrated automotive and industrial supplier.
Highest quality, outstanding technology, and strong innovative ability represent the basis for the Schaeffler Group's lasting success.
The Schaeffler Group makes a key contribution to "Mobility for tomorrow" with high-precision components and systems in engine, transmission, and chassis applications as well as rolling and plain bearing solutions for a large number of industrial applications.

Schaeffler Group at a glance

Key figures

Income statement (in € millions)	**2015**	**2014**		Change
Revenue	13,226	12,124	9.1	%
• at constant currency			3.5	%
EBIT	1,402	1,523	-7.9	%
• in % of revenue	10.6	12.6	-2.0	%-pts.
EBIT before special items [1]	1,676	1,561	7,4	%
• in % of revenue	12.7	12.9	-0.2	%-pts.
Net income [2]	591	654	-9.6	%
Earnings per common non-voting share (basic/diluted, in €) [3]	1.28	1.29	-0.8	%

Statement of financial position (in € millions)	**12/31/2015**	**12/31/2014**		Change
Total assets	12,480	11,617	7.4	%
Shareholders' equity [4]	1,568	258	1,310	€ millions
• in % of total assets	12.6	2.2	10.4	%-pts.
Net financial debt	4,889	5,778	-15.4	%
• Net financial debt to EBITDA ratio before special items [1]	2.1	2.6		

Statement of cash flows (in € millions)	**2015**	**2014**		Change
EBITDA	2,096	2,172	-3.5	%
• in % of revenue	15.8	17.9	-2.1	%-pts.
EBITDA before special items [1]	2,370	2,210	7.2	%
• in % of revenue	17.9	18.2	-0.3	%-pts.
Cash flows from operating activities [5]	1,372	900	472	€ millions
Capital expenditures (capex) [6]	1,025	857	168	€ millions
• in % of revenue (capex ratio)	7.7	7.1	0.6	%-pts.
Free cash flow [5]	370	48	322	€ millions

Added value	**2015**	**2014**		Change
ROCE (return on capital employed, in %)	18.8	22.5	-3.7	%-pts.
ROCE before special items (in %) [1]	22.5	23.1	-0.6	%-pts.
Schaeffler Value Added	657	847	-22.4	%
Schaeffler Value Added before special items [1]	931	885	5.2	%

Employees	**12/31/2015**	**12/31/2014**		Change
Headcount (at end of reporting period)	84,198	82,294	2.3	%

[1] EBIT, debt to EBITDA ratio, EBITDA, ROCE, and Schaeffler Value Added before special items for legal cases and restructuring.
[2] Attributable to shareholders of the parent company.
[3] Earnings per share were calculated in accordance with IAS 33.
[4] Including non-controlling interests.
[5] Including a one-time outflow of EUR 371 m for the EU antitrust penalty in 2014.
[6] Capital expenditures on intangible assets and property, plant and equipment.

Automotive (in € millions)	**2015**	**2014**		Change
Revenue	9,993	8,986	11.2	%
• at constant currency			5.8	%
EBIT	1,124	1,238	-9.2	%
• in % of revenue	11.2	13.8	-2.6	%-pts.
EBIT before special items [1]	1,362	1,260	8.1	%
• in % of revenue	13.6	14.0	-0.4	%-pts.

Industrial (in € millions)	**2015**	**2014**		Change
Revenue	3,233	3,138	3.0	%
• at constant currency			-3.2	%
EBIT	278	285	-2.5	%
• in % of revenue	8.6	9.1	-0.5	%-pts.
EBIT before special items [1]	314	301	4.3	%
• in % of revenue	9.7	9.6	0.1	%-pts.

Prior year information presented based on 2015 segment structure.
[1] EBIT before special items for legal cases and restructuring.

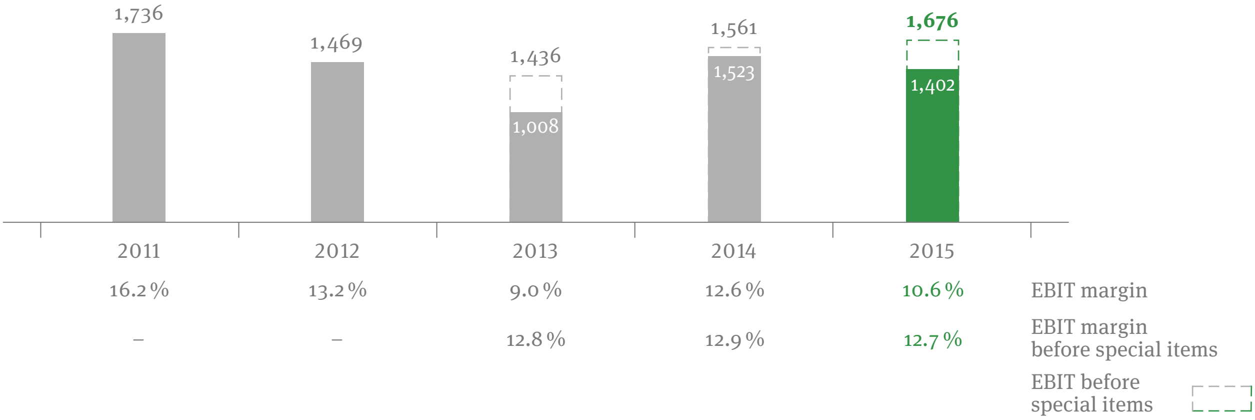
Key financials

Revenue 2011 – 2015

in € millions

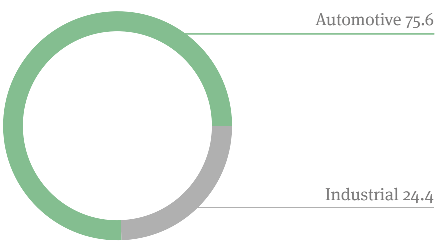
EBIT 2011 – 2015

in € millions



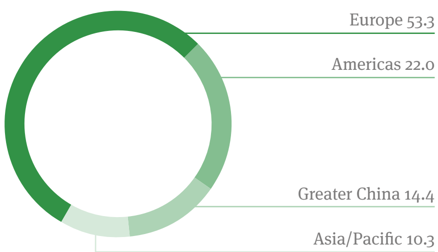
Schaeffler Group revenue by division

in percent



Schaeffler Group revenue by region

in percent by market view



Highlights 2015

Continuing along growth path

Revenue at EUR **13.2** bn growth of 9.1 % p.a.
(fx-adjusted growth 3.5 %)

High earnings quality

EBIT margin before special items at **12.7** % of revenue
(prior year: 12.9 %)

Sustainable positive free cash flow

Free cash flow at EUR **370** m
(prior year: EUR 48 m)

Financial debt reduced

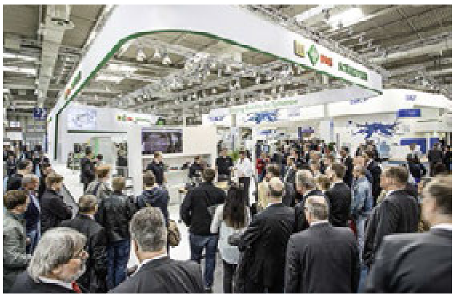
Net financial debt to EBITDA ratio before
special items at **2.1 x** (prior year: 2.6 x)

Contents

Major events in 2015

February
→ Chon Buri, Thailand

Schaeffler celebrates the foundation stone laying ceremony for a new manufacturing facility in Thailand, which will further increase the company's production footprint in the Asia/Pacific region. This is one important milestone of the strategic expansion of local manufacturing as well as research and development capacities in the region.



April
→ Hanover, Germany

In addition to the perennial themes of increasing performance, cost-effectiveness and energy efficiency presented at Hannover Messe, Schaeffler places special emphasis on the subjects of sensors, actuators and networking as well as continuous condition monitoring that are increasingly moving into focus in product development.

July
→ Taicang, China

Schaeffler's success story in China began with the establishment of its first location in Taicang back in 1995. In July, Schaeffler celebrates its 20th anniversary in China. Today, the company has seven plants at four locations, as well as one R&D center.

August
→ Donington, U.K.

After an enthralling Formula E season 2014/2015, team ABT Schaeffler Audi Sport takes third place in the overall standings, just like Lucas di Grassi who finishes third in the drivers' championships. Developed by Schaeffler, the new drivetrain is the core element of the fully electric race car.

September
→ Frankfurt/Main, Germany

One of Schaeffler's exhibits at the IAA is the electromechanical active roll control system which marks the beginning of a new chapter in the history of chassis technology. The efficient system adjusts the chassis to any driving situation and prevents yawing of the vehicle.

October
→ Frankfurt/Main, Germany

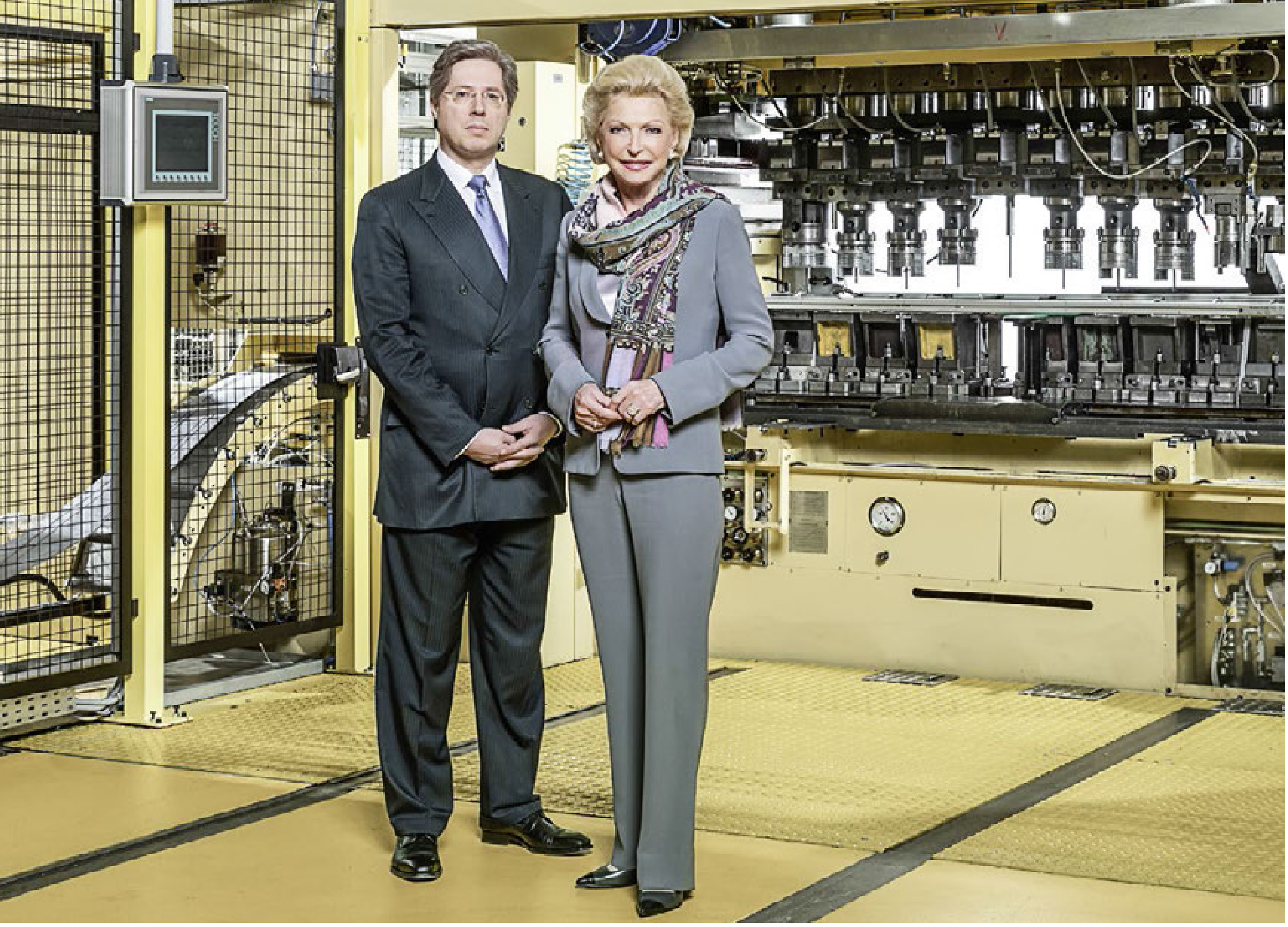
Schaeffler successfully completed its IPO under the motto "We share our success". Since all the voting rights remain with the Schaeffler family, it is ensured that Schaeffler will remain a family business. Going public is the final step of the realignment of the company's capital and corporate structure which span over several years.

October
→ Milan, Italy

One tangible example of Schaeffler's digitalization strategy is the "Machine Tool 4.0" innovation project presented at EMO 2015 – a joint project implemented with DMG MORI and other partners.

December
→ Puebla, Mexico

Double reason to celebrate: In addition to commemorating the 40th anniversary of its plant in Puebla, Schaeffler also celebrates the opening of its second manufacturing plant in Puebla. Featuring highly developed manufacturing equipment, in-house tool manufacturing and a research and development center, the new plant specializes in the manufacture of torque converters for U.S. and Japanese automobile manufacturers.



Ladies and Gentlemen,

The year 2015 was marked by outstanding events, forward-looking decisions, successes, and anniversaries, but also by challenging economic and sociopolitical conditions. We managed to increase our revenue to over EUR 13 bn. The Automotive division once again has contributed to this with above-average growth. The realignment of the Industrial division launched in the middle of last year is going according to plan. We are convinced that it will be bearing fruit in the coming years and that the profitability of the Industrial business will gradually increase.

The IPO of Schaeffler AG in October that we completed successfully despite the difficult setting was a milestone in our company's history. We would like to thank all those involved and pay tribute to them in recognition. With the successful completion of the transaction we have completed the two-pillar model with a strategically focused holding company at the top, which we have been consistently working on for several years. Since the issued shares do not carry any voting rights, we are ensuring that the Schaeffler Group remains a family business. As shareholders we will continue to take responsibility to further successfully develop our group of companies. This is very important to us – in the interest of our customers, suppliers and investors, as well as our employees. The proceeds of the issuance of shares were used to reduce the financial indebtedness of Schaeffler AG. Thus we have opened up new scope for action and additional growth opportunities.

Many of our locations can look back on decades of successful history. Our sites in Bühl and Unna celebrated their 50th anniversary in 2015, Schaeffler UK and Lahr commemorated their 60th anniversary and the Eltmann location even turned 75. In Taicang, China, Schaeffler can already look back on 20 successful years. However, it is crucial to look ahead to the future: With the inauguration of a new plant in Mexico and the start of construction work on new plants in Thailand and the Czech Republic, Schaeffler invested in the further expansion of our global network last year. Currently this network includes over 170 locations in more than 50 countries.

The proximity to our customers and mutual trust are very important to us. Our customers can rely on the quality of our products and services – no matter where in the world they are. This is thanks to our uniform standards that are applied at all locations and in all areas, as well as to our integrated global R&D and production network. This commitment to quality and our innovative strength, coupled with sophisticated technological expertise and an in-depth understanding of systems, are our key factors for success. Our future will be largely determined by the use of digital technologies. We see this as an opportunity and will use the large amounts of data that are generated at Schaeffler every single second for our products, business processes and services.

Together with our customers, suppliers, service providers and research partners, we are working on concepts and solutions for the mobility for tomorrow. We want to play a part in shaping the future. This is what our over 84,000 employees worldwide stand for. With their reliability, ability to identify with the company and creativity, they represent the basis for the success of the Schaeffler Group. We would like to extend our heartfelt thanks to all our business partners and employees.

Sincerely yours,

Maria-Elisabeth Schaeffler-Thumann

Georg F. W. Schaeffler

Ladies and Gentlemen,

2015 was an exceptional, a remarkable year for us in many respects. Despite an increasingly demanding environment, we impressively pursued our successful course of the past few years. Our revenue grew by more than 9 %. Here we also benefited from favorable foreign exchange rates. Before special items, our EBIT improved to EUR 1,676 m, representing an increase of 7.4 % compared to the prior year and an EBIT margin of 12.7 %. We are thus in the upper third of our forecast of 12 to 13 %. Free cash flow in 2015 amounted to EUR 370 m. Excluding one-off charges related to the early redemption of bonds, the free cash flow would have come to EUR 544 m. These figures demonstrate that the Schaeffler Group not only has above-average profitability, but also generates sustainably positive free cash flow. Over the course of 2015, we invested more than EUR 1 bn in expanding our business. This represents almost 8 % of revenue. We are also proud to have created around 1,900 new jobs last year. This positive development is possible because as a family business we think long-term and focus at all times on our three proven factors for success: quality, technology, and innovation.

But the year 2015 excels not only due these excellent business results. As announced, in 2015 we also completed the realignment of the Schaeffler Group launched in October 2013. Our strategic concept “Mobility for tomorrow” is in place. The “ONE Schaeffler” program with its 20 initiatives for improvement has been completed on time. The new organizational and management structure is firmly anchored. Moreover, three new members have joined the Board of Managing Directors: Corinna Schittenhelm, responsible for Human Resources, Dr. Stefan Spindler, CEO of our Industrial division, and Dr. Ulrich Hauck as Chief Financial Officer. I am particularly pleased that the cultural change initiated in 2013 and driven by the motto “transparency, trust, and teamwork” is having more and more positive effects, impacting cooperation not only at management level, but throughout the entire Schaeffler Group.

The successes of 2015 also include the IPO of Schaeffler, implemented in October 2015 in spite of difficult market conditions. Since October 9, 2015, Schaeffler AG has been listed on the Frankfurt Stock Exchange with non-voting common shares with preferred dividend payments. This has enabled us to significantly reduce our indebtedness and further improve the financial strength of Schaeffler AG, and it also marks the beginning of a new era in our corporate history. In arranging the IPO, we deliberately sought to combine the benefits of capital market access with those typically associated with a family business. Thus, we offer to you, our shareholders, the opportunity to participate in the value increase of a leading global automotive and industrial supplier. For 2015, we will pay out a dividend of EUR 0.35 per share to our shareholders, plus a special dividend of EUR 0.15 per share. Based on the current share price level (as of February 22, 2016), this corresponds to a dividend yield of more than 3.5 %.

For 2016, we have set ourselves ambitious goals. We want to continue to grow profitably, deliver high-quality earnings and produce sustainably positive free cash flow. We will continue to invest and create new jobs. At the same time, our goal is to continue to gradually reduce the Schaeffler Group's debt on our own. We see high growth potential in the Automotive division, particularly in the field of hybrid technology and e-mobility, as well as in selected sectors of our Industrial division, such as the wind energy and railway business. Here we benefit from our high technological expertise and also from our in-depth system know-how. This applies both to our research and development activities and to our production and manufacturing technologies. To demonstrate to you what this means in real terms, we have chosen "Technological Expertise and Systems Know-how" as the motto for this Annual Report. We invite you to embark on a voyage of discovery and read more about this on pages i11 to i39.

But in addition to achieving continued growth in 2016, we will also want to set the course for the future of the Schaeffler Group. This involves the implementation of the program "CORE" for the realignment of our Industrial division, and we also continue to work on developing our "Roadmap 2020", which we plan to announce in the summer of 2016. An integral part of this roadmap is the so-called "Agenda 4 plus One", in which we will summarize the most important initiatives for the next five years. These include among others the "Digital Agenda" for the Schaeffler Group which is currently being developed and is to complement and round off our strategic concept "Mobility for Tomorrow". The focus of all these considerations is the customer. Cooperative partnership with our customers worldwide, based on mutual trust, has always been a strength of the Schaeffler Group. Nevertheless, we are resolved to make customer focus our main topic for the year 2016 and become even more customer-oriented.

Ladies and gentlemen, dear shareholders, 2015 was an eventful and very good year for the Schaeffler Group. We made great progress and the result is impressive. Despite the turbulent start to the year and the challenging economic conditions, we see great opportunities in the medium term for us and our business as an integrated automotive and industrial supplier. However, we are aware that we will be successful only if we combine long-term thinking and our proven success factors with innovation and future orientation.

On this note, I would like to thank our family shareholders, as well as the members of the Supervisory Board, my fellow members on the Executive Board and everyone of you for the good and trustful cooperation during 2015. Special thanks go to our employees around the world who have made our success in 2015 possible through their dedicated commitment. I look forward to working with all of you in the coming years.

Best regards,

Klaus Rosenfeld | Chief Executive Officer

Executive Board

Dietmar Heinrich
CEO Europe

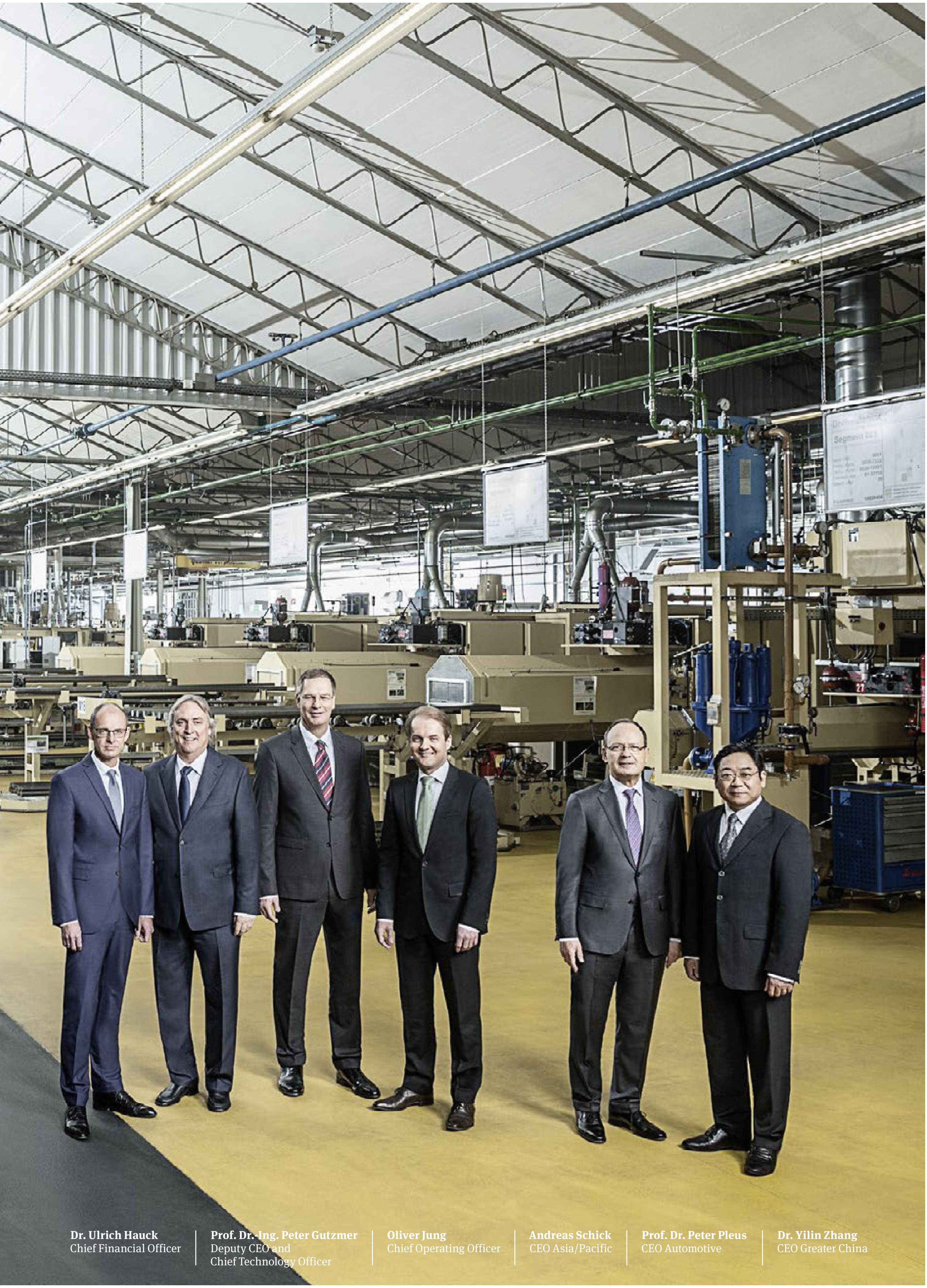
Norbert Indlekofer
CEO Automotive

Bruce Warmbold
CEO Americas

Klaus Rosenfeld
Chief Executive Officer

Corinna Schittenhelm
Chief Human Resources Officer

Dr. Stefan Spindler
CEO Industrial



Dr. Ulrich Hauck
Chief Financial Officer

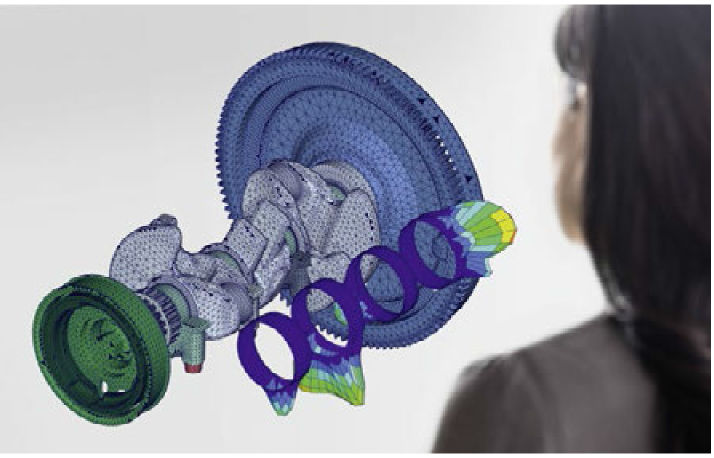
Prof. Dr.-Ing. Peter Gutzmer
Deputy CEO and
Chief Technology Officer

Oliver Jung
Chief Operating Officer

Andreas Schick
CEO Asia/Pacific

Prof. Dr. Peter Pleus
CEO Automotive

Dr. Yilin Zhang
CEO Greater China



Research & Development

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A good idea can make a big difference. Many good ideas change the world.

Production

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Schaeffler's global production network ensures perfection – no matter how big the task.

Systems Know-how

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We understand not only how something functions, but also why.

Our success: The consequence of technology leadership, manufacturing expertise, and systems know-how

An aircraft engine at an altitude of 10,000 meters. A Le Mans race car that accelerates to 330 km/h. Or a machine tool drive that works with an accuracy of two thousandths of a millimeter. High-precision components and systems from Schaeffler are used wherever the world is in motion and top-class performance is called for. We use the expertise that is necessary for such high-tech applications to shape the mobility for tomorrow and thus an important part of the future for mankind: energy-efficient drives for urban and inter-urban traffic as well as components that are critical to the successful generation of clean energy.

Quality, technology, and innovation have always been key factors for the success of the Schaeffler Group. What exactly is behind them? There are three core competencies that ensure our long-term economic success. Our global research and development network working collaboratively worldwide provides the basis for continuous innovation, identifying new enabling technologies as well as generating and implementing ideas for new, customer-relevant products based thereon.

Our manufacturing expertise is brought to bear when it comes to the industrial production of innovative components and systems. Whether in the construction of a new plant, the setup of a new assembly line, or even the introduction of a new machining technology: A worldwide network of specialists not only ensures that new products run off the line in excellent quality right from start, but also that production technologies are constantly being refined.

That fact that we continually improve products and processes is due to Schaeffler's in-depth system understanding – a core competency that extends far beyond our own products and in fact focuses on their use in customer applications. We are constantly broadening our understanding of these systems so that we can rise to meet new challenges such as digitalization, for example.

This brings us to what is perhaps the most important reason for Schaeffler's success: the employees of Schaeffler, who develop new ideas for tomorrow's world day after day – based on extensive experience.

Research & Development

A good idea can make a big difference. Many good ideas change the world.

Venturing into new territory time and time again: Research and Development at Schaeffler

It is ideas that change the world. And yet a single idea is usually not far-reaching enough if it is not systematically developed further until a product has arisen from it that is ready for volume production. Schaeffler has the expertise to help innovations achieve a breakthrough, using a structured development process from research to volume production maturity.

To this end, we work out every detail in a worldwide R&D network – from the molecular structure of a component surface through to the system control software. In order to find new solutions for the future, we rely not only on our own highly creative engineering experts, but also on collaboration with universities and external partners throughout the world. Fully in the spirit of “Open Inspiration”, we are in constant dialog with other technology companies – from start-ups to global corporations.

Universe of innovations

The role of Schaeffler R&D: Dealing with issues today that will become acute tomorrow.

With an internal team of researchers and global cooperative arrangements, even today Schaeffler is investigating the question as to what will be important tomorrow.

Research always starts with a question: For example, how can new sensors make a machine tool even more intelligent so that it can control its own relubrication? How can hydrocarbons be used as intermediate store for surplus green power, so as to enable the mobility for tomorrow? Employees in Schaeffler research are dealing with such issues of the future even today. “We want to develop an in-depth understanding of the physical and chemical processes that take place in moving systems,” explains Professor Walter Holweger, who works with a dozen other colleagues in Schaeffler basic research.

Research at Schaeffler: In-depth understanding of the physical and chemical processes

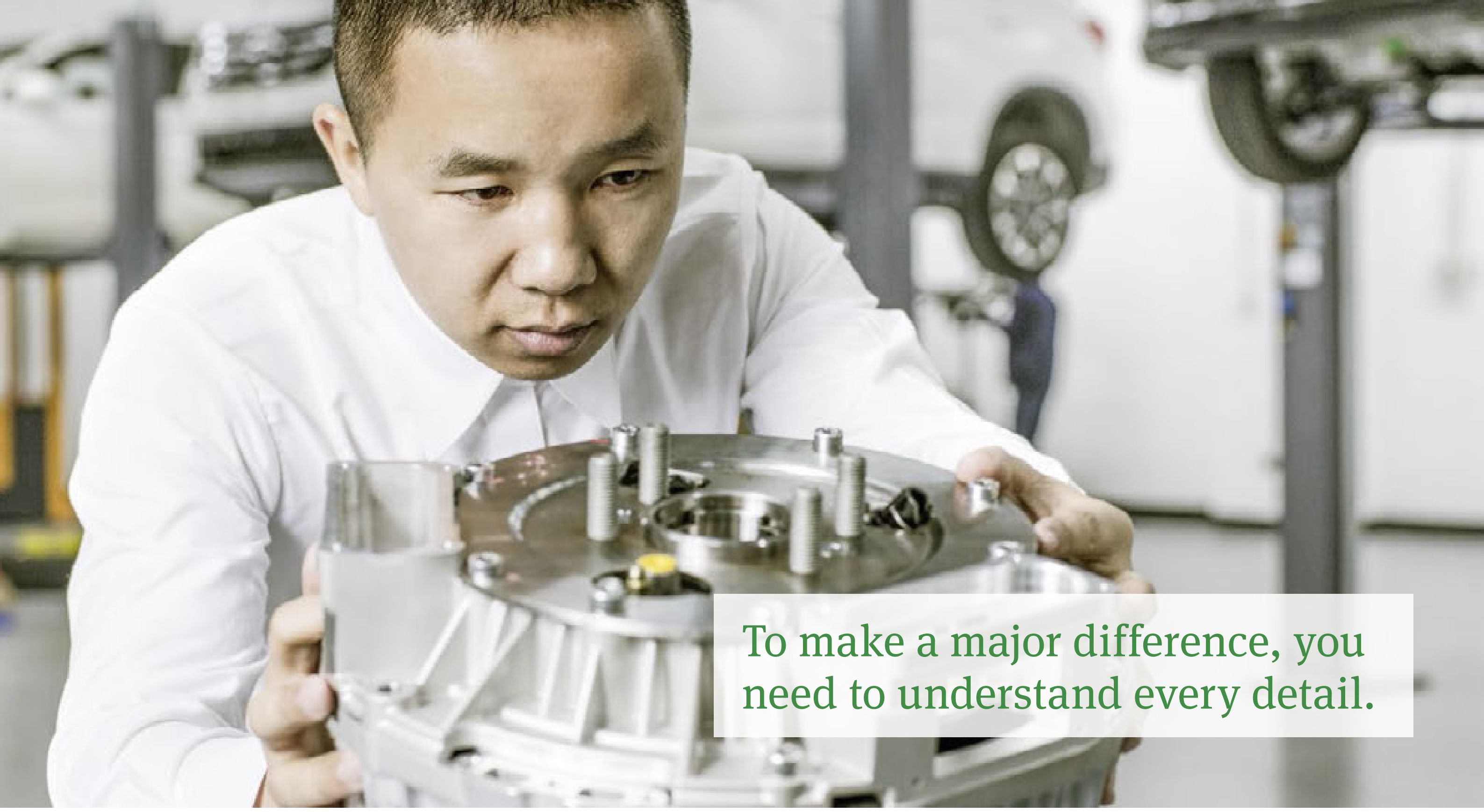
Collaboration with research institutions: securing expertise for the company

RIGHT IN THE THICK OF IT, RATHER THAN JUST VISITING

Moving closer to the universities through research – this is the underlying idea of the “Schaeffler Hub for Automotive Research in E-Mobility” at the Karlsruhe Institute of Technology, also known as “SHARE am KIT”. Directly on the campus in Karlsruhe, around 60 engineers are working for Schaeffler hand in hand with various institutes to ensure the technology transfer between university and company. They are concerned with the application-oriented research of solutions that will shape the mobility in ten years’ time. Thanks to SHARE am KIT, Schaeffler succeeds in building on the latest research results and industrializing them faster than before, while also attracting talented young scientists as permanent employees.

KNOWLEDGE TRANSFER IN THE VALUE CHAIN

The smart factory in Industry 4.0 places completely new demands in terms of knowledge sharing and data-based services between the operators and the manufacturers of equipment and components. Together with the University of Erlangen-Nuremberg, and with the support of the Federal Ministry of Education and Research (BMBF), Schaeffler is therefore working on the creation of a digital platform, the smart service factory, in which all the relevant data can be traded – for example, data about the components and modules such as rolling bearings, linear guidance systems and drives incorporated in machine tools, as well as about the behavior of the system in total.



LOOKING AT ATOMIC STRUCTURES

The scientists of Schaeffler penetrate beyond the visible, macroscopic level and look deep into whatever kind of matter – from the microscopic level to the atomic structures. An important tool in this context is the multi-scale simulation, in other words, the calculation of materials via the individual levels on the computer. Then the researchers validate the results with real tests. This is important, since the simulation results are not always linearly scalable. “If we understand the product on each scale, then we can make predictions about relationships and processes that go beyond the purely product-specific knowledge,” says Holweger. “Ultimately, this understanding leads to smart, robust, and durable solutions.”

GLOBAL RESEARCH COLLABORATIONS

The view of the bigger picture is also an important part of the work of basic researchers at Schaeffler. “For highly innovative projects it is crucial to form consortia. In this way, we not only bring in external expertise, but we also spread risks and costs,” explains Holweger. Currently Schaeffler is involved in more than 30 publicly funded research projects in Germany alone. In addition, Schaeffler’s technology scouts are constantly on the lookout for universities, institutes and research institutions dealing with issues such as digitalization, innovative production methods or electric mobility. This is particularly focused on the development of international research collaborations with partners in countries such as the U.K., Japan, and the USA.

TEACHING AND CONDUCTING RESEARCH IN CHINA

The partnership between Schaeffler and the renowned Tongji University in Shanghai began back in 2006, with the establishment of a Schaeffler Endowed Chair. Collaboration in teaching is intense: Schaeffler experts make its knowledge available in seminars and lectures, students can do accompanying internships at Schaeffler. Partnership research is also becoming increasingly important, for example when it comes to innovative electric drives and smart machine tool. The focus of research is on China-specific technology – adaptation –, e.g. of the wheel hub motor, based upon which a new generation of urban vehicles is to come into being.

LAYER BY LAYER TOWARDS VOLUME PRODUCTION PARTS

The research project on metal 3D printing that Schaeffler is undertaking together with Friedrich-Alexander University Erlangen-Nuremberg, has only little in common with conventional 3D printing. In this method, fine steel powder is applied to a plate, layer by layer. Using a laser beam, each layer is heated to 1,000 to 1,500 degrees, melted and brought into shape. The aim is not the construction of prototypes, but rather of individual products “on demand”, which would be impossible to manufacture using conventional methods.

From idea to patent

New ideas are born every day. They do not come about by accident, but rather they are the results of systematic processes.

The high number of registered patents is one example that demonstrates just how innovative Schaeffler is. But first of all, an employee needs to come up with a good idea. Thorsten Biermann is a case in point which shows that an invention is much more than just a spontaneous stroke of genius.

Schaeffler filed exactly 2,518 patent applications with the German Patent and Trademark Office in 2014, thus ranking second among Germany's most innovative companies. Behind every patent there is at least one engineer with his ideas. Someone like Thorsten Biermann, for example, who has already been involved in some 350 inventions. Since 2008, he has been dealing with the electric axle, an innovative drive system for electric and hybrid vehicles. The electric motor providing the thrust is situated directly in or next to this axle.

Inventing for Biermann means to proceed systematically. "First of all, it is important to precisely define the problem," says Biermann. "If that is successful, we have already taken a major step towards a solution." Then he works out potential approaches to solving the problem. There are several dozen perennial principles an inventor can harness – including, for instance, the integration of functions into a component or an asymmetrical design for better space utilization. Biermann resorts to such innovation principles – but some of his ideas do arise suddenly and spontaneously. Then, together with his colleagues, he develops these approaches into a mature concept. For Biermann is convinced: "The best inventions are developed in dialog and in a team."

Our best inventions are developed in dialog: More than 2,000 end up at the patent office every year.

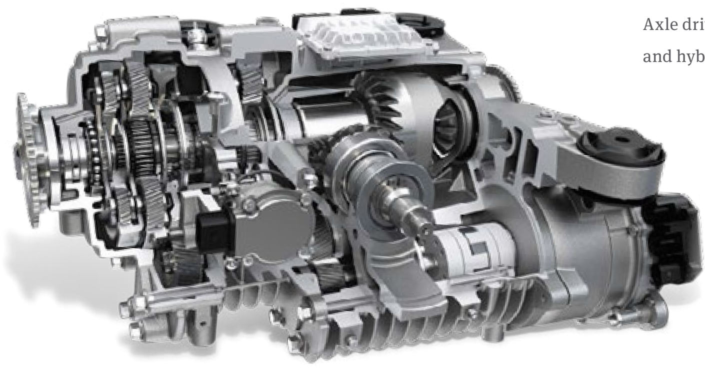
Schaeffler developer Thorsten Biermann: The best ideas are fleshed out in dialog

THE WAY TO PATENT

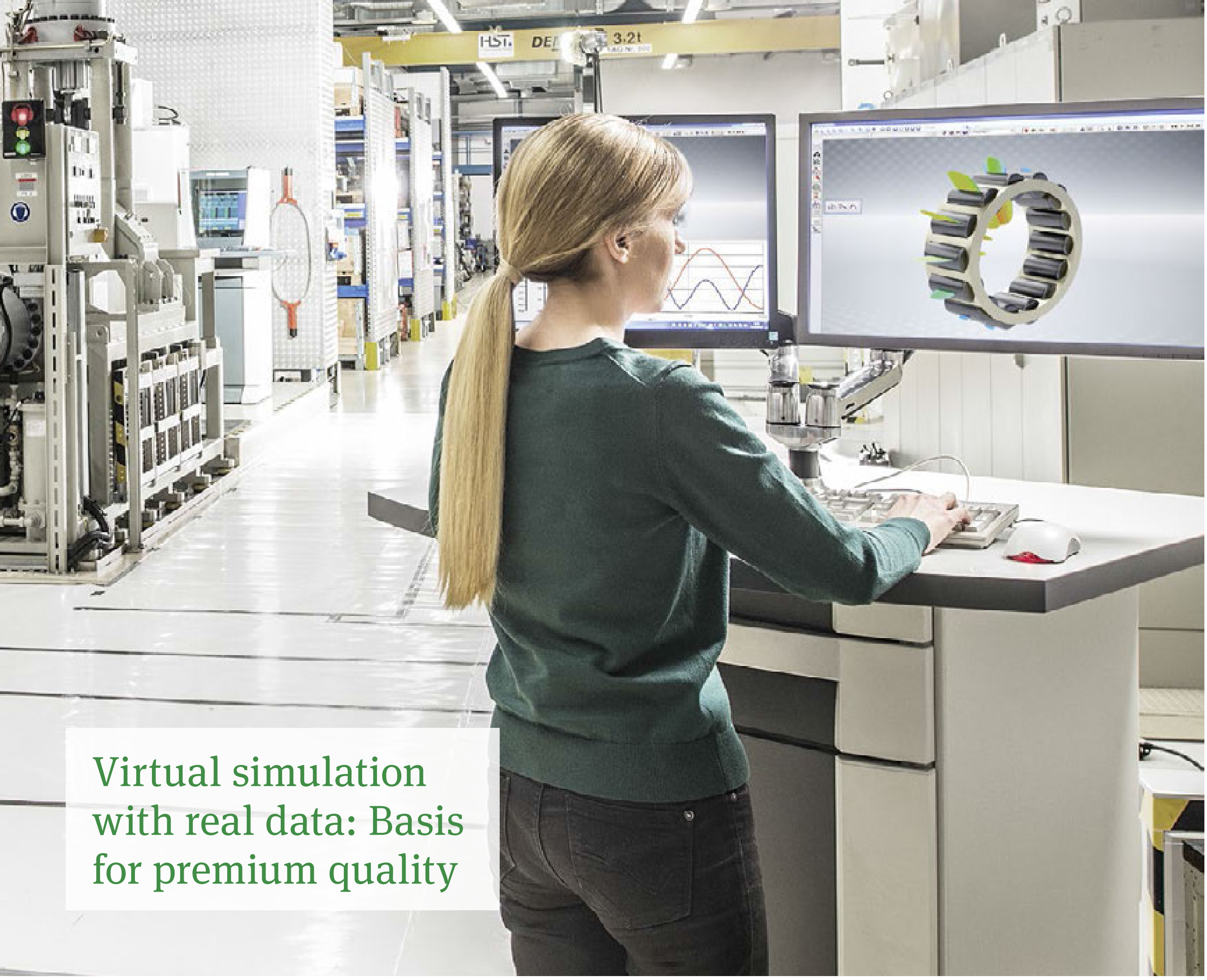
If the technical breakthrough in the approach is recognizable and an initial review shows that it not yet been published as state of the art, Biermann – like any other inventor at Schaeffler – reports his invention to the corporate patent department. Specialists there check exactly which claims may be formulated, draw up a patent application and submit it to the patent office. Usually it takes between one and three years before the patent is finally granted. However, the invention does enjoy a certain degree of protection starting from the filing date of the patent application.

LESS IS MORE

The latest coup landed by Biermann's team is the invention of a new transmission for electrically powered vehicles. To translate the rotational speed of the electric motor into wheel speed, a transmission is required. This needs extra space, which is limited on the axle. The inventors came up with the solution of merging a planetary gear unit with a spur gear differential. The differential is intervolved with the transmission so that an extremely compact assembly is created. This transmission not only occupies significantly less space than previous solutions, but also has a much lower weight and consists of fewer components – an advantage for automobile manufacturers and for the environment, too. So it was only natural that this invention was immediately filed as a patent application. Good ideas such as this one arise at Schaeffler every day and must be protected.



Axle drive for electric and hybrid vehicles



Reliability is paramount: Development of wind turbine bearings

Simulated and validated

Computer simulation and testing of real components are closely related.

Simulation helps to develop products faster and more cost-effectively. Since the computer models used at Schaeffler are continually improved through test stand trials, they enable extremely reliable conclusions to be drawn for robust products – for example, when designing giant bearings for wind turbines.

The design of new products at Schaeffler invariably originates on the computer. And this is also where they are tested, even before the first prototype made of plastic or metal is formed. How well the computer program can calculate the properties of a component in advance depends on how successful the dovetailing of virtual simulation and testing of real components has been. Certification received from Germanischer Lloyd in 2015 indicates that Schaeffler masters this virtue particularly well. The method developed by Schaeffler for ascertaining relevant factors about the rating life of rolling bearings meets the strict criteria of the international certification body. For Schaeffler customers this means that expensive individual approvals are now a thing of the past. This step was possible only because Schaeffler continually refined its simulation procedures over the years with the help of test stand results, thus enabling its engineers to develop unique expertise.

BETTER PERFORMANCE AND LONGER LIFE

How the work on the computer is interconnected with that performed on test stands can be exemplified using the development of main bearings for wind turbines. Especially in offshore wind farms, ever larger turbines with tremendous rotor diameters are being employed – a challenge for the bearings supporting the rotor shaft. Experts at Schaeffler can simulate not only the bearings and their operating behavior, but also the entire wind turbine.

A simulation chain is created from the tower and the rotor blades to the main shaft and the gearbox and further to the generator including the control system, ultimately resulting in a complete virtual wind turbine. Various software programs developed by Schaeffler calculate the system behavior, from the macro level to the friction contact, and design the components accordingly.

Impressive dimensions: the Astraios large-size bearing test stand in Schweinfurt

LARGE-SIZE BEARING TEST STAND PERMANENTLY PROVIDES MEASUREMENT DATA

In parallel with this, Schaeffler has been operating its “Astraios” large-size bearing test stand in Schweinfurt for five years now. Designed for bearing diameters of up to 3.5 meters, it continually provides results that Schaeffler uses to improve its simulation algorithms. For wind turbine manufacturers, this offers a double advantage. On the one hand, they receive more robust bearings since Schaeffler can design and validate products even better using its proven simulation procedures. On the other hand, this benefits their own models, for the system behavior of the overall wind turbine can be accurately calculated only with a precisely simulated roller bearing.

The simulation models improve with every measurement.

Less friction, more efficiency

Consumption drops, while the operating life increases.

The movement of mechanical components will almost always lead to friction. This will generate heat – in other words, energy that is lost somewhere. An effective way of counteracting this is to undertake the coating of component surfaces and to this end Schaeffler has set up its own competence center.

Whether in space satellites, aircraft engines, underwater turbines or particularly economical vehicle engines: Whenever it comes to using especially energy-efficient and wear-resistant components, Schaeffler is right on board. A major factor in this is the company's expertise which ranges from surface technology all the way through to tribological systems. The clumsy engineering term "tribology" designates a core competence of the Schaeffler engineers. Translated literally it means "science of friction". Friction leads to increased expenditure of energy and premature wear. Therefore, Schaeffler delves deeply into the science of interacting surfaces – in cooperation with universities and research institutions around the world, as well as in its own surface technology competence center.

So as to specifically influence friction and wear, a holistic understanding is especially important. "A tribological system basically consists of four elements: main body, counter body, interfacial medium – such as the engine oil – and the ambient medium," explains Dr. Yashar Musayev, Senior Vice President of the Competence Center Surface Technology at Schaeffler. "We have added a fifth element – the surface coating."

Dr. Yashar Musayev, Senior Vice President of the Competence Center Surface Technology, examines wafer-thin nanostructured surfaces

INTELLIGENT IN EVERY RESPECT: COATINGS

Schaeffler uses a range of tailor-made technologies to reduce the friction of surfaces and make them more wear-resistant. These technologies are applied in more than 50 coating facilities in Europe and Asia, as well as in North and South America. Schaeffler is one of the first companies worldwide to use nanotechnology in volume production. “Thus we achieve improved tribological properties such as lower friction, combined with maximum protection against wear. For if many thin nanostructured layers are applied one on top of the other, the coating is generally more resistant than it would be with a homogeneous layer of the same thickness,” explains Dr. Musayev.

The coating of the future works as a sensor.

However, coated surfaces can do more than minimize friction and improve protection against wear. For example, they protect components against corrosion. This is important especially in aggressive environments, for example when rolling bearings come into contact with saltwater. And in the not too distant future, coatings will offer even more, coming with built-in intelligence. For instance, Schaeffler is undertaking research on layers that measure the electrical resistance on surfaces and thus can calculate expansion. Such layers could then also serve as sensors – such as in wheel bearings that can report the current load acting on each of the wheels.

Motorcycle clutch:
Relevant for driving safety

DESIRABLE FRICTION

But there are also fields of application, in which friction is desired. In such cases, it is referred to as functional friction. For example, when it comes to clutches: Here friction is employed to secure the reliable transmission of the drive torque. In motorcycle clutches it is very important to have maximum friction during acceleration. However, with hard braking and simultaneous downshifting, slipping of the clutch is allowed to prevent the locking up of the rear wheel. So here, too, Schaeffler’s tribological systems expertise is in demand – albeit with a different objective.

Production

Schaeffler's global production network ensures perfection – no matter how big the task.

Control of the entire value chain

Schaeffler's global production network is characterized both by a very high level of vertical integration and by the integrated management of the entire value chain, from procurement through production and assembly to logistics. This benefits our customers in every continent. Experienced employees and global standards ensure that our plants meet the same high standards of efficiency and quality, no matter where they are located.

And yet we are never satisfied with what we have achieved: With our own team of over 1,200 employees, we are committed to continually advancing production technologies, thereby supporting the rapid volume production startup of innovative products. Where new markets open up, we expand our production network in the shortest possible time. Here, the Schaeffler production system is geared to transferring innovative methods and processes very quickly from one location to the other – the result is a self-learning organization.

Expanded step by step:
Schaeffler plant in Taicang, China

One new plant after the other

One or two new Schaeffler plants are opened every year.

New Schaeffler plants are built all over the world in record time, based on a proven manufacturing system. Standardization accelerates the production start-up and enables a flexible response to regional market fluctuations.

Year by year, Schaeffler expands its global production network by one or two new plants. And that does not even include the numerous expansion activities going on at existing plants. Thus, more than one million square meters of floor space with a Schaeffler logo on the front façade have been created during the past 15 years alone. This corresponds to the size of about 150 soccer fields. It takes an average of only 18 months to go from the decision to build to the start of production in a new Schaeffler plant. This works only because all factories follow an ingenious modular principle. Not only the machines, but also the entire material flow and the surface layout follow uniform global standards.

This is illustrated when taking a look at the first construction stage of Schaeffler's plant in Nanjing, China, opened in 2014. The location was planned as an extension and for combining individual product groups of the Taicang plant. The range of products includes various rolling bearings and linear technology components. Work in Factory Planning, the Construction department and in Real Estate started synchronously, together with the work of the localization specialist for machinery. Heat-treatment, grinding, and honing machines, as well as assembly lines were procured or commissioned for construction in the in-house Special Machinery department. There were standardized production concepts even for the setup of the individual machines which only had to be adapted to the structural conditions.

Standardization gives Schaeffler not only an increase in speed, but also flexibility vis-a-vis market fluctuations. Nearly every product can be manufactured at several locations worldwide. This in turn is the prerequisite enabling Schaeffler to answer the question "Where to produce what?" irrespective of the technical conditions of individual locations, but coming to a decision solely based on the growth in the region. The machines used – many of them developed and built by the in-house Special Machinery department, are versatile and can be easily adapted to various geometries of bearings and other workpieces.

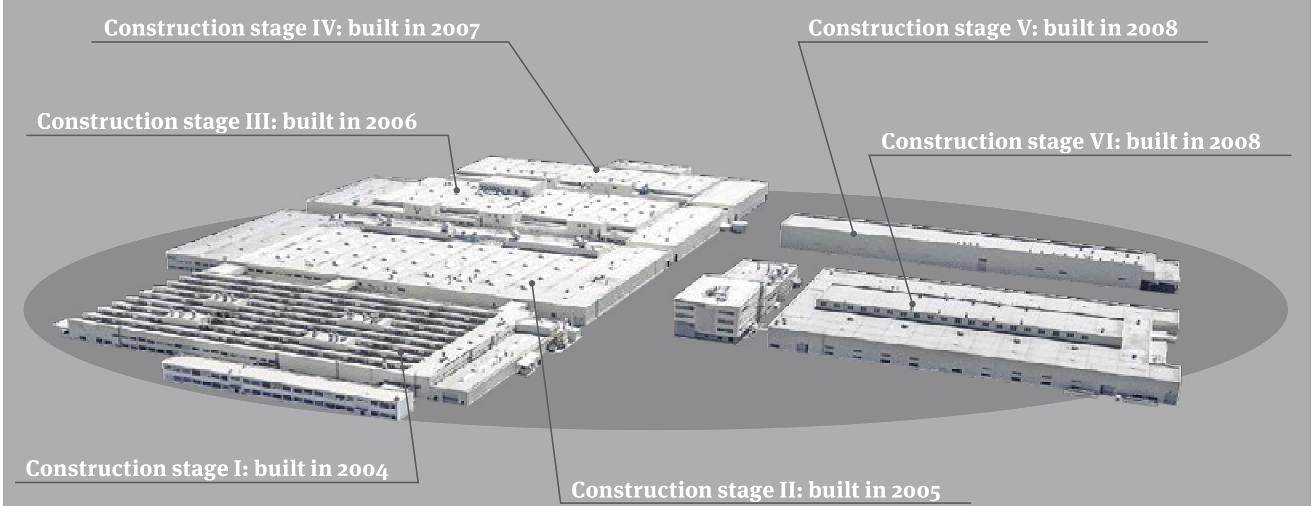
Integrated quality:
Testing in Assembly

THE LEAD PLANT CONCEPT

Lead plants for individual products help ensure that the production processes are always up-to-date, using the latest state of the art. Only that which has been tested and approved in the lead plant will be transferred to the factories worldwide. Depending on the product in question, lead plants for Nanjing are the European sites in Schweinfurt, Höchstadt, Wuppertal, and Haguenau. However, the traditional locations also learn from the new ones: The younger plant in Nanjing has in the meantime become the Schaeffler internal benchmark. This role model function refers in particular to the in-house logistics, as well as the short throughput times and low stocks of intermediate products.

The lead plant concept is also the basis for intensive staff training before the start of production at a new plant. After all, the qualification of the staff is a critical factor for success, according to the experience gained at Schaeffler. So many new employees from international sites often work at the lead plant abroad for several months. Upon returning to their home plant, they will then find identical conditions and processes. Smooth volume production startups and the best possible quality right from the beginning are the welcome consequences. Currently, this is also the case with the second construction stage in Nanjing where vehicle components are to be manufactured soon.

ANOTHER EXAMPLE OF CONTROLLED GROWTH: EXPANSION OF SCHAEFFLER PLANT IN BRASOV, ROMANIA



Forming technology: Precision instead of reworking

Skillfully combined

Developing manufacturing processes and materials side by side conserves resources.

By combining its expertise from various disciplines, Schaeffler manages to develop particularly resource-saving manufacturing processes. The savings in energy and materials reduce the environmental impact, whilst also ensuring increased competitiveness.

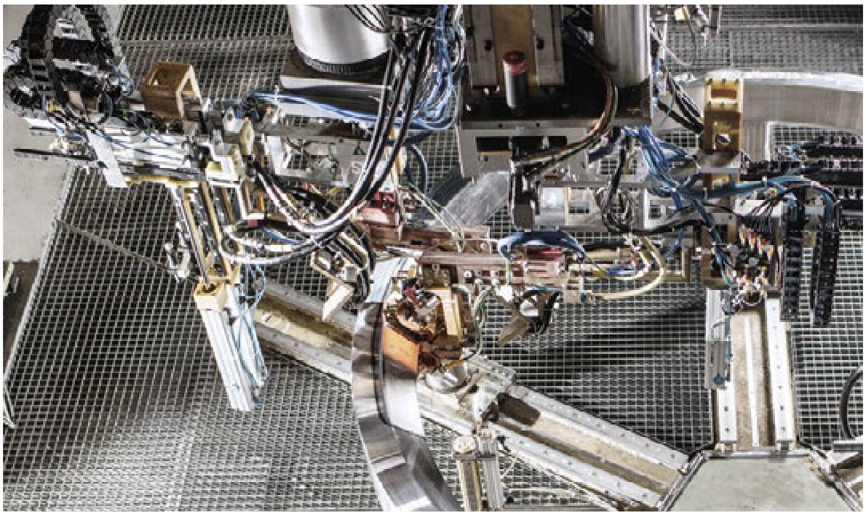
Less is more. New production technologies at Schaeffler make it possible not only to save materials and energy, but to manufacture higher quality components at the same time. Essentially, these new developments are about using forming technology and subsequent heat treatment in an extremely accurate and reproducible fashion to produce components with a very high quality of form and surface. This allows the otherwise necessary subsequent grinding process to be omitted. That sounds easier than it actually is. On the one hand, deviations of merely a few microns from the ideal geometry are acceptable; on the other hand, metallic components will slightly deform during hardening.

That the Schaeffler engineers are still able to manufacture more and more products that do not require reworking after hardening is due to a unique combination of expertise of material scientists, simulation experts, tool makers, and specialists for heat treatment and forming technology. In joint projects they review existing technologies and look for innovative approaches for the product development process in collaboration with their colleagues from product development.

EVOLUTION OF A COMPONENT

For example, the production of a camshaft phasing unit for internal combustion engines went through several stages of evolution and currently consists of an assembly of individual components featuring high complexity and low wall thicknesses that are manufactured using forming processes. The central valve body for the camshaft phasing unit was thoroughly revised, too. Formerly machined from high-strength bar material, it is now produced from two-millimeter-thick sheet metal using a multi-stage deep drawing and punching process, which means that less material is needed. The combined effects of production-oriented design, lower material expenses, less material, optimized process chains and reduced cycle times add up to a significant reduction in manufacturing costs.

Electromechanical camshaft phasing unit



FURNACE OR INDUCTIVE HARDENING?

Steel components obtain their hardness only through heat treatment that leads to a lasting change in the metal's microstructure. Smaller components are usually hardened in furnaces through which they travel on a conveyor. Hood-type furnaces, which are suitable for accommodating whole pallets, are used for larger components. Schaeffler's expertise lies in matching the furnace parameters such as temperature and time to the material so that the desired product properties are precisely adjusted. Induction hardening is increasingly used for large bearings since it is a much quicker and more economical process in which magnetic fields heat up the material from the inside.

One of a total of 3,500 grinding machines in operation at Schaeffler's plants

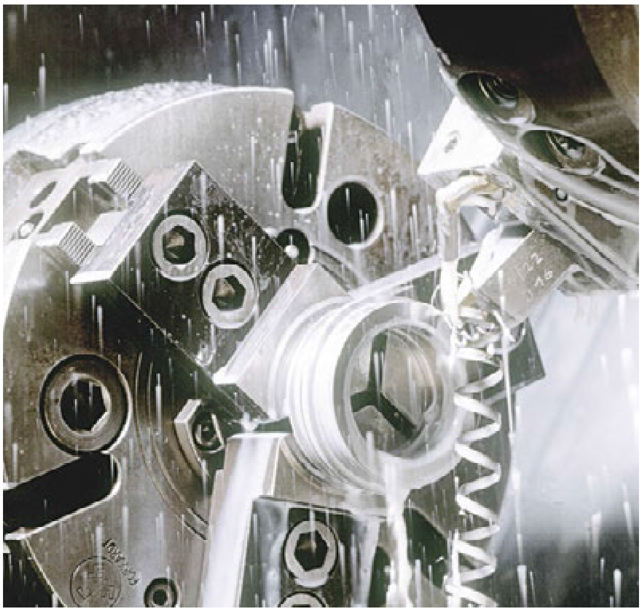
Chip by chip

Schaeffler sets the quality benchmark for high-precision manufacturing – not only in forming technology, but also in mechanical machining. This is possible due to its closely interlinked product and production expertise.

A needle roller bearing for an automotive transmission. A wind turbine bearing with several meters diameter. How well these components will perform later on in harsh day-to-day use at the customer's site depends crucially on the machining operations. It's clear from sheer numbers alone that these form part of Schaeffler's core expertise: Around 3,000 turning and milling centers, and more than 3,500 grinding machines are in place at Schaeffler's plants worldwide. However, the company's quality lead is based not only on quantity, but rather on an in-depth understanding of the interrelationships between machine, tools, and processes. Take X-life bearings, for example: The fact that the rating life of these products was increased by up to ten times compared to conventional bearings is owing to their ultra-precision surfaces which are achieved through grinding and honing, and ensure particularly low friction levels and correspondingly little wear.

The following is a typical question for Schaeffler machining specialists: "How can we make turning so accurate that we need as little as possible grinding?" Answers to this question can also be found in a technology database which contains all the parameters that determine the processes and results. This global availability of traditional master master knowledge and technical correlations, together with extensive standardization and uniform user interfaces of the machines, leads to cycle time reductions of up to 30 percent.

Metalworking with the highest precision



Automated high-speed machining

AUTOMATION WITH EXPERTISE

The high demands on machines and processes are also reflected in the fact that many of the machines in use at Schaeffler have been developed in-house. Minimum tolerances and great robustness are the basis for continually advanced or new automation concepts. This also includes measuring machines that automatically measure the parts after machining and automatically readjust individual parameters in a closed loop, if necessary.

Measuring machines ensure constant process optimization.

In particular, grinding of bearing rings belongs to the core expertise of Schaeffler. Here, too, our production developers have designed and built their own grinding machines. Featuring a modular design, these are characterized by the fact that they allow for complete machining of workpieces from all sides. Even large rings measuring up to 1.2 meters in diameter can thus be manufactured efficiently and with the highest quality.

The most convincing evidence of our high-quality manufacturing technologies: We use them ourselves.

In addition to a great number of machines, Special Machinery is also concerned with developing automation and measuring technology

Special machines

Every second production machine in the Schaeffler plants comes from our own Special Machinery department. This not only secures Schaeffler important expertise in production and assembly, but it also helps to speed up the market launch of complex products such as the electromechanical active roll control system.

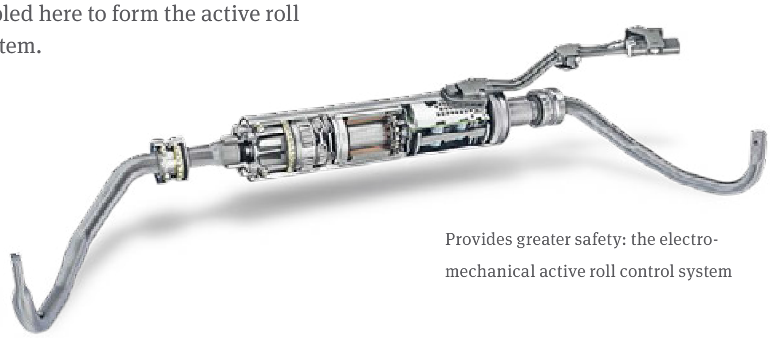
Wherever more than the standard is required, the Special Machinery department comes into its own. More quality, more efficiency, more flexibility, or simply the better integration into procedures and processes usually form the starting point. Around 1,400 specialists at 16 Schaeffler locations in all relevant regions are concerned with the design and construction of special machines. The now second largest location with approximately 260 employees is based in Taicang (China) and supports the consistent expansion of operational development activities in the regions. Almost every second piece of manufacturing equipment used at Schaeffler comes from the in-house Special Machinery department, which is thus one of the world's greatest experts in this field. The intensive cooperation with other business areas such as Product Development or Prototyping, as well as with all production areas result in the most efficient solution.

The focus of Special Machinery is on assembly, testing and machining facilities. In addition, comprehensive expertise in plant control systems, measurement technology, image processing and laser welding technology has accumulated over the past few decades. This is extremely important, since production processes are subject to continuous change, just like the Schaeffler product spectrum, where complex mechatronic systems are becoming more and more important. The integration of machining processes such as drilling, milling or grinding, as well as the induction hardening and washing of parts directly within the assembly lines is one of the current trends observed at Schaeffler. Such integrated processing on one line – from blank to finished part – eliminates intermediate storage or buffers at the line and reduces logistics costs.

VOLUME PRODUCTION START OF ACTIVE ROLL CONTROL SYSTEM

As with all other products in Special Machinery, simulation has an important role to play in the development of such integrated systems. It reduces implementation times, just like intensive simultaneous engineering. A recent example of this is the electromechanical active roll control system that was put into volume production in 2015 and complements the hitherto used chassis regulating systems in passenger cars. The assembly and testing facilities were developed largely in parallel in very close collaboration between product and production specialists. Within just a few months, the new assembly line was set up in Schweinfurt. Up to 93 individual parts are assembled here to form the active roll control system.

The product weight of up to 14 kilograms and its length of up to 1.4 meters alone are factors that complicate transport and automation. For this reason alone it was essential to consider early in the design stage how the individual components would have to be assembled and joined together later on – for example, by special welding operations. In addition, extremely high demands are placed on precision. Every single operation is therefore safeguarded by its own verification testing. For stability on all roads worldwide starts right at the beginning in production.



Provides greater safety: the electromechanical active roll control system

Assembly facility for the active roll control system from Schaeffler's in-house Special Machinery department

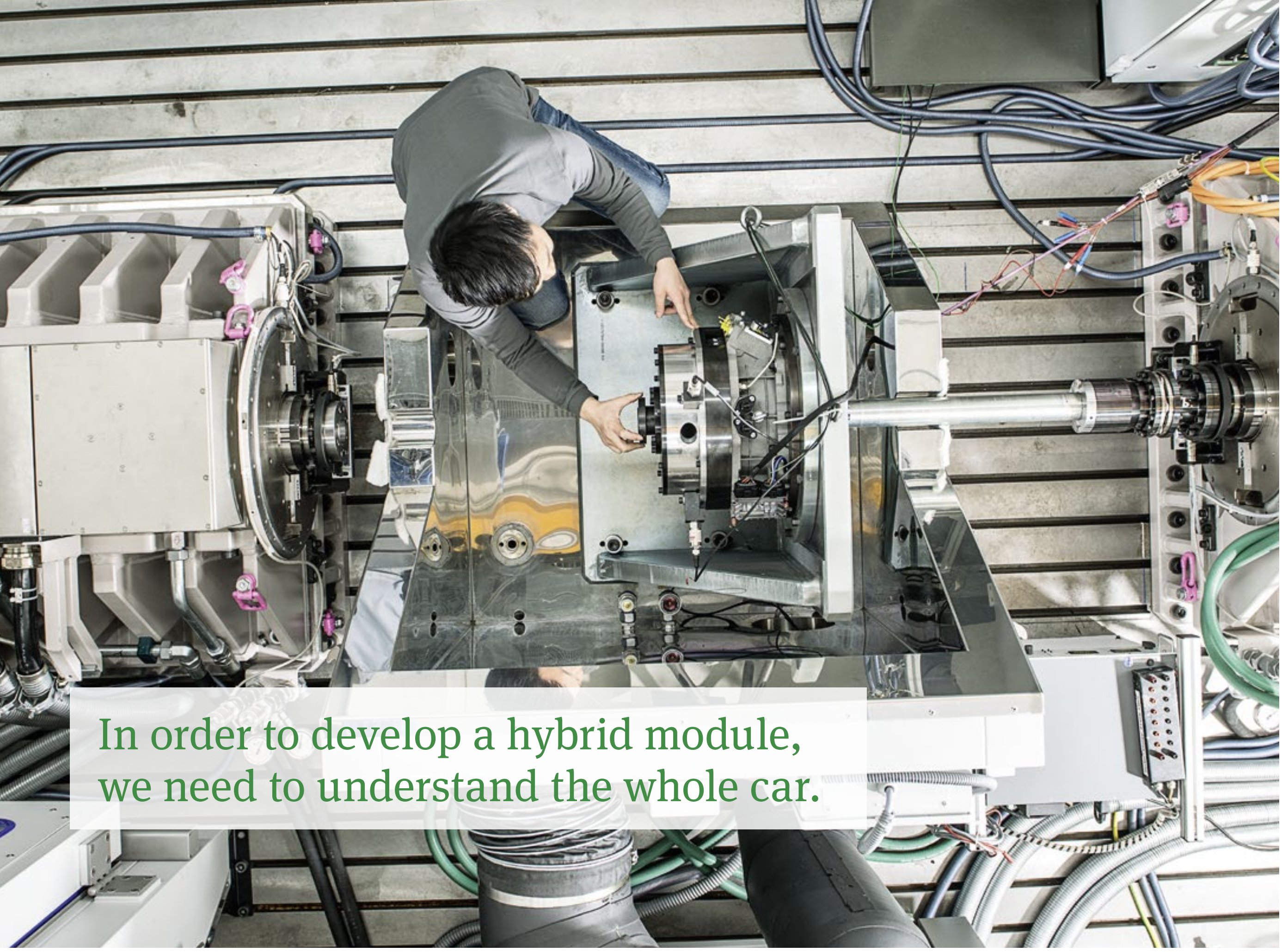

Permanente Schulung und
hohe Qualifikation

Systems Know-how

We understand not only how something functions, but also why.

Understanding, developing, and networking systems

In an increasingly networked world, it is no longer expedient to optimize individual components or production processes in isolation. Only those who understand and integrate the entire system will be able to offer maximum possible efficiency and customer benefit. So, for example, Schaeffler not only develops components for the “Machine Tool 4.0”, but also tests their function and the networking of processes under real conditions in one of its own plants. The same applies to the automobile: To be able to develop innovative drive solutions for energy-efficient hybrid and electric vehicles, Schaeffler needs to understand the entire drivetrain including the driving behavior of the car. On the road to volume production, this knowledge is then combined with Schaeffler’s expertise in all manufacturing operations, which in turn is the basis for new services. For this we use new technologies of digitalization, just as for the continuous improvement of products and production.



In order to develop a hybrid module, we need to understand the whole car.

Hybrid module on the test stand: Systems expertise is indispensable

Thinking in systems

It is not enough to optimize 300 components and their interaction.

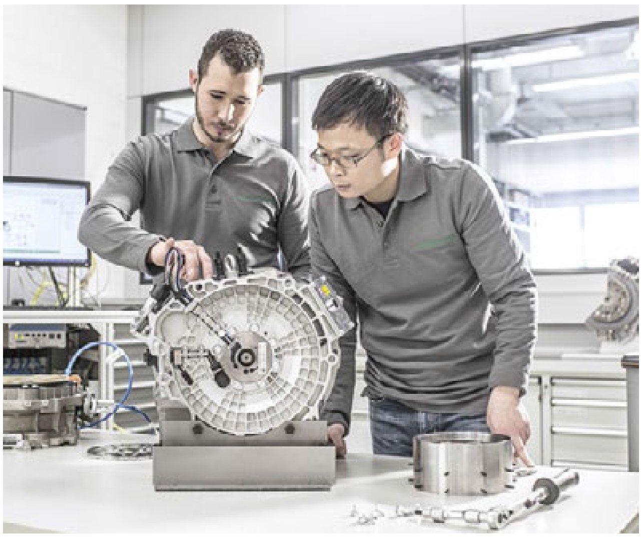
The Schaeffler engineers' systems expertise ensures that complex technology is easy to adapt for the customer. For example, when it comes to the electrification of future vehicle generations.

The whole is more than the sum of its parts. More and more often, mechanics and electronics merge into mechatronic overall systems that require complex control software. For successful volume-production development, the expertise of Schaeffler must go far beyond the boundaries of its own module. An example of this is the P2 hybrid module. "P2" refers to the installation position of the hybrid module between the engine and the transmission.

Schaeffler offers such modules both in high-voltage technology for plug-in hybrid vehicles as well as in a cost-optimized 48-volt version.

A P2 hybrid module is a complex system in itself, consisting of up to 300 individual mechanical and electronic components that must work perfectly over several hundred thousand kilometers. But it is not sufficient just to optimize the components and their interaction. "Our module is an important part of the entire drive system and affects the complete road behavior of a hybrid vehicle," explains Dierk Reitz, who is in charge of the P2 hybrid module product line at Schaeffler.

Schaeffler's understanding of overall systems is based on many years of experience. The company took up the basic research and development of electrified drivetrains back in the late 1990s. Volume production of components for P2 hybrid modules started as early as 2010, and since 2015, an Asian automobile manufacturer has been supplied with an automated clutch for such a module. Meanwhile the second generation of the hybrid module is about to be put into volume production and will be used in a series of cars in China in 2017 for the first time. Regarding the behavior of the hybrid module in the vehicle, Schaeffler not only relied exclusively on feedback from automakers, but also built its own prototype vehicles again and again. Helpful in the development of the necessary skills, which go far beyond those of a component supplier, was the exchange of experience with those Schaeffler experts who designed the double clutch – another module that also affects the entire road behavior. The logical next step is to merge the hybrid module with the launch device, i.e. the torque converter or the double clutch, into one module.

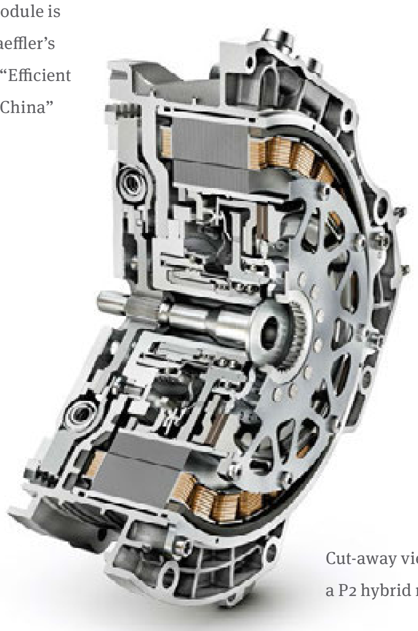


The P2 hybrid module is also part of Schaeffler's concept vehicle "Efficient Future Mobility China"

FROM SYSTEM INTO DETAIL

To show that thinking beyond classic system boundaries can as well lead to the inclusion of new functions – and thus to a selling point for the automobile manufacturer –, Reitz outlines the example of the restart. For in a hybrid vehicle, the internal combustion engine must be started in many situations during driving, without the driver noticing it. "Only the perfect interaction between internal combustion engine, electric motor, transmission, and disconnect clutch leads to the desired driving comfort," says Reitz.

Perfection comes from the combination of systems expertise with clever detailed solutions. The second-generation P2 hybrid module has plenty to offer in this regard. For example, the high-voltage variant takes up less space than the previous version despite significantly increased electric power and torque capacity. One key factor in achieving this was to integrate the disconnect clutch into the rotor of the electric motor. In addition, Schaeffler uses an electromechanical concentric slave cylinder which operates the clutch and thus ensures complete independence from the transmission. Innovative technology, accompanied by the systems know-how of the Schaeffler engineers – thus the customer receives a comprehensive "no worries package" for electrification.



Cut-away view of a P2 hybrid module

The factory of tomorrow is impressive not only due to precision, but also due to its IQ.

The machine tool of the future operates in the Schaeffler plant in Höchstadt

The digital twin of the factory

Big data makes its entry in the factory environment, bringing further quality improvements in its wake

Industry 4.0 is underway; the Internet of Things is finding its way into the manufacturing plants. Schaeffler is a pioneer of the fourth industrial revolution and is already using big data technologies.

Turning, milling, grinding – with micrometer precision. Even in the factory of the future, precision machining will still be one of Schaeffler's core competencies. However, it will then be complemented by the complete digitalization of all process steps. This begins at the planning stage of a new manufacturing or assembly plant. A three-dimensional image of the factory is created even before the first machine is built. So Schaeffler production experts can check all processes beforehand on the computer: Is, for example, everything in assembly set up so that the staff can work ergonomically?

In the digital age, this virtual image accompanies the real manufacturing process even during real-time operation. The digital twin is used to continuously optimize all processes by continually matching the data collected during actual production with the ideal state. Examples of this are already available in Schaeffler plants today. In turning and milling, for instance, the real process is simulated in advance using software and then analyzed

MACHINE TOOL 4.0

While to date this is still restricted to individual innovation projects, the digital factory of the future will see the networking of all processes. The resulting transparency allows the automated production of increasingly complex mechatronic systems with the highest perfection. Schaeffler customers receive even more individual solutions because a greater number of variants can be manufactured using the same machines.

A glance at the Schaeffler plant in Höchstadt shows that this is not a distant dream. Since the fall of 2015, the Machine Tool 4.0 has been in operation there, collecting operating data via dozens of sensors. Each of the manufactured rotary table bearings is provided with a data matrix code in the machine and directly measured after soft machining with micrometer precision. So the product characteristics and process data can be correlated with each other at all times. “For us, this component-related process analysis is an important first step,” explains Roberto Henkel, who is responsible for the production of precision bearings at the Höchstadt plant. “We are saving setup time, reducing costs and are able to industrialize new products faster than before.”

during machining. Subsequently, the characteristics of the manufactured components – such as the quality of the surfaces – are recorded digitally. Comparing the simulations with real data allows an iterative process optimization, so that the software maps the actual process more and more perfectly. It can also predict effects that previously led to deviations, for example due to gradual wear of a tool. If such effects are continuously taken into consideration, the precision of both twin siblings will rise – both that in real production and that of the digital model.

PREPARED FOR SMALL LOT SIZES

Even today, Schaeffler uses additive manufacturing processes for the development of future product generations. A laser beam melting machine was put into operation recently. It produces components by heating a layer of fine, high-alloy steel powder up to more than 1,000 degrees, thus melting it. Then the product is brought into a precise form, before applying the next layer. Similar to a 3D printer, this results not only in prototypes, but also in real steel components that can be produced in individual shapes in small lots and even as single pieces.

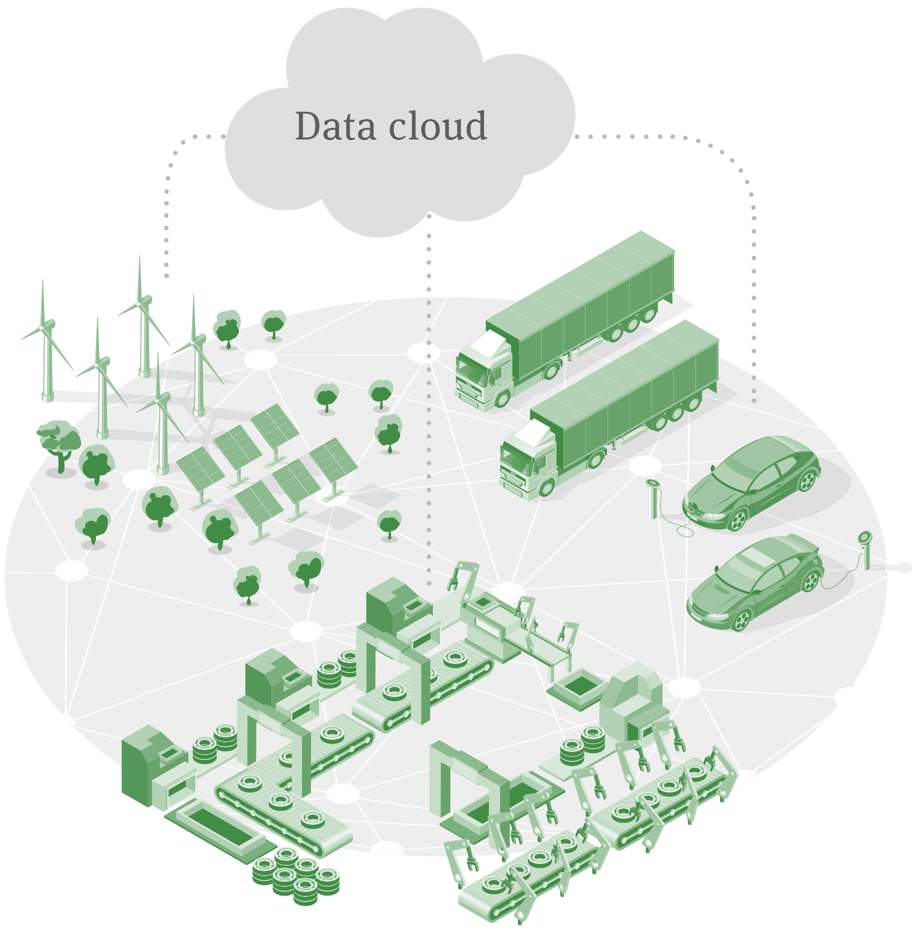
We help to shape the future: The digital transformation

WHAT ARE SCHAEFFLER'S NEXT STEPS ON THE ROAD TOWARDS THE AGE OF DIGITIZATION? FIVE EXPERTS OUTLINE FIVE KEY ELEMENTS ON THE DIGITAL AGENDA.

Mr. Baum, what opportunities do you see for Schaeffler in digitalization?
Schaeffler is present wherever anything moves, whether in the internal combustion engine, the wheel of a high-speed train, or the drive of a machine tool. Today, we are able to acquire valuable primary data from our solutions. Now it is time to turn this data, which is in fact the main raw material of the digital age, into information. To this end, we are linking data from products and processes consistently with each other. It is not only intelligent products and efficient processes that are our goals, but also innovative services. We are currently working at top speed on new business models. We see great potential in offering our industry customers higher system availability.

Digitalization calls for new thinking. And the networking of bright minds.

Harald Giesser Chief Information Officer | **Dr. Peter Bach** Director Development Production Technology | **Dirk Spindler** Senior Vice President Research & Development Industrial | **Gerhard Baum** Chief Digital Officer | **Uwe Wagner** Senior Vice President Research & Development Automotive



Mr. Giesser, how does Schaeffler create the prerequisites for "big data"?
Digitalization is more than a question of IT. And yet IT innovations are a prerequisite for the efficient use of big data. Thus at Schaeffler we are driving to create a central platform from where the data from business processes can be managed and analyzed – at both our and our customers' sites. This platform will go live during the course of 2016. The continuous digitalization of all business processes also requires that we, our customers and our suppliers – i.e. the entire supply chain – are even more thoroughly integrated. This should mean we can offer our customers, for example, seamless traceability of their orders and their parts.

Mr. Wagner, how important are intelligent components and systems for the automotive business?
For automobile manufacturers, besides automated driving and lower CO_2 emissions, digitalization is the top development goal. As a system partner at eye level, Schaeffler is supporting this process with two significant contributions: Firstly, we are equipping our components with more and more digital intelligence to continuously provide data that can be used by manufacturers for their own applications. Secondly, we are upgrading our systems so that they can achieve higher performance by utilizing external data – such as hybrid modules that use topographic data to achieve a greater electric range.

Mr. Spindler, what benefits do industrial customers derive from digitalization?
Whether production machines or wind turbines: Regarding productivity, availability is the deciding factor above all else. And this doesn't just apply to highest-quality components, but also to predictive maintenance concepts. With our digitalization campaign we are opening this up for our customers. If intelligent components can detect and report the end of their operating life using integrated sensors and corresponding data processing, maintenance intervals can be extended and maintenance work can be shifted to off-peak hours. The strong application expertise of Schaeffler, together with suitable components and services all rolled into one, result in a digital ecosystem.

Dr. Bach, very candidly: How far has Schaeffler progressed with digitalization in its own plants?
Under the heading "Industry 4.0", the digitalization of production is the main theme in modern mechanical engineering. Schaeffler has assumed a leadership role not only in the development of intelligent components and digital services, but also in their application in our own production plants. We are benefitting considerably: Looking at our closely integrated machinery and systems, which are equipped with many sensors, we are seeing in practice that productivity advances are possible. Being a learning organization, we quickly pass this knowledge on. Thus, the Machine Tool 4.0, which we took on board in 2015 at the Höchstadt plant, is only the beginning of the use of intelligent, intercommunicating machinery.

Schaeffler on the capital markets

Capital market trends

In 2015, the global capital markets were characterized by debate over the change in the Fed's low-interest policy, the bond purchasing program of the European Central Bank (ECB), negotiations regarding Greece's membership in the European Monetary Union, and weak economic growth in China and other emerging countries. As a result, exchange rates continued to become more volatile while the commodity markets, especially the oil price, declined considerably.

As a result, global equities markets trends varied in 2015. The Dow Jones Industrial fell 2.2 %, while the Euro STOXX 50 gained 3.8 % over the course of the year. The Nikkei 225 was up 9.1 % due to the continuing expansive monetary policy of the Japanese central bank.

The European capital markets ended the year 2015 with significant increases. This was mainly attributable to the European Central Bank's extensive government bond purchasing program totaling EUR 1.1 trillion in purchases by September 2016 that was initiated in the first quarter of 2015.

At the beginning of the second quarter, the capital markets initially continued to rally, with the German Stock Index (Deutscher Aktien Index – DAX) reaching an all-time high of 12,375 points on April 10, 2015 and the 10-year Bund future rising to 160.36 points in April.

During the second quarter of 2015, the markets consolidated at a high level, driven by increasing uncertainty, including uncertainty about the future development of Greece, and concerns regarding emerging market growth. The Bund future dropped to its annual low of 148.98 points by mid-June.

In the third quarter of 2015, the downward trend in the equities markets gathered speed due to increasing concerns regarding the economic trend in the emerging markets, primarily in China and Brazil. A further negative influence on the European equities markets came from the weaker global commodity markets and uncertainty surrounding the capital markets' expectation of an increase in the Fed's interest rate. The DAX closed at 9,428 points on September 24, 2015, its lowest level in all of 2015, while the Bund future rose, buoyed by market participants' growing risk aversion.

The equities markets recovered over the course of the fourth quarter of 2015, on the back of developments such as the ECB's announcement that it would extend the bond purchasing program beyond September 2016. The extension primarily helped export-based companies which benefitted from a weaker Euro/U.S. Dollar exchange rate. The announcement also had a positive effect on the Bund future although it did not quite recover to its April annual high.

On December 31, 2015, the DAX was at 10,730 points, representing an increase of 10.5 % compared to December 31, 2014. The European sector index Stoxx 600 Automobiles & Parts rose by 14.3 % over the same period, and the Bund future was up slightly from 155.87 points to 157.92 points over the course of the year.

The corporate bond market generally fared well in 2015. The iTraxx CrossOver (5 year maturity), an indicator of credit risk in the European high yield market, closed at 299 basis points on December 31, 2015 compared to 345 basis points on December 31, 2014. The lowest premium was charged in April 2015 (243 basis points), when the DAX was also at its all-time high and demand for risky assets was particularly strong. The highest premium, on the other hand, was charged in early October (384 points), mainly caused by market participants' increased risk aversion due to the uncertain trend in the emerging markets.

Schaeffler shares

Schaeffler AG's common non-voting shares were listed on the stock exchange on October 09, 2015. The listing represents an important component of the realignment of the company's capital and corporate structure and contributes to the Schaeffler Group's continuing profitable growth.

A total of 166 million common non-voting shares were admitted for trading. 66 million of these common non-voting shares were issued in connection with a Schaeffler AG capital increase and 100 million common non-voting shares were sold by Schaeffler Verwaltungs GmbH. At December 31, 2015, approximately 71.6 million of these shares are widely held by national and international investors; the remaining approximately 94.4 million shares are held by Schaeffler Verwaltungs GmbH. The free float therefore amounts to approximately 43.1 % of the common non-voting shares at the end of December.

The placement price for the common non-voting shares was EUR 12.50 per share. Schaeffler AG received gross proceeds of approximately EUR 825 m which were largely used to repay debt.

Following the capital increase, Schaeffler AG's share capital consists of a total of 666 million shares including 500 million common shares held by Schaeffler Verwaltung Zwei GmbH that are not listed on the stock exchange. 166 million shares are common non-voting bearer shares. The free float currently amounts to 10.8 % of Schaeffler AG's total common and common non-voting share capital.

Schaeffler AG intends to pay a dividend of 25 to 35 % of net income to its shareholders in the future. Both common and common non-voting shares carry dividend rights. Common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per share.

The Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share to the annual general meeting. This represents a dividend of 28.9 % of net income, before special items related to legal cases and restructuring, attributable to shareholders. In addition, the company intends to exercise the option to pay a special dividend for 2015 that was created in connection with the listing. The special dividend is expected to amount to EUR 0.15 per common share and per common non-voting share.

Schaeffler shares-base data

ISIN	DE000SHA0159
German securities identification number (WKN)	SHA015
Stock symbol	SHA
German stock exchange	Frankfurt Stock Exchange (Prime Standard)
Index	SDAX
Share type	Common non-voting
Number of common non-voting shares as at December 31, 2015	166,000,000
Free float	43.1 % [1]

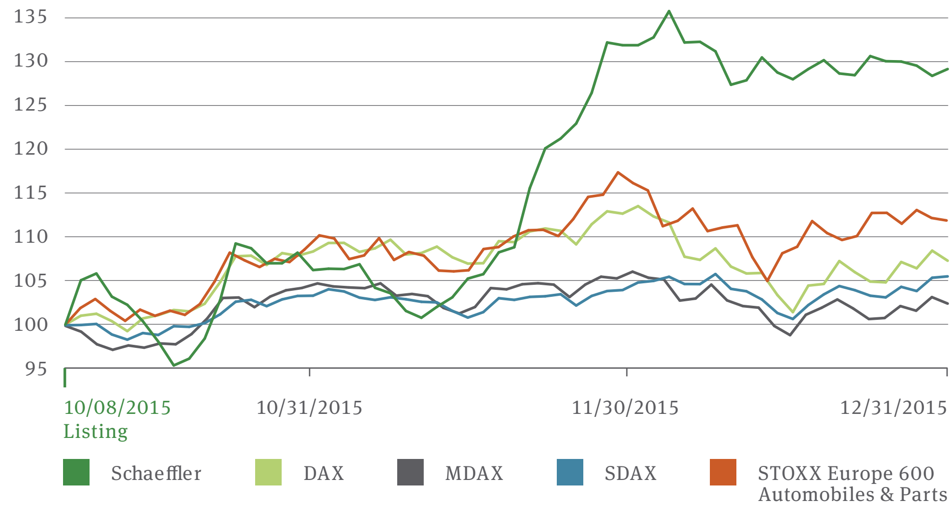
[1] 10.8 % of total share capital of 666 million common and common non-voting shares (including 500 million common shares and 166 million common non-voting shares).

Deutsche Börse included Schaeffler AG in its SDAX index effective December 21, 2015. This demonstrates that the Schaeffler shares meet not only the high transparency requirements of the Prime Standard, but also the size criteria regarding market capitalization and liquidity that are relevant for inclusion in this index.

Performance of Schaeffler shares

The first price quoted for the Schaeffler share on October 09, 2015, was EUR 13.50. The lowest share price was EUR 11.92 on October 19, 2015, and on November 26, 2015, the share price reached its high of EUR 17.05.

Schaeffler share price since listing



On December 31, 2015, the common non-voting shares of Schaeffler AG were quoted at EUR 16.25, rising approximately 30.0 % from their issue price (EUR 12.50). Schaeffler AG common non-voting shares thus outperformed the relevant benchmark indexes during the period from the date of the listing on October 09, 2015 to the reporting date 2015.

Schaeffler share performance

in €	2015
Share price at year-end	16.25
Share price (high)	17.05
Share price (low)	11.92
Average number of shares	
• Common shares	500,000,000
• Common non-voting shares	115,912,329
Earnings per share [1)]	
• Common shares	0.88
• Common non-voting shares	1.28
Proposed dividend per share	
• Common shares	0.34
• Common non-voting shares	0.35
Proposed special dividend per share	
• Common share and common non-voting shares	0.15

[1)] Earnings per share were calculated in accordance with IAS 33.

Schaeffler bonds

The Schaeffler Group took advantage of the favorable financing environment in March 2015 and completed a refinancing transaction totaling approximately EUR 1.5 bn. The placement comprised two secured EUR and one secured USD bond issues with maturities of between five and ten years. The proceeds of the new bond issues were largely used to redeem two outstanding series of bonds.

As a result, the Schaeffler Group has nine series of bonds outstanding at the end of December 2015, six of them denominated in EUR and three in USD. All of the bonds were issued by Schaeffler Finance B.V., Barneveld, Netherlands.

The Schaeffler Group had the following bonds outstanding at December 31, 2015:

Schaeffler Group bonds

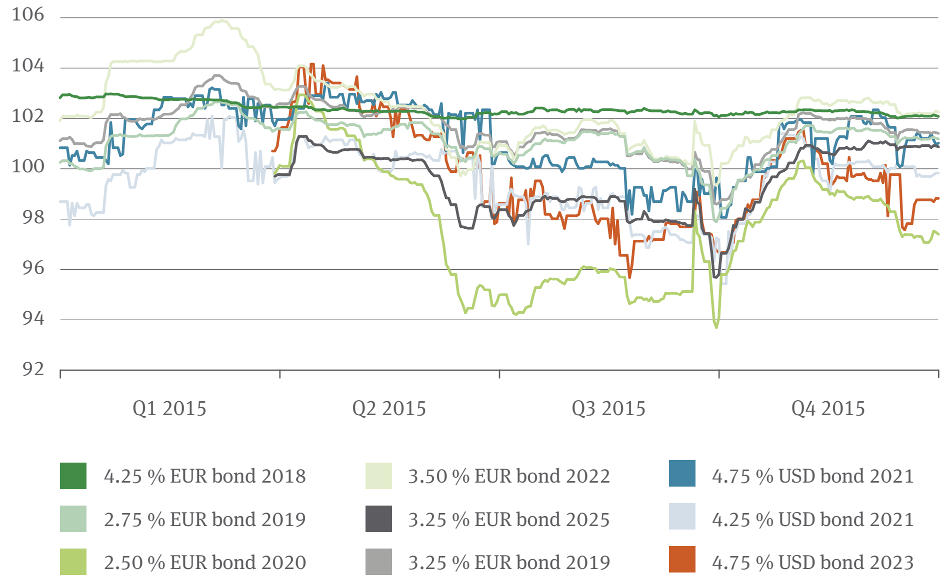
ISIN	Currency	Face value in millions	Coupon	Maturity	Price in % [1] 12/31/2015	Price in % [1] 12/31/2014
XS0923613060	EUR	600	4.25 %	05/15/2018	102.18	103.03
XS1067864881 [2]	EUR	500	3.25 %	05/15/2019	101.51	101.26
XS1067862919	EUR	500	2.75 %	05/15/2019	101.29	100.42
XS1212469966	EUR	400	2.50 %	05/15/2020	100.98	-
US806261AJ29	USD	700	4.25 %	05/15/2021	99.94	98.81
US806261AE32	USD	850	4.75 %	05/15/2021	101.13	100.94
XS1067864022	EUR	500	3.50 %	05/15/2022	102.35	102.11
US806261AM57	USD	600	4.75 %	05/15/2023	98.94	-
XS1212470972	EUR	600	3.25 %	05/15/2025	97.52	-

[1] Source: Bloomberg.
[2] Bond is unsecured.

Bond prices largely showed encouraging trends in 2015. The majority increased slightly in value, reducing the effective yield.

Performance of Schaeffler bonds since the 1st quarter of 2015

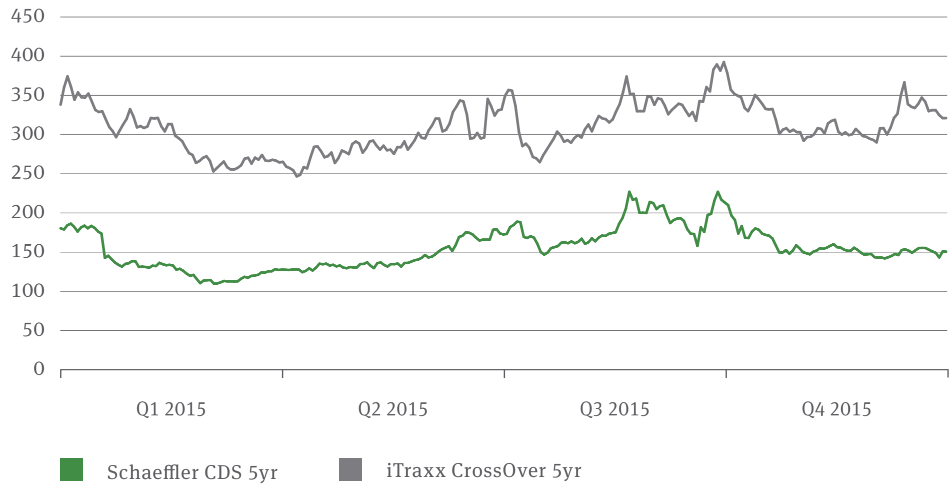
in percent (source: Bloomberg)



Premiums for Schaeffler AG 5-year credit default swaps declined from 178 basis points at December 31, 2014 to 150 basis points as at December 31, 2015, moving in line with the iTraxx CrossOver.

Credit default swap (CDS) price trend since the 1st quarter of 2015

in percent (source: Bloomberg)



Schaeffler's ratings

The rating agency Moody's upgraded the Schaeffler Group's company rating to Ba2 on October 09, 2015 as a result of the listing. The bond rating was confirmed, the outlook is stable. The rating assigned to the Schaeffler Group by rating agency Standard & Poor's remains unchanged at BB-. The following summary shows the Schaeffler Group's ratings by the two rating agencies:

Schaeffler Group ratings

				12/31/2015
		Company	Bonds secured	Bond unsecured
Rating agency	Rating	Outlook	Rating	Rating
Standard & Poor's	BB-	stable	BB-	B
Moody's	Ba2	stable	Ba2	B1

Investor Relations

All documents provided by Investor Relations are available for download from www.schaeffler.com/ir. You can contact the Investor Relations team by e-mail at ir@schaeffler.com.

Schaeffler AG maintains open lines of communication on a continuous basis with share- and bond holders as well as with all other capital market participants. For instance, the company has been presenting and discussing its quarterly and annual results via conference calls for several years. In addition, it regularly holds roadshows in key European financial centers as well as in the U.S.

In 2015, the Board of Managing Directors and the Investor Relations team participated in a total of six investor conferences in New York, London, and Paris. In addition, numerous investor meetings were held in Europe and in the U.S. in connection with the listing.

Subsequent to the listing, the company held its first analyst day in Herzogenaurach on November 20, 2015. Presentations and discussions focused on the Schaeffler Group's strategic direction with respect to research & development and manufacturing.

A total of six banks had equity analysts covering the company as at December 31, 2015. Four out of six banks rated Schaeffler AG's common non-voting shares either buy or overweight as at December 31, 2015.

Schaeffler Group
Annual Report
2015

Management report

Combined management report in accordance with section 315 (3) HGB
The company has chosen to integrate the management report of Schaeffler AG
with the following group management report of the Schaeffler Group.

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/constant currency

Revenue and earnings figures at constant currency, i.e. excluding the impact of translation, are calculated by translating revenue and earnings using the same exchange rate for both the current and the prior year or comparison reporting period.

1. Fundamental information about the group

1.1 Overview of the Schaeffler Group

The Schaeffler Group (also referred to as “Schaeffler” below) is an integrated global supplier to the automotive and industrial sectors. Highest quality, outstanding technology, and strong innovative ability represent the basis for the Schaeffler Group’s lasting success. The Schaeffler Group identifies key trends early on, invests in researching and developing new forward-looking products, and sets new standards in technology. Its application-oriented systems expertise enables the Schaeffler Group to offer comprehensive solutions that are tailored to customer and market requirements. The Schaeffler Group is a key contributor to the “Mobility for tomorrow” with intelligent high-precision components, modules, and systems in engine, transmission, and chassis applications as well as rolling and plain bearing solutions for a large number of industrial applications. The company already offers innovative products for hybrid and electric vehicles today.

With its approximately 84,000 employees, the Schaeffler Group is one of the leading global technology companies, its approximately 170 locations in over 50 countries providing it with a network of manufacturing locations, research and development facilities, and distribution companies. The group’s 74 manufacturing locations are the cornerstone of its operations. As a global development partner and supplier, Schaeffler maintains stable long-term relationships with its customers and suppliers. In addition to Schaeffler AG, a publicly listed stock corporation (“Aktiengesellschaft”) incorporated under German law, with its registered office in Herzogenaurach, acting as the group’s lead company, the Schaeffler Group included 153 domestic and foreign subsidiaries as at December 31, 2015.

For years, the Schaeffler Group has been pursuing a growth strategy aimed at profitable above-market growth. A firm determination to achieve highest quality, technology, and innovative ability, in doing business with customers as well as in the group’s internal processes, form the core of this growth strategy. The Schaeffler Group 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 key issues “eco-friendly drives”, “urban mobility”, “interurban mobility”, and “energy chain”. The Schaeffler Group 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 combines technological expertise in research and development and in production.

The Schaeffler Group’s organizational and leadership structure is based on a multi-dimensional matrix organization with two divisions, five functions, and four regions. 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. Together, the

Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board. In this manner, the Schaeffler Group's organizational structure is reflected in its leadership structure.

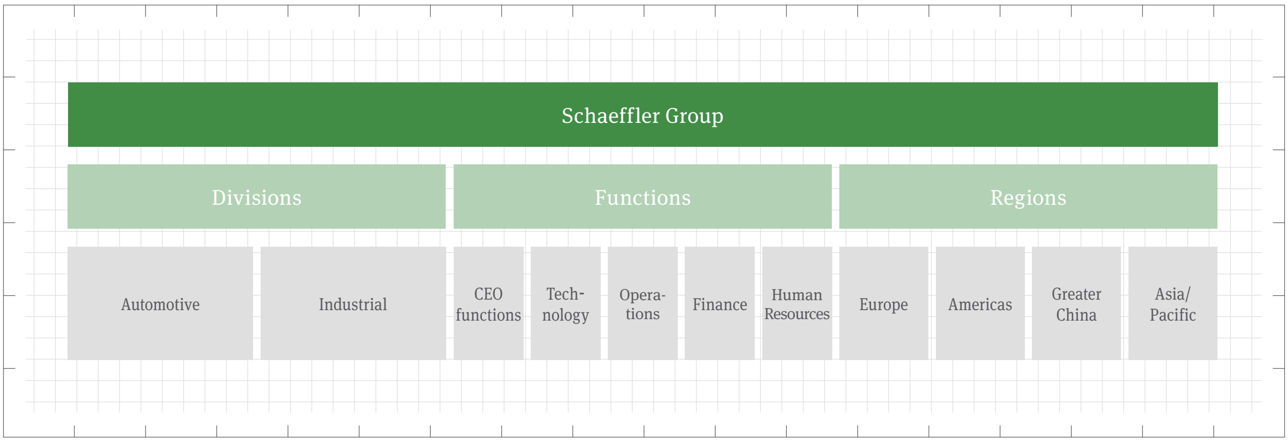
Schaeffler AG's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. With this listing, the company has created the basis for successfully continuing the Schaeffler Group's profitable growth in the coming years. The listing represented an important component of the realignment of the company's capital and corporate structure, which was aimed at further reducing debt levels and improving the capital structure for the long term. The free float currently amounts to approximately 10.8 % of Schaeffler AG's total common and common non-voting share capital.

Organizational structure

The Schaeffler Group's business is primarily managed based on its Automotive and Industrial divisions, which consist of several business divisions and business units in 2015. The divisions include both the OEM business and the Aftermarket business. The Automotive division business is divided into the four business divisions Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket. The Industrial OEM business was managed based on global business divisions and business units up to December 31, 2015. Since January 01, 2016, it is primarily managed based on regions. On this basis, the Schaeffler Group's Europe, Americas, Greater China, and Asia/Pacific regions are responsible for the Industrial business in their markets. The "CORE" program set up the organizational realignment of the Industrial division in August 2015. The foundation of this realignment is the Schaeffler Group's three-dimensional organizational and leadership model which differentiates between divisional, functional and regional units.

In addition to the two divisions, the Schaeffler Group's organizational model includes five functions: (1) CEO functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources. Distribution is embedded directly in each of 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.

Schaeffler Group organizational structure No. 001



Leadership structure

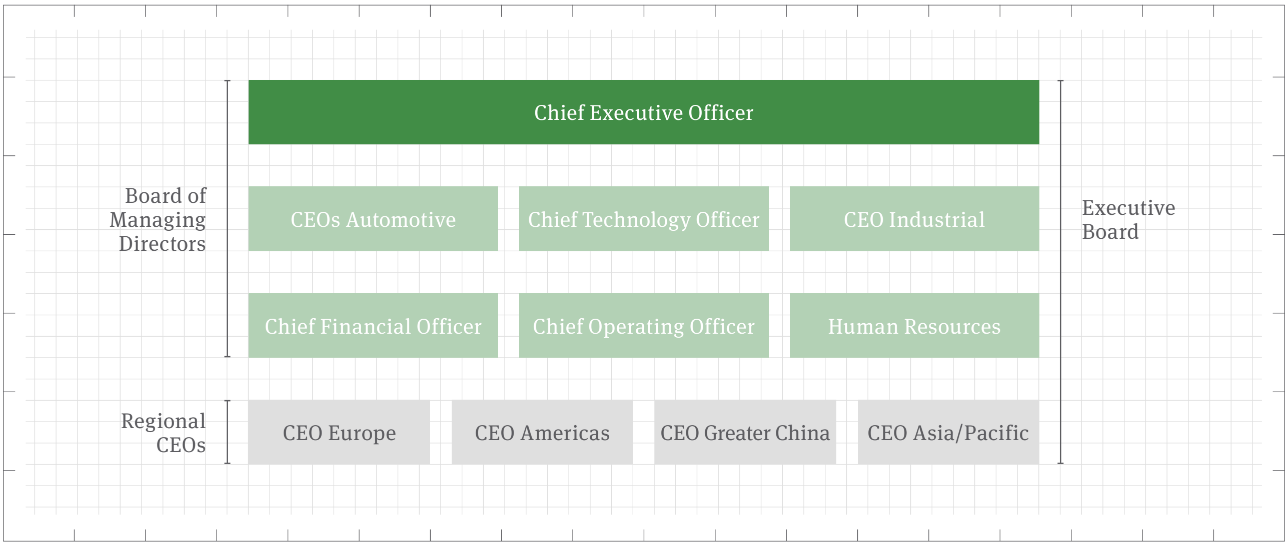
The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. In addition to the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive (CEOs Automotive) and Industrial (CEO Industrial) divisions and the Managing Directors responsible for the Schaeffler Group's functions (Chief Technology Officer, Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer). The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy taking into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term value. The CEO coordinates the management of the company and the Schaeffler Group.

In addition to the divisions and the functions, the group's matrix organization comprises the regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board. In this manner, the Schaeffler Group's organizational structure is reflected in its leadership structure.

The Supervisory Board of Schaeffler AG appoints, advises, and supervises the Board of Managing Directors and is involved in fundamental decisions. The Chairman of the Supervisory Board coordinates the Supervisory Board's activities.

The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of compliance required by section 161 German Stock Corporations Act ("Aktiengesetz" – AktG) in December 2015. The corporate governance report including the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity required by section 161 AktG, is publicly available from the company's website at www.schaeffler.com/ir (see Corporate governance section on pages 114 et seq.).

Leadership structure of the Schaeffler Group No. 002

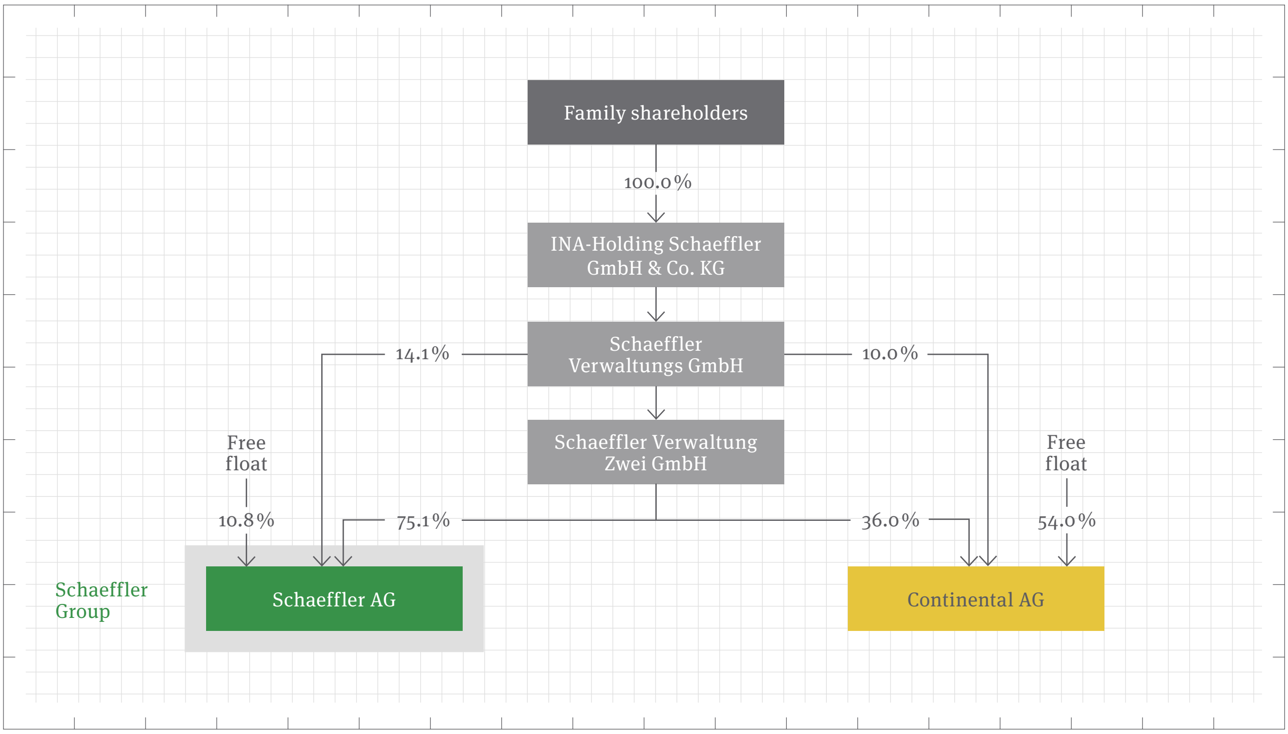


Legal group structure

In addition to Schaeffler AG, a stock corporation incorporated under German law with its registered office in Herzogenaurach that acts as the group's lead company, the Schaeffler Group included 153 (prior year: 155) domestic and foreign subsidiaries as at December 31, 2015; 51 (prior year: 53) entities are domiciled in Germany and 102 (prior year: 102) in other countries. Schaeffler AG's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015 (see chapter "Net assets and capital structure" pages 78 et sec.).

Schaeffler AG's share capital is divided into 500 million common bearer shares and 166 million common non-voting bearer shares as at December 31, 2015. Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00 each. 75.1 % of the shares are held by Schaeffler Verwaltung Zwei GmbH (500 million common shares), while 14.1 % are held by Schaeffler Verwaltungs GmbH (approximately 94 million common non-voting shares). The free float amounted to approximately 10.8 % (approximately 72 million common non-voting shares) at December 31, 2015. Both Schaeffler Verwaltungs GmbH and Schaeffler Verwaltung Zwei GmbH are wholly-owned subsidiaries of INA-Holding Schaeffler GmbH & Co. KG, which in turn is entirely family-owned. Thus, INA-Holding Schaeffler GmbH & Co. KG indirectly holds a total of 89.2 % of the shares in Schaeffler AG and an indirect investment in Continental AG of 46.0 %.

Simplified ownership structure as at December 31, 2015 No. 003



1.2 Business activities

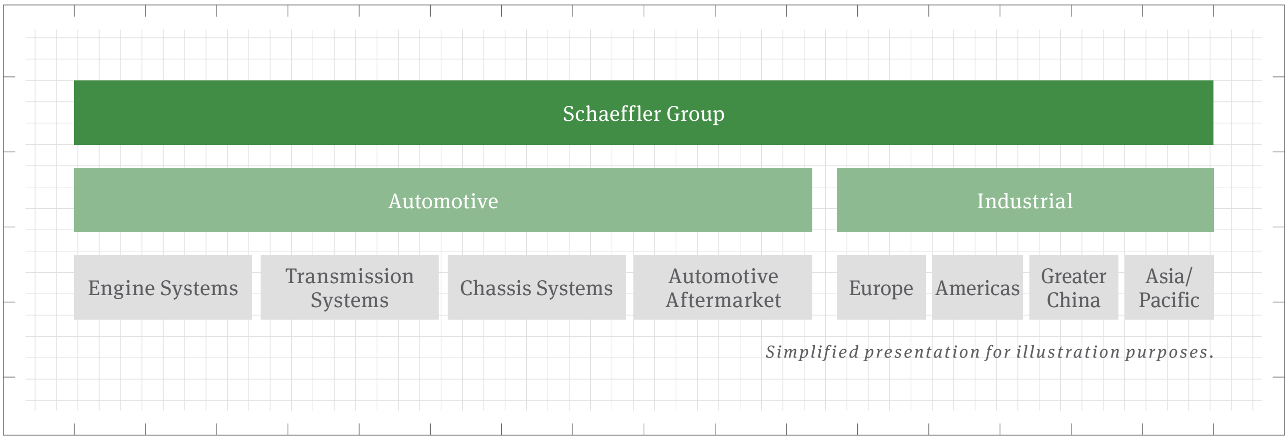
Since the realignment of the Schaeffler Group's organizational and leadership structure in November 2013, its organizational model is based on a consistent matrix organization with three dimensions – divisions, functions, and regions. The business is primarily managed based on the two divisions Automotive and Industrial. The three dimensions are discussed in detail below.

Divisions

The Schaeffler Group has divided its business activities into the two divisions Automotive and Industrial. The Automotive division is subdivided into four business divisions (Engine Systems, Transmission Systems, and Chassis Systems, as well as Automotive Aftermarket), which in turn comprise several business units. Until December 31, 2015, the Industrial division was subdivided into two business divisions (Industrial Applications and Industrial Aftermarket) and business units.

Since January 01, 2016, the Industrial division is primarily managed based on the regions Europe, Americas, Greater China, and Asia/Pacific. The realigned management model is part of the "CORE" program initiated by the Board of Managing Directors in 2015 (see pages 8 et seq. for further detail on the Industrial division). It represents the basis for improving the Industrial division's profitability for the long-term and returning the division to a growth path.

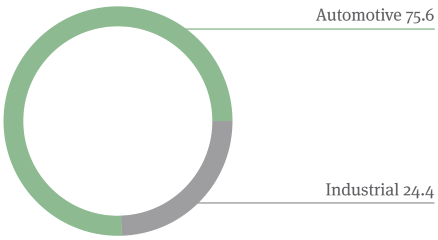
Schaeffler Group divisions and business divisions since January 01, 2016 No. 004



The Automotive division generates approximately 76 % (prior year: 74 %) of revenue, while the Industrial division contributes approximately 24 % (prior year: 26 %) of total revenue. In 2015, approximately 78 % (prior year: 78 %) of total group revenue was generated by the two divisions' OEM business. The Automotive and Industrial divisions' trading, spare parts, and service business (Aftermarket business) totaled approximately 22 % (prior year: 22 %) of total revenue in 2015.

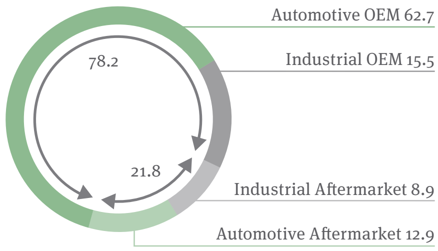
Schaeffler Group revenue by division No. 005

in percent



Schaeffler Group revenue by OEM/Aftermarket No. 006

in percent



Automotive

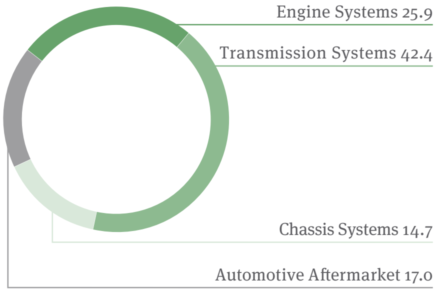
The Automotive division supplies all major automotive manufacturers worldwide as well as approximately 8,000 automotive suppliers (Tier 1) and Automotive Aftermarket customers. As a partner to the automotive sector, Schaeffler leads the field when it comes to developing and manufacturing ground-breaking components and systems for engines, transmissions, and chassis. The group's operating excellence relates to components and system solutions not only for vehicles with drive trains based on the internal combustion engine, but also for hybrid and electric vehicles. The Automotive division business is organized into the business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket. The Automotive division has the objective of achieving lasting growth in excess of the increase in worldwide automobile production.

The Automotive division's main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, electric drives, and bearing solutions in transmissions and chassis. The Schaeffler Group's precision products and systems 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. Schaeffler Automotive, 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 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.

Automotive division revenue by business division No. 007

in percent



Automotive division revenue by region No. 008

in percent by market view

Industrial

The Industrial division supplies precision products to approximately 14,000 customers in various industrial sectors. Until December 31, 2015, the Industrial division's operations were divided into two business divisions (BD): the Industrial Applications BD, which consisted of the OEM business in the industrial sector, and the Industrial Aftermarket BD, which represented the spare parts and service business. Since January 01, 2016, the Industrial division is primarily managed based on regions due to its wide customer and business structure. On this basis, Schaeffler's Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

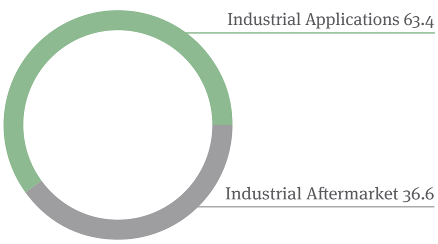
The Industrial division's product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small 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. The focus here is increasingly on smart products and on connecting components. One example of this is the "Machine Tool 4.0", whose sensor-equipped components measure and report vibrations, forces and temperatures at all relevant bearing positions.

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 condition monitoring of plants and performs remote monitoring for its customers, effectively increasing customers' system availability.

Industrial division revenue by business division No. 009

in percent



Industrial division revenue by region No. 010

in percent by market view

"CORE" program

On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division based on the "CORE" program. The program is designed to return the Industrial division to lasting growth and increased profitability with a target EBIT margin of 13 % in 2018. Key elements of the "CORE" program are (1) higher sales growth through high-volume business and an optimized product and service portfolio, (2) improving the division's competitiveness by enhancing its delivery performance and service quality, (3) stronger customer orientation through a strengthened regional sales organization supplemented by a global key account approach, and (4) cost savings and efficiency improvements through, for instance, leaner organizational structures.

This organizational realignment serves as the basis for streamlining workflows and processes and improving their efficiency. Following the realignment, the Schaeffler Group's Industrial OEM business is primarily managed on the basis of regions due to its broad customer and business structure, and no longer based on treating global business divisions and business units as profit centers as was the case until December 31, 2015. On this basis, Schaeffler's Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Responsibility within each region is divided among the subregions. Each region continues to divide its business into the sectors as in the past. In addition, the Schaeffler Group will continue to distinguished between the OEM business and the trading, spare parts, and service business. The realignment also comprises changes aimed at more efficient cooperation of functional units, both within the Industrial division and when interfacing with the functional units external to the Industrial division. These changes will have to take into account that, unlike in the Automotive division, only a relatively small proportion of products is developed within the Industrial division and manufactured in production facilities managed directly by the Industrial division. The majority of the products is supplied by the "Bearing & Components Technologies" unit as an internal supplier. The realignment is also designed to ensure that functional units cooperate more efficiently, particularly with respect to the interfaces between sales, product and application development, and operations. As part of this program, the company expects to reduce the Industrial workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and Europe.

Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functions: (1) CEO functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources (HR).

Schaeffler Group functions

No. 011

Schaeffler Group

CEO functions	Technology	Operations	Finance	Human Resources
– Quality – MOVE – Communications, Marketing & Investor Relations – Legal – Internal Audit – Corporate Development & Strategy – Compliance & Corporate Security – Corporate Real Estate	– R&D Strategy, Processes & Resources – Corporate Innovation – R&D Expertise & Services – Protection of Industrial Property – Surface Technology – Information Technology – Digitalization Coordination Office	– Operations Strategy & Processes – Production Technology – Special Machinery – Tool Management & Prototypes – Industrial Engineering – Bearing & Components Technologies – Logistics – Purchasing – MOVE Operations	– Fin. Strategy, Processes & Infrastructure – Corporate Accounting – Corporate Controlling – Corporate Treasury – Corporate Taxes – Corporate Insurance	– HR Strategy, Processes & Infrastructure – General Policy and Remuneration Policy – Administration & Payroll – Human Resources Automotive – Human Resources Industrial – Human Resources Corporate Functions I – Human Resources Corporate Functions II – Human Resources Development – Environment, Occupational Health and Safety

Simplified presentation for illustration purposes.
Structure presented without divisions.

The functions are essential to securing the Schaeffler Group's long-term competitiveness and innovative ability. In accordance with the company's commitment to highest quality, outstanding technology and strong innovative ability, the two functions Technology (particularly Research and Development) and Operations are discussed in more detail below.

Quality

The Schaeffler Group's benchmark is consistent highest quality and product safety across all applications in order to provide mobility for tomorrow – in the cities just as in long-distance transportation, eco-friendly, and energy efficient.

The comprehensive quality management system is based on a central management handbook containing regulations and prescribed processes applicable groupwide. Compliance with and monitoring of these requirements are guaranteed by audits and reviews, and they ensure a uniform global level of quality. In addition, each unit has managers specifically responsible for quality or other quality experts working closely with the relevant management in order to ensure that the quality management system in the manufacturing facilities and locations is continuously improved.

Its product expertise and comprehensive quality management enable the Schaeffler Group to consistently ensure a very high level of quality. In light of this, the Schaeffler Group has continued to develop and reinforce the interaction of error prevention and error detection activities. Benchmark for this is the "zero defects principle" in place at all Schaeffler Group locations, which stands for process stabilization and continuous improvement. It facilitates the early detection and elimination of weaknesses. The thorough implementation of the "zero defect principle" guarantees top process reliability and product quality across all stages – from design and manufacturing through to service.

Numerous awards from customers and internationally recognized certifications demonstrate the Schaeffler Group's high quality standards. All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms and standards such as ISO 9001:2008 or ISO TS 16949:2009. These certifications played a role in the Schaeffler Group receiving 24 quality awards in 2015, such as the "Volvo Car Quality Excellence Award" and Nissan's "Global Quality Award".

The "Fit for Quality" program was initiated several years ago. "Fit for Quality" ensures a systematic approach to achieving highest quality with the objective of "zero defects". The program defines policies and rules of conduct for the day-to-day work of all employees of the Schaeffler Group. It provides guidance and orientation on how to prevent errors to begin with or how to permanently eliminate them. The program was developed further in 2015. The objective is to deeply root the "Fit for Quality" program in the company's culture.

Being aware of its responsibility to customers, consumers, and employees, the Schaeffler Group has made product safety its top priority. Understanding the markets' requirements and customers' needs with respect to safe products and reflecting these in the company's processes is key here. The Schaeffler Group has initiated a communication platform, the "Product Safety Network", that includes a large number of companies and is supported by the industry associations VDA, VDMA, and ZVEI. The "Product Safety Network" is run under the auspices of the Federal Ministry for Economic Affairs and Energy (BMWi). Its members are companies with a broad spectrum of technical and electromechanical products. The goal of the network is to continuously improve their collective activities with respect to product safety issues in the interest of consumers. The focus is primarily on the fields of passenger transport and mechanical engineering and plant construction. A periodic product safety conference is designed to facilitate sharing of information across the network. Schaeffler hosted the first product safety conference in January 2015.

Technology

The Technology function has made it its goal to secure and expand the Schaeffler Group's technological leadership and to thoroughly delight its customers with innovative application- and customer-oriented system solutions from a single source and with its comprehensive development expertise. Research and development activities are aligned with the "Mobility for tomorrow" strategic concept and its four focus areas "eco-friendly drives", "urban mobility", "interurban mobility", and "energy chain".

In addition to R&D Strategy, Processes & Resources, Corporate Innovation, R&D Expertise & Services, Protection of Industrial Property and Surface and Information Technology, the Technology function also includes the Digitalization Coordination Office, which is described in more detail following the group's and the divisions' research and development activities.

Inventions reported 2015

2,643

Schaeffler Group research and development

The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with 6,650 R&D staff (prior year: 6,387) at 17 R&D centers (prior year: 16) and additional R&D locations in 19 countries. Its 2,518 patent registrations filed with the German Patent and Trademark Office made the Schaeffler Group the second most innovative company in 2014. The 2,643 inventions reported internally (prior year: 2,772) also demonstrate the company's innovative ability. On this basis, the Schaeffler Group expects to once again rank among the most innovative companies in Germany in 2015.

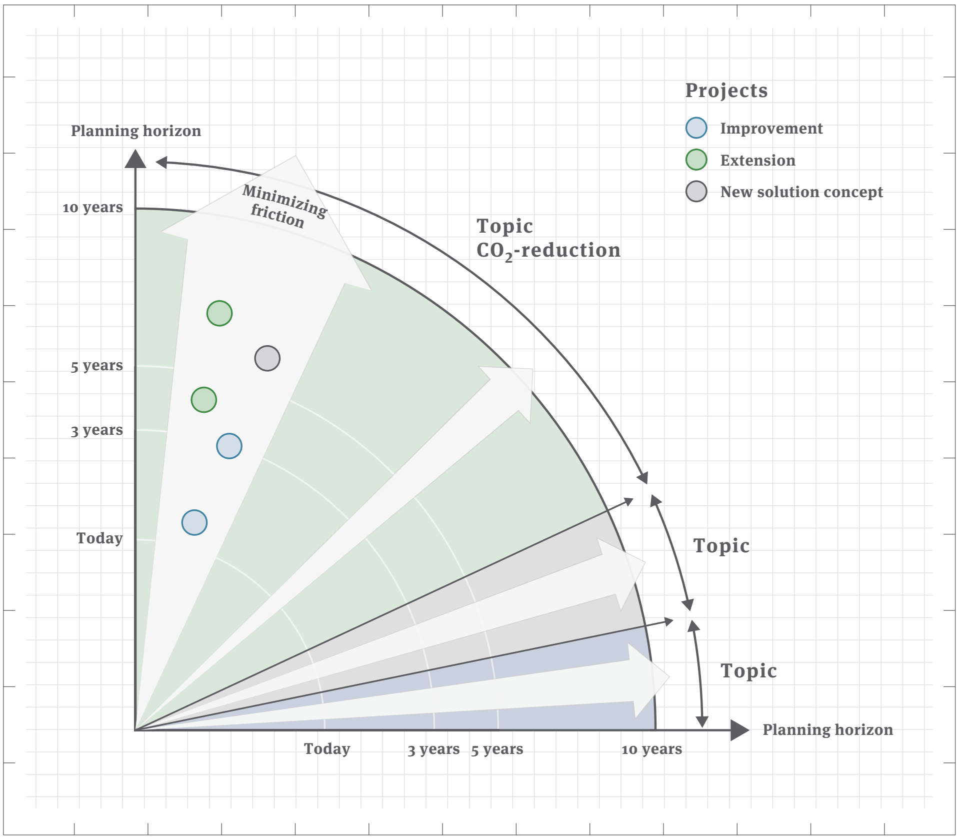
The Schaeffler Group's research and development activities benefit from the company's many years of experience and expertise with product and systems development. For instance, the group has been a leader in the field of innovative surface and coating technology for years and offers components and systems with optimal coatings for all requirements. Schaeffler's Acoustics Network is another example. Particularly in the field of drive technology, such as bearings in electric motors or household or office appliances, Schaeffler offers improvements in investigating any type of noise or vibration. The knowledge gained and the experience garnered from all areas of automotive technology and industrial development are shared in an expertise network. This type of continuous knowledge sharing in an internal and external R&D network represents the basis for the Schaeffler Group's global technological leadership.

Another success factor is the increasing cooperation across divisions within the Schaeffler Group. The consistent transfer of knowledge between the Automotive and Industrial divisions generates significant synergies and, consequently, competitive advantages. Developments of the Industrial division are similarly transferable. One example of this is the planetary screw drive. The very high number of rolling contacts enables the planetary screw drive to achieve a higher load carrying capacity and rigidity than other types of screw drives. Potential applications can be found in the solar and wind power sectors and in mechanical engineering. The planetary screw drive is already in volume production in clutch actuators for the automotive sector.

The systematic innovation process is a fundamental prerequisite for effectively and efficiently driving the Schaeffler Group's innovation projects. It is based on the annual Technology Dialog, which sets the fundamental direction of the Schaeffler Group's research and development activities for the coming five to ten years. The Technology Dialog has three phases: The first is an analysis of various aspects such as areas of expertise, product portfolio, trends, and customer requirements as well as strategic requirements. In a second phase, cross-divisional, -regional, and -departmental workshops are held to develop solution concepts for the most promising issues identified. Finally, the third phase entails preparing analyses integrating the market and technological perspectives for the solution concepts developed. These analyses include a cost-benefit-analysis of realizing the solution. Solution concepts are prioritized and approved for follow-up in the form of a development project. Planned development projects and the timing of their realization are documented in the Schaeffler Innovation Radar. Projects are separated into (1) improvements, (2) extensions, and (3) new solution concepts. These projects represent the basis for the subsequent group wide planning process.

The Schaeffler Group's corporate Innovation Management function supports all business units worldwide in identifying potentional innovations. Innovation managers act as method experts in interdisciplinary workshops and ensure transparency with respect to decisions regarding the attractiveness of potential innovations.

Schaeffler Group R&D Innovation Radar No. 012



Research and development in the Automotive division

Globalization, urbanization, digitalization, scarcity of resources, and the growing need for affordable mobility represent both a challenge and an opportunity for the Schaeffler Group at the same time. Being an expert innovation and technology leader, Schaeffler develops efficient systems and components in order to meet exactly these requirements. As a development partner with comprehensive systems expertise, the Schaeffler Group already offers innovative products for hybrid and electric vehicles today. At the same time, Schaeffler is also working on making conventional automotive engine and transmission solutions more energy-efficient.

The Schaeffler Group leads the field worldwide when it comes to developing components and systems for the drive train. The Automotive division's research and development activities continually improve and diversify the portfolio, thus securing the group's outstanding competitive position in the drive train field.

The Schaeffler Future Mobility China Concept Car presented in April 2015 is an example of the group's innovative ability. It addresses future challenges in mobility and fuel efficiency in a region that is of strategic importance to the Schaeffler Group. The concept car combines the Schaeffler Group's expertise regarding drive train, hybridization, and systems development ability.

Schaeffler China Concept Car No. 013

The concept car relies on what is known as a P2 solution, where the electric motor is located between the engine and the transmission, and a dedicated hybrid clutch disconnects the internal combustion engine during electric drive mode. In addition, the Schaeffler Group implemented an efficient double clutch. A 3-cylinder 1.0 Liter turbocharged engine serves as the internal combustion engine. The end result is the ability to generate significant fuel savings. Thanks to its modular design, the Schaeffler P2 hybrid module can be integrated into existing conventional drive train platforms, thus reducing development time and cost. The concept car enables Schaeffler to test innovative, efficient, and economic powertrain solutions for the "Mobility for tomorrow".

The Schaeffler Group presented an important result of its extensive research and development activities on the electrification of chassis components, the electromechanical active roll control, at the International Motor Show IAA 2015. Not only does it contribute to vehicle stability and driving safety, but it also helps reduce CO_2 emissions. The system minimizes the rolling motion of the vehicle body when taking corners, reducing vehicle fuel consumption significantly by up to 0.3 liters/100 km compared to hydraulic systems.

In September 2015, Schaeffler presented a transparent vehicle showing around 40 selected products and technologies, demonstrating its extensive systems expertise regarding drive trains and chassis. The Schaeffler Group also shows its expertise using more than ten demonstration vehicles. In these vehicles, consumption has been reduced by over 25 % for hybrid vehicles and, depending on battery size, more than 50 % for plug-in hybrid vehicles.

Another important Schaeffler Group development is the “E-Clutch” system which represents an automatic solution for previously purely mechanical or hydraulic clutch systems. Depending on the development stage, the system either operates the clutch only in specific driving situations or completely automates all clutch operations. This allows fuel-saving driving strategies – from “sailing”, where the engine is disconnected from the transmission during continuous driving and is either switched off completely or idles, through to electrically supported driving – to be applied in vehicles with manual transmissions.

Research and development in the Industrial division

Global production finds itself on the threshold of the fourth industrial revolution. Future scenarios in practice often referred to under the heading "Industry 4.0" are characterized by highly individualized products in very flexible manufacturing conditions.

The Schaeffler Group is actively helping shape this industrial revolution. One example of this is the "Machine Tool 4.0". In 2015, the Schaeffler Group put into operation a machine tool which applies Industry 4.0 in practice. Equipped with several dozen new and additional sensors, the milling machine developed in cooperation with DMG MORI, the world market leader in the machining sector, collects a large number of data that can be analyzed in the cloud and provides information on the condition of individual components, either via the operating terminal on the machine or via a device connected to the internet, such as a tablet. In several dozen places, the machine is equipped with sensors that can measure and record pressure, vibration, and force.

Machine Tool 4.0 analyses No. 014

The Machine Tool 4.0 is used in the ongoing volume production of high-precision bearings at the Schaeffler Group's Höchstadt production location. The project not only generates knowledge for the Schaeffler Group's own production processes, but also enables the company to present itself to machine tool manufacturers as a solution provider for Industry 4.0.

The Schaeffler Group has consistently continued its X-life campaign by introducing new products and moving further products to the X-life standard. X-life is the seal of quality for particularly high-performance Schaeffler Group products featuring longer economic and operating lives as a result of higher dynamic load ratings than the previous standard.

The related research and development activities have also resulted in, for instance, innovative solutions for preventing bearing damage by white etching cracks (through-hardened rolling bearings coated with Durotect B, such as cylindrical roller bearings) and system solutions in linear technology (plug-and-play-ready linear systems).

IT and digitalization

Digitalization is changing the entire economy and its traditional processes. Today, digital assistance is a core component of value added in purchasing, manufacturing, logistics, research and development, and distribution as well as in the human resources and finance functions.

The key objective is connecting the physical world and the digital world in order to increase the amount of value added. The focus here is both internal and external. Internally, for instance, production locations, machines, buildings, and logistics are connected to each other. Externally, existing business models are expanded and new ones developed. The collection and intelligent analysis of data gathered from real use are turning into a differentiating factor which the Schaeffler Group intends to expand consistently. To accomplish this digital shift, the Schaeffler Group will establish a flexible “Eco-System” consisting of internal and external partners.

Optimizing, synchronizing and combining these digital worlds springing up everywhere with their information and data is the responsibility of the Digitalization Coordination Office. To this end, the company has set up a new department dedicated to promoting and driving digitalization within the Schaeffler Group in 2015, emphasizing the relevance of digitalization to the Schaeffler Group. With its own “Digital Agenda”, the technology group will actively tackle and help shape issues of the future such as Industry 4.0, internet of things, big data, cloud, analytics and new business models. In order to comprehensively prepare for the digital age and to ensure the right priorities are set, the company is in the process of establishing a central project management to implement the “Digital Agenda”. This agenda comprises approximately 70 digitalization scenarios developed using an interdisciplinary approach. A “Digital Program Office” specifically set up for this purpose aggregates the scenarios developed and pushes them forward. The company is planning to further refine its “Digital Agenda” as a core component of its strategy in the “Roadmap 2020” process.

In addition, preparations for developing the new IT strategy were largely completed in 2015. Known as “IT Strategy 2020”, this strategy focuses on both putting in place the IT-related prerequisites for the digitalization initiatives and on the necessary renewal and modernization of the IT system landscape.

Operations

Production
As an integrated global supplier to the automotive and industrial sectors, the Schaeffler Group currently has 74 plants with approximately 60,000 employees worldwide. The plants represent the Schaeffler Group's "backbone". They are managed based on uniform principles. At the same time, the global network of plants, the manufacturing technologies they utilize, and the high degree of vertical integration represent the key factors underlying the Schaeffler Group's worldwide success.

The Schaeffler Group's manufacturing network increased its production volume by 4.9 % in 2015. The Schaeffler Group strives to always deliver the highest-possible quality to its customers while maintaining cost efficiency and reliability of supply. It continually improves its production system, with all locations consistently applying the "zero defects principle". Modern quality management techniques and integrated planning across the entire supply chain ensure that all of these requirements are being met. As demonstrated by, among other things, the declining number of customer complaints and reduced production inventories, the company has once more realized improvements in quality and efficiency in 2015. The "Integrated Planning" program enabled the company to further improve the reliability of supply to the customer in 2015.

Efficiency gains also resulted from increasingly networked plant and machinery. The increasing interconnection of processes along the value chain seen for years and summarized under the term "Industry 4.0" makes production more and more digital. The expanded use of sensor and actuator technology and connecting them using the internet helps make machines more independent. This facilitates preventative maintenance, helping to minimize the number of unplanned breakdowns. The potential arising from "Industry 4.0"-related topics is also utilized and tested in machine tools operated in Schaeffler's own production.

A total of 48 plants represent the Schaeffler Group in its Europe region. Besides to manufacturing locations in Germany, France, Italy, and Spain, the group also maintains significant production plants in Central and Eastern Europe. Production capacity at the Central and Eastern European production plants is continually being expanded. The region's most significant plants include the German plants in Bühl, Herzogenaurach, and Schweinfurt, which contributed approximately 12.1 %, 8.0 %, and 10.0 %, respectively to the Europe region's production volume in 2015. The Bühl location celebrated its 50th anniversary in 2015. The Schaeffler Group employs approximately 2,600 production staff at the Bühl location, while approximately 3,500 and 2,600 employees work in production in Herzogenaurach and Schweinfurt, respectively. With approximately 5,000 and 12,000 different product types, the latter two locations provide a manufacturing capacity of approximately 840 and 720 million saleable products per year, respectively. The plants in Brasov, Romania, and Skalica and Kysuce, Slovakia, with their approximately 3,300, 4,400, and 3,900 employees, respectively, are among the largest plants outside of Germany. They contributed 5.0 %, 6.4 %, and 7.0 %, respectively, to the Europe region's production volume in 2015. The production plant opened in Ulyanovsk, Russia, last year obtained its initial certification under ISO TS 16949 and ISO 9001 during the year, confirming that a functioning quality management is in place at that plant. In addition, 2015 saw the cornerstone-laying ceremony for the new plant in Svitavy, Czech Republic.

The Schaeffler Group operates a total of 14 plants in the Americas region, including 8 plants in the U.S. (South Carolina (5), Ohio, Connecticut, and Missouri) and 2 each in Canada, Mexico, and Brazil. In Puebla, Mexico, the Schaeffler Group operates 1 plant with approximately 1,200 production employees, which received Nissan Mexicana's "Quality Origin Award" in 2015. This production location was expanded in 2015.

In its Greater China region, the group operates 7 plants. Taicang, China, with its more than 6,000 production staff, is not only the largest production location in the Greater China region, but also the Schaeffler Group's largest worldwide. Due to the high level of demand for Schaeffler products in China, local production capacity is continually being expanded. The expansion of the Taicang production location was accomplished according to plan. As expansion in Taicang and Nanjing has reached its limits, preliminary selection of another location in Western or South-Western China is currently in progress.

The Schaeffler Group has five plants in its Asia/Pacific region. The cornerstone-laying ceremony for the new plant in Rayong, Thailand, further expands the group's presence in the Asia/Pacific region. The new production plant is being constructed on a 55,000 square meter property in the immediate vicinity of several large automobile plants.

Logistics
The logistics function is responsible for designing, operating, and continually improving the entire supply chain of the Schaeffler Group. The primary goal of this function is – not least in order to ensure high levels of customer satisfaction on a long-term basis – timely, accurate, and efficient supply to all customers and plants worldwide.

The logistics functions Corporate Logistics and Regional Logistics have been in place since early 2014. Their key responsibility is to consolidate all of the Schaeffler Group's logistics activities and efficiently operate the logistics activities along the supply chain. While the governance and guidance functions rest with Corporate Logistics, operational management of logistics activities is based on the logistics reference organization implemented in the Europe, Americas, Greater China, and Asia/Pacific regions (Regional Logistics). The reference organization implemented in 2014 acts as the basis for goal-oriented global cooperation and a high level of transparency in the Schaeffler Group's value chain.

Within the Schaeffler Group, Corporate and Regional Logistics are responsible for managing approximately 250 warehousing locations with more than 350,000 square meters in storage space, and for moving approximately 260,000 tons in freight between the most significant destinations in 2015. Total logistics activities in terms of freight volume have increased approximately 2 % compared to the prior year. 62 % of Schaeffler's logistics activities were concentrated in the Europe region. 20 %, 12 %, and 6 % of all logistics activities related to the Americas, Greater China, and Asia/Pacific regions, respectively.

A significant element of the strategic direction of Schaeffler Group logistics is the "European Distribution Center (EDC)" project. This project will create a high-performance logistics network for the Industrial division aimed at lasting improvements in market supply and delivery performance. Thus, the European Distribution Center contributes significantly to increasing the company's competitiveness. Schaeffler opened its new warehousing locations "EDC North" (Arlandastad, Sweden) and "EDC South" (Carisio, Italy) in 2015. These locations, with their combined space of 39,000 square meters, will consolidate and process deliveries for customers in Northern and Southern Europe, respectively. In addition, construction planning has started for the central distribution center "EDC Center" to be built at the Kitzingen location.

Purchasing

The Schaeffler Group's purchasing function ensures optimal supply of goods and services to the plants taking into account quality, cost, and reliability of supply. By means including involving suppliers in the process of establishing production, it secures external supply even before production starts. By consolidating purchasing volumes, the purchasing function contributes to the continual improvement of the Schaeffler Group's supplier network. Improving the quality provided by suppliers by cooperating extensively with suppliers, securing competitive procurement costs, and optimizing the supply chain to increase the security of supply by utilizing better logistical connections remain the key objectives of purchasing.

Purchasing consists of the corporate purchasing function for production and non-production materials, and project-related purchasing for the Automotive and Industrial divisions. In addition, purchasing is divided into the Europe, Americas, Greater China, and Asia/Pacific regions, which incorporate the purchasing function for the respective plants.

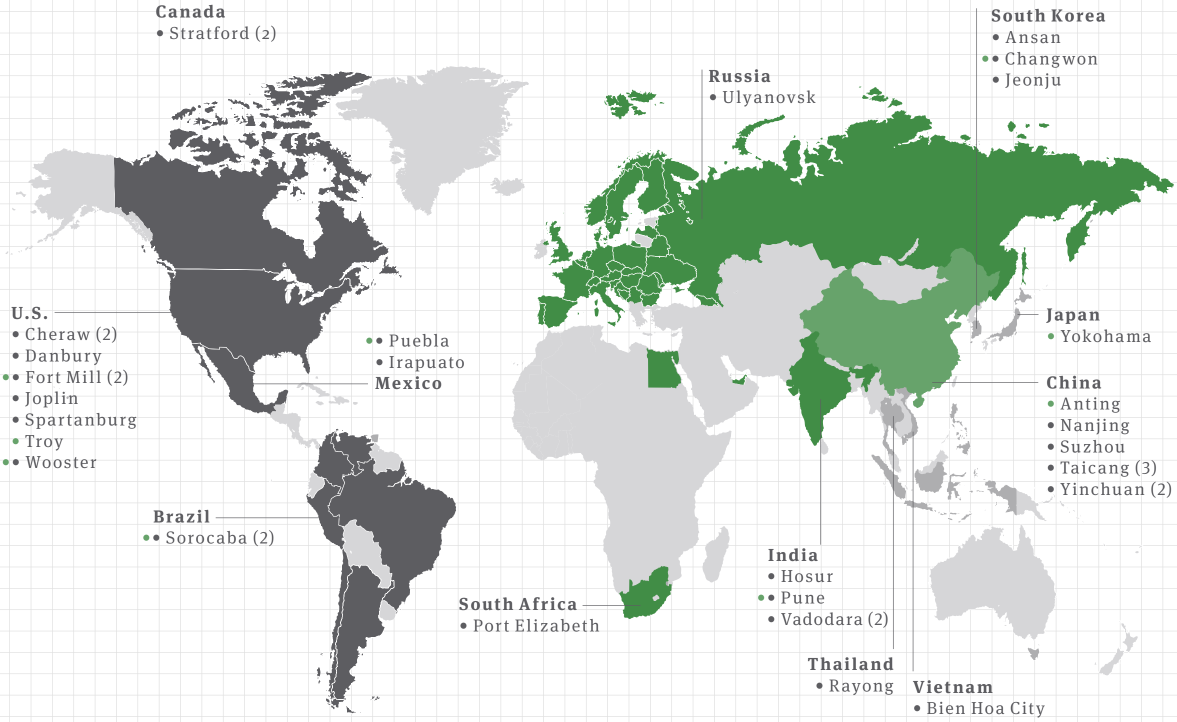
In 2015, the Schaeffler Group experienced an operational increase in total purchasing volume of 3.6 % compared to the prior year. The purchasing volume of production materials (raw materials and components) included here rose by 0.8 %. The purchasing volume in general purchasing (primarily intangible assets, property, plant and equipment, tools, supplies, and services) grew by 7.1 %. The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2015.

The Schaeffler Group obtained goods and services from approximately 33,000 suppliers in approximately 80 countries in 2015. The volume of these purchases related primarily to the Europe (65.8 %) and Americas (17.9 %) regions. 9.4 % and 6.9 % related to the Greater China and Asia/Pacific regions, respectively.

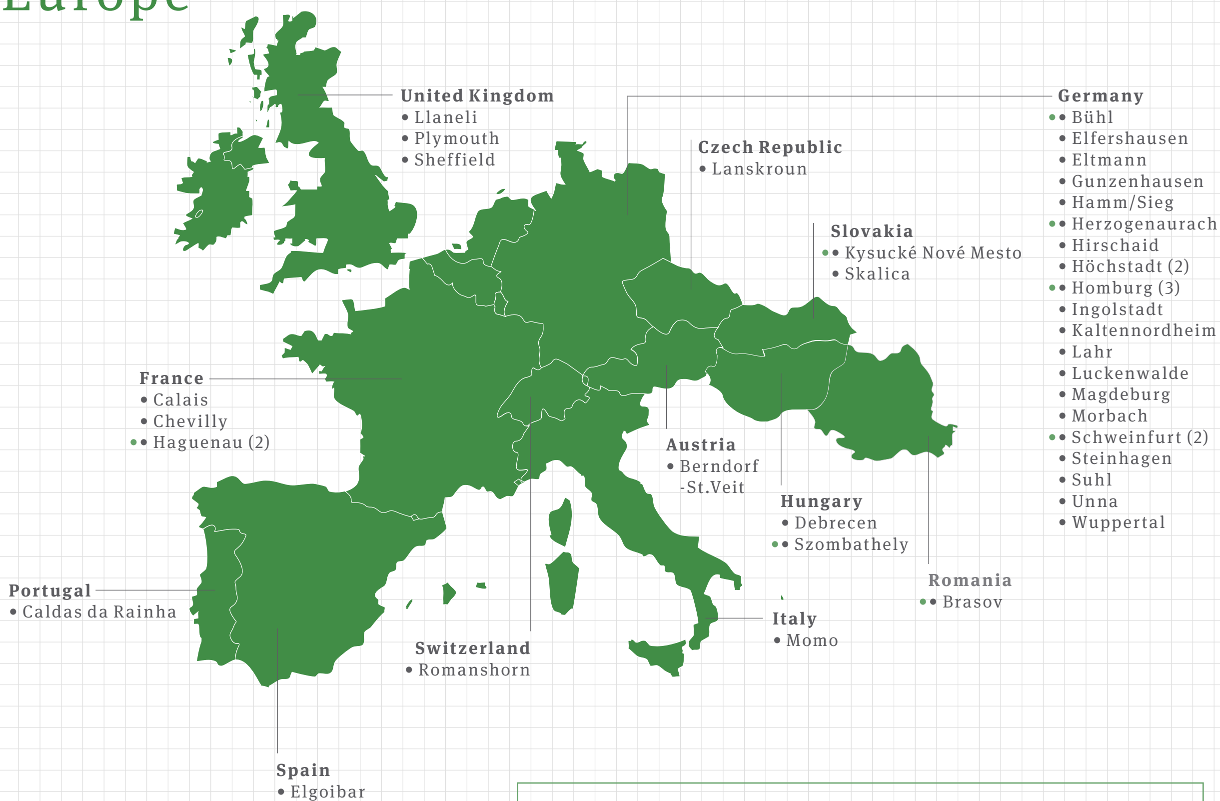
The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals. Price changes are normally either passed on indirectly with a time-lag via changes in costs charged by suppliers or via new prices during contract negotiations.

Continental AG and the Schaeffler Group have been cooperating on purchasing for six years. Both companies benefit from improvements in cost structures from combining purchasing volumes. By utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to further improve its cost of materials slightly in 2015.

Schaeffler Group plants and R&D centers



Europe



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

Regions

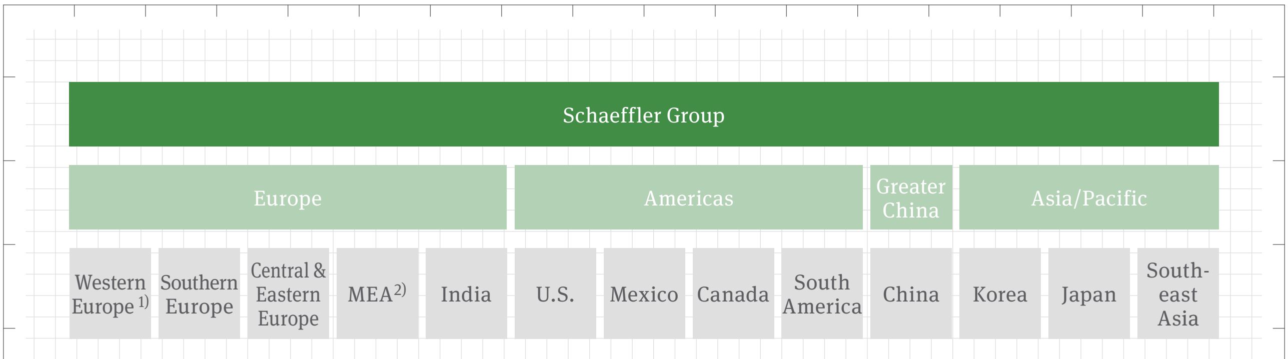
The Schaeffler Group's three-dimensional matrix organization divides the company's business not only into divisions and functions, but also groups the company's activities into the four regions Europe, Americas, Greater China, and Asia/Pacific. Each of the Schaeffler Group's four regions is managed by a Regional CEO.

Schaeffler Group revenue by region No. 016

in percent by market view

The basis for the Schaeffler Group's economic success lies in its proximity to the customer. 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. Cooperation across divisions and countries leads to a high degree of flexibility in solving new customer requirements and the opportunity of anticipating emerging trends early on. In addition to better acceptance due to cooperation with local customers and suppliers, the Schaeffler Group's increasing localization results in efficiencies in purchasing and logistics as well as various benefits regarding aspects of sustainability and the environment. The resulting growing regional presence is also reflected in a high degree of localization. The degree of localization describes the relation of a region's total sales to sales volume manufactured in that region.

Schaeffler Group regions and subregions No. 017



1) incl. Germany.
2) MEA – Middle East and Africa.

The Europe region combines the subregions Western, Southern, and Central and Eastern Europe, the Middle East and Africa, as well as India. Germany, which forms part of the Western Europe subregion, represents the Schaeffler Group's most important sales market. This region contributed approximately 53 % of consolidated revenue in 2015. The degree of localization amounted to approximately 96 % during the reporting period. The Europe region employed a total of 58,600 employees in 2015, representing 69.6 % of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach, Germany. The region has 48 plants and 9 R&D centers. Its regional head office is located in Schweinfurt, Germany. The plant constructed in Ulyanovsk, Russia, in the prior year commenced operations as scheduled. In addition, the cornerstone was laid for a new plant in Svitavy, Czech Republic.

The North and South American countries make up the Americas region. This region contributed approximately 22 % of revenue in 2015. The Schaeffler Group achieved a degree of localization of approximately 71 % in the Americas region in 2015. A total of 12,625 staff were employed at 14 plants and 5 R&D centers as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill, South Carolina, U.S.A. The Schaeffler Group has been manufacturing in this region since 1953.

As China is a strategically important sales market for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate region named "Greater China". The region generated approximately 14 % of the group's revenue in 2015; its degree of localization amounted to 68 %. A total of 10,216 staff were employed in Greater China. 7 plants and 1 R&D center are located in this region. 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 comprises Korea, Japan, and the countries in Southeast Asia. The Schaeffler Group has been represented in this region since 1953. Approximately 10 % of group revenue was generated by this region in 2015. The degree of localization amounted to approximately 41 % in 2015. The Asia/Pacific region had 2,757 employees. The regional head office is located in Singapore. The Schaeffler Group operates a total of 5 plants and 2 R&D centers in this region. The Schaeffler Group is continually expanding its presence in this region, one example being the plant under construction in Rayong, Thailand.

1.3 Group strategy and management

Group strategy

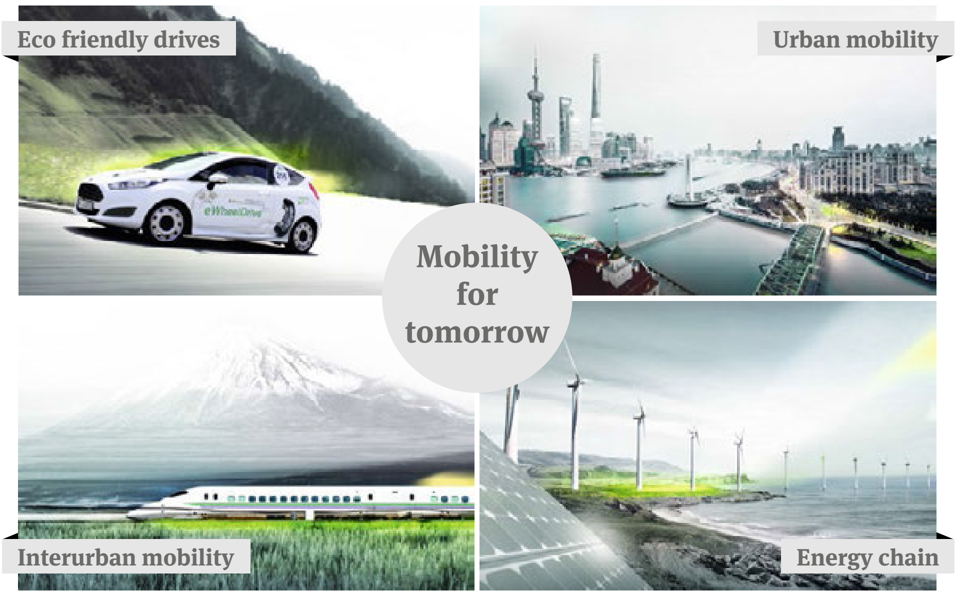
The Schaeffler Group is an integrated supplier to the automotive and industrial sectors. It follows a growth strategy aimed at profitable above-market growth. At the core of this growth strategy are highest quality, outstanding technology, and strong innovative ability, in doing business with customers 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. The Schaeffler Group 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" No. 018



(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 eco-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 the Schaeffler Group'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

There is no place where the changing character of mobility is more noticeable than in the megacities of this world. At the same time, there is no place where that is 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, the Schaeffler Group is further expanding its product portfolio for hybrid and electric mobility. Its torque sensor bottom brackets, for instance, have positioned the Schaeffler Group 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 demand 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 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 the Schaeffler Group 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, the Schaeffler Group 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 the Schaeffler Group as they will all contribute significantly to the energy supply in the future. The Schaeffler Group'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 substrategies 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 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, and securing sufficient financial flexibility.

The Schaeffler Group’s objective is to offer its customers a comprehensive “best in class” product/system portfolio including consulting and service. The Schaeffler Group extensively evaluates new products and markets in light of its ambitious profitability targets. Its focus is on the premium segments, which require 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. The Schaeffler Group 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.

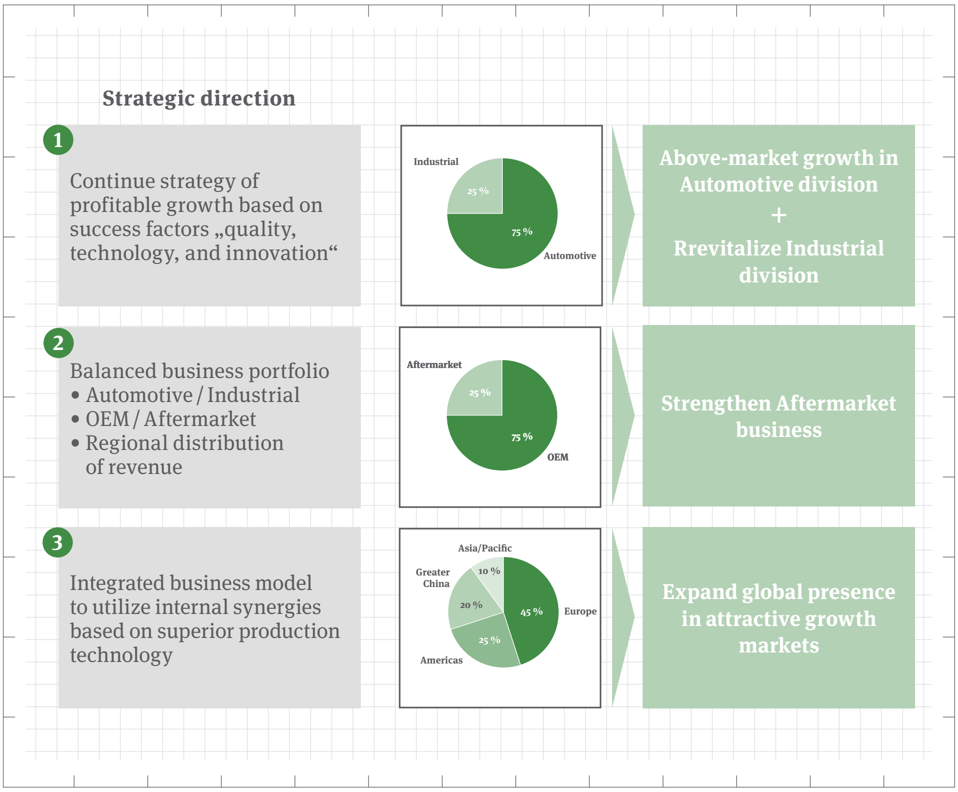
The Schaeffler Group is a key contributor to all forms of mobility of the future. The company already offers innovative products for hybrid and electric vehicles today. At the same time, the Schaeffler Group is continually working to make conventional automotive engine and transmission solutions as well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

Another of the Schaeffler Group's strategic objectives is a balanced business portfolio: The medium-term target ratio of revenue of the Automotive/Industrial divisions is approximately 75:25. Key to achieving this target is the success of the realignment of the Industrial business.

In addition, the Aftermarket business aims to again contribute approximately 25 % of the Schaeffler Group's total revenue by 2020. This target can only be met if the company consistently takes advantage of its growth opportunities within Europe, particularly in the growth regions.

Another strategic objective related to moving towards a balanced business portfolio is achieving regional revenue distribution of approximately 45 % in Europe, approximately 25 % in Americas, approximately 20 % in Greater China, and approximately 10 % in Asia/Pacific by 2020. This also requires the continued focused expansion of the Schaeffler Group's global presence in attractive growth markets, especially in the Greater China and Asia/Pacific regions. Approximately one third of all capital expenditures (capex) made in the last twelve months went to the Greater China and Asia/Pacific regions.

Strategic objectives No. 019



In line with its “in the region – for the region” approach, the Schaeffler Group is opening or expanding local plants. The plant in Rayong, Thailand is currently under construction. The plant in Ulyanovsk, Russia, has commenced operations. In addition, the cornerstone was laid for a new plant in Svitavy, Czech Republic.

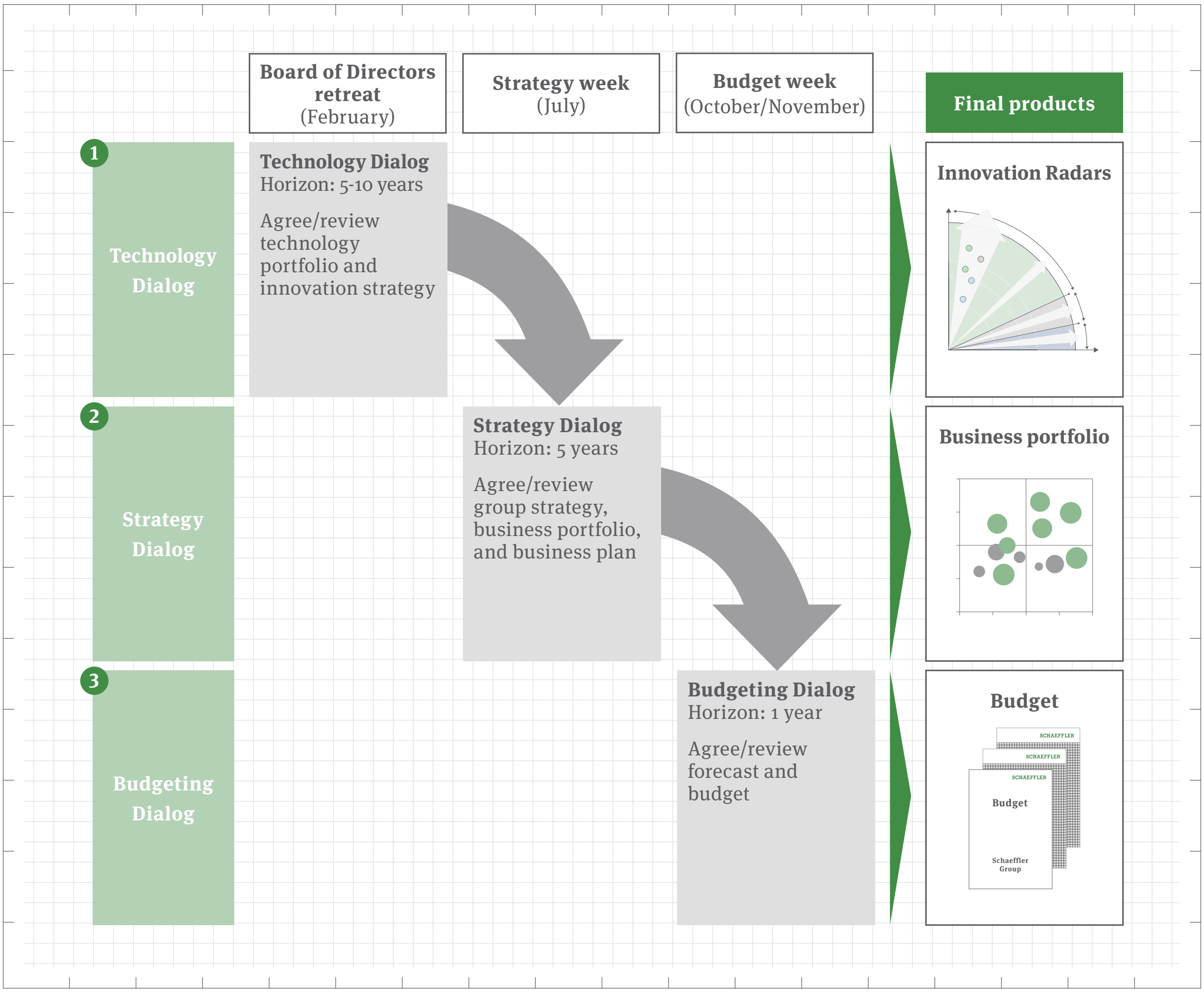
As part of its global growth strategy, the company is also gradually expanding its product portfolio around the world, enabling it to offer its customers an even greater multitude of solutions. The Schaeffler Group plans to further diversify its products across various markets in order to minimize dependence on individual markets. This approach also involves expanding its expertise in offering system solutions and services. The company aims to remain among the top 3 competitors in the relevant new and existing markets.

The Schaeffler Group’s growth strategy is founded on making 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.

Strategy and planning process

The strategic concept “Mobility for tomorrow” is operationalized in an annual strategy and planning process. In 2015, the Schaeffler Group has implemented a new strategy and planning process comprising three key components, the (1) Technology Dialog, (2) Strategy Dialog, and (3) Planning Dialog, which sequentially build on each other.

Strategy and planning process No. 020



The Technology Dialog takes place in February of each year and primarily deals with the megatrends and the resulting impact on technology and innovation. The time frame considered is five to ten years into the future. Based on the information developed, an "Innovation Radar" is approved containing and prioritizing the initiatives aimed at securing the Schaeffler Group's profitable growth over a period of five to ten years. However, this requires investing in intangible assets and property, plant and equipment and starting research and development activities early on. The initiatives approved in the Technology Dialog are further refined during preparation for the Strategy Dialog.

The Strategy Dialog takes place mid-year. It focuses on the Schaeffler Group's business strategy (incl. business plan) for the coming five years, the substrategies for the divisions with their strategic business units, the regions, and the functions. A detailed market analysis and an analysis of the initial internal position represent the starting point. Building on these, strategic initiatives are developed from which an indicative business plan can be derived. As part of the process, the various substrategies are coordinated with each other, prioritized, supplemented where necessary, and developed into an integrated strategy for the Schaeffler Group. This strategy is then documented in what is known as the "Roadmap 2020". In order to ensure that the agreed-upon strategic initiatives can be adequately implemented and potentially emerging barriers eliminated early on, the most important initiatives are combined in the "4 plus One" agenda and an appropriate monitoring is set-up within the Board of Managing Directors.

The results of the Strategy Dialog form the starting point for deriving the top-down objectives for the coming budget year. In the subsequent bottom-up process, the objectives are broken down in detail, validated on a bottom-up basis and the overall plan adjusted if necessary. During the Budgeting Dialog in October, the Executive Board approves the detailed budget for the first planning year.

The results of the strategy and planning process are presented and approved at the following meeting of Schaeffler AG's Supervisory Board. The results of the planning process represent the starting point for the performance indicators discussed in the report on expected developments and become part of the agreed-upon objectives of the Managing Directors and management.

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.

In the context of the three-dimensional matrix organization, the Schaeffler Group's management managed the group's business activities primarily based on its divisions and business divisions, which are treated as profit centers and are responsible for business operations and earnings worldwide, in 2015. 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 Group's regions are managed as profit centers and divided into subregions and countries.

Since January 01, 2016, the Industrial division is primarily managed based on the regions Europe, Americas, Greater China, and Asia/Pacific. On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division. The Industrial business is primarily managed on the basis of regions and no longer based on business divisions and business units as was previously the case. The alignment along business unit lines will be maintained in addition to the primarily regional management approach.

The Schaeffler Group's internal management system consists of the annual budget developed based on the strategic framework specified by the Board of Managing Directors, ongoing monitoring and management of financial performance indicators, regular meetings of the Board of Managing Directors and of management, as well as reports provided to the Supervisory Board of Schaeffler AG. Ongoing monitoring and management is based on a comprehensive system of standardized reports on net assets, financial position, and earnings. Discussions at the meetings of the Board of Managing Directors and of management address the results of operations, including the achievement of targets and objectives, as well as the outlook for the year as a whole and any action that may be required.

Value-based management

The Schaeffler Group manages its business portfolio based on value. The most significant measures used are the strategic performance indicators ROCE (return on capital employed)[1] and Schaeffler Value Added[2]. ROCE represents the relationship of EBIT to average capital employed in operations (capital employed) and measures earnings generated in relation to capital employed. As the ROCE performance indicator measures long-term performance, it is not used to manage the Schaeffler Group's operations. Schaeffler Value Added, which is closely linked to ROCE, is calculated as EBIT less the cost of capital. It represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management (see "Value management" on page 83).

[1] EBIT in relation to average capital employed (property, plant and equipment + intangible assets + working capital).

[2] EBIT less cost of capital (average capital employed × weighted average cost of capital).

Schaeffler Group performance indicators

The performance of the Schaeffler Group's business is based on a long-term growth strategy. Group management ensures that the Schaeffler Group is growing profitably while utilizing capital efficiently. Therefore, significant emphasis is placed on the performance indicators revenue growth and EBIT margin. Traditionally, the Schaeffler Group's growth has been financed from internal sources. The primary performance indicator of the group's ability to generate internal financing is free cash flow.

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

- Revenue growth
- EBIT margin
- Free cash flow

The capex ratio is not among the Schaeffler Group's key financial operating performance indicators. This ratio is primarily used to monitor operations and is not used to manage the Schaeffler Group's business processes.

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

The management remuneration system takes these financial performance indicators into account in determining variable short- and long-term remuneration.

The Board of Managing Directors managed the Schaeffler Group's business processes using financial performance indicators in 2015. The company uses additional key non-financial indicators with respect to the plants, to quality, and to human resources that are also calculated using standardized reports and monitored by management during the year.

1.4 Employees

Megatrends will fundamentally change the working world. Globalization, individualization and demographic change pose great challenges to employers. The Schaeffler Group already has to take appropriate action now in order to secure its attractiveness as an employer in the future. The key is developing tomorrow's human resources tools today. In the future, the distinction between work and private life will become increasingly blurred. Companies have to provide more flexible working environments and methods and adapt them to the expectations of future generations. This is a critical competitive success factor.

In addition, Industry 4.0, digitalization and big data are opening up new dimensions of linked data and information, modes of communication, and knowledge transfer, requiring new models of social and corporate networking, communication and collaboration. The human resources function represents a key factor for people living in this digitalized and process-oriented working world of tomorrow.

Its employees represent one of the key pillars of the Schaeffler Group's success. Their technical knowledge, skills and commitment secure the continuous progress of the company and are essential to the Schaeffler Group's current and future 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.

Human resources strategy

The Schaeffler Group's human resources strategy was developed and designed as part of a company-wide Strategy Dialog. In this dialog, the requirements of all business and functional units are incorporated into the human resources strategy. As part of this strategy the company has defined what is known as the HR Roadmap 2020. Human resources (HR) initiatives were derived based on a project portfolio. Key initiatives are discussed below.

In 2015, the company's high-priority "Talent management & leadership skills" HR initiative advanced the group's talent management in order to support talents and provide employees at all levels with attractive career paths and job perspectives. In the future, attention will focus much more on supporting and developing employees in production.

The "New workplace and flexible/mobile working conditions" HR initiative scrutinizes current job models. It aims to develop more flexible job models and improve the framework and environment for mobile work conditions.

The “Demographics and workplace health management” HR initiative focuses specifically on developing an appropriate framework and environment for employing older workers. The company’s preventive health care activities and numerous offerings to promote Schaeffler Group employees’ health deserve particular notice.

Recruitment is addressed by the Schaeffler Group’s “Employer branding” HR initiative, which is designed to strengthen the image and prominence of the Schaeffler employer brand.

The “Employer of choice” HR initiative develops and introduces attractive and competitive compensation models. A global job grading project was run in 2015.

Successfully implementing the HR initiatives and actions derived from the Schaeffler Group’s human resources strategy requires committed and highly-qualified employees. The basis for this consists of:

- recruiting,
- personnel development, and
- health management and occupational safety.

Recruiting

In the competition for the best staff, the Schaeffler Group wants to position itself as an attractive employer worldwide and attract qualified talent. The Schaeffler Group is already among the 50 most attractive employers for newly-qualified engineers in Germany.

The Schaeffler Group focuses on online channels when it comes to approaching potential applicants. In 2015, the company initiated its first global careers website to supplement the country-specific websites, and features job openings from all its regions on that site. This focus was also demonstrated by the company’s first Potentialpark Award received in 2015. Each year, Potentialpark, a global market research company, analyzes the career-related online activities of selected companies. In the online talent communication study, the Schaeffler Group ranked 23rd in all of Germany, an improvement of 15 ranks from the prior year. The company’s online application process even came in 15th in the category online application.

Asia represents another recruiting focus for the Schaeffler Group. Take, for example, the Schaeffler Talent Open Day in April 2015: The Schaeffler Greater China HR team initially visited the Chinese Talent Days in Cologne, Germany, to get Chinese students interested in joining Schaeffler China and to identify talents. The next day, the Schaeffler Talent Open Day was held in Herzogenaurach, Germany, with introductory presentations, group exercises, and individual interviews. The event resulted in 16 participants signing a contract with Schaeffler China Co. Ltd. The Schaeffler Group’s significant improvement in competing for very high-quality candidates in China and its position as an attractive employer there is demonstrated, among other things, by the “Top Employer China 2016” award it received from the “Top Employer Institute” in December 2015.

In addition, the Schaeffler Group cooperates with universities around the world to attract qualified students to the company. Of particular significance in this regard is “Formula Student”, a student racing series that involves university teams designing and building a race car themselves and then racing each other in international competitions. Formula Student provides a platform for students to test their newly learned engineering knowledge in practice and in competition, while at the same time developing a comprehensive understanding at many levels. The Schaeffler Group supports teams around the world and is also the main sponsor of the events in Germany, Brazil, Italy, and Spain.

In addition to presentations at recruitment fairs, the Schaeffler Group has also been using industry trade shows such as the Hanover Fair (HMI) or the International Motor Show (IAA) to position its employer brand and recruit new staff.

Personnel development

Schaeffler Group talent management

One of the key responsibilities of talent management is the personal development of each and every employee within the company. To the Schaeffler Group, talent management is a systematic approach to providing salaried personnel with specific opportunities for development, identifying high-potential staff, and protecting key positions.

The talent management process was standardized worldwide as part of the “global talent management” HR initiative over the course of 2014 and 2015, and divided into three interrelated phases: the employee development dialog, the supervisor meeting, and realization. In this regard, the talent management cycle represents the basis of a year-round personnel development process.

The employee development dialog is a feedback and management tool and represents the basis for the supervisor meeting. In a one-on-one meeting, supervisor and employee discuss behavior, performance, potential, and technical skills. A tailored development plan is an optional component helping to specify and plan the employee’s personal development. The results of this one-on-one meeting are the basis for discussion at the supervisor meeting. Supervisor meetings are held at the divisional, regional, and functional level, reflecting the organizational structure of the Schaeffler Group. The meetings are designed to facilitate thorough discussions across departmental lines with the objective of identifying and confirming high-potential employees, initiating individual development and performing succession planning. In the implementation phase, agreed upon development activities are approved and started.

Managers as talent managers

The company considers its managers to be the talent managers of their own staff. Open and constructive feedback is the basis for a trusting working relationship and for the personal development of both employees and the managers themselves.

A new "talent management toolbox" developed in 2015 contains feedback and management instruments and offers tools for promoting individual development as well as for identifying and specifically developing high-potential employees. Dedicated workshops providing an opportunity to practice using these new talent management tools were developed in order to train managers in the use of these tools and to communicate changes and innovations in talent management.

Specialist and project career paths

As a company with operations worldwide, the Schaeffler Group not only requires line managers, but also especially needs highly motivated and qualified specialists as well as full time project managers who combine extensive technical expertise and key know-how with outstanding project management skills.

To meet this need, the company has developed transparent and global career programs that consist of the following elements: uniform career stages worldwide with set tasks and responsibilities, job specifications and perspectives for development.

Following the talent management process, nominated employees are approved for the career path or for the next higher stage within the career path in (semi-) annual career committee meetings.

Since the introduction of the global project career path (2012) and the global specialist career path (2013), 34 project managers and 247 specialists were accepted into the career paths in Germany alone. This represents a total increase of 32 % in 2015 compared to the prior year.

Employee qualification and continuing education

As strategic human resources planning has to take into account new requirements and skills early on, supporting employees and helping them gain additional qualifications is key to the Schaeffler Group.

3,931 classroom training sessions (prior year: 3,709) attended by 36,485 participants (prior year: 31,661) were held in Germany in 2015.

In addition, 63 different e-learning courses were offered to staff and were taken by 18,068 employees (prior year: 39 e-learning courses offered; 24,753 participants). With the expansion of its online training program, the Schaeffler Group follows the trend towards making continuing education courses available to employees anytime anywhere.

Employee qualification and continuing education No. 021

Number in Germany	12/31/2015	12/31/2014	Change in %
Classroom training sessions	3,931	3,709	6.0
Participants – classroom training sessions	36,485	31,661	15.2
E-learning courses	63	39	61.5
Participants – e-learning courses	18,068	24,753	-27.0

The Schaeffler Group's range of continuing education courses is consolidated worldwide under the umbrella of the Schaeffler Academy. Germany, Brazil, Romania, France, and the U.S. are now using common IT standards which make it possible to transparently present the continuing education course program to all employees. The Schaeffler Academy offers not only standard qualifications, but also tailored, specific, and interdisciplinary qualifications.

Of note here are the two management programs CMP (Central Management Program) and IMP (International Management Program), which were awarded the Certificate of Merit in the Best of HRD Practice category by the International Federation of Training & Development Organisations (IFTDO). The two programs, both with a global focus, provide training in Schaeffler-specific intercultural management skills as well as company-specific information on strategy development, making them pivotal in achieving medium- to long-term business objectives.

Supporting new talents

Attracting and training new talents in all areas is essential to ensuring Schaeffler's long-term success. 2,897 trainees (or 3.4 % of the Schaeffler Group's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,735 or 3.3 % of the workforce) as at the end of 2015. The number of trainees has thus grown by approximately 5.9 % compared to the prior year. These future specialists are trained in a total of 21 specific jobs requiring formal training at various Schaeffler Group locations. In addition to technical qualifications and Schaeffler-specific know-how, the Schaeffler Group's training particularly values methodological, social, and personal skills. 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 various types of these programs of academic studies, such as a “Duales Studium” in cooperation with colleges offering this type of cooperative education program (“Duale Hochschulen”) or a “Two-in-One” program in cooperation with universities of applied sciences in Germany. A total of 150 students were enrolled in the “Duales Studium” and 196 in “Two-in-One” bachelor programs in 2015. The company also operates another program leading up to a master’s degree.

In addition, the Schaeffler Group offers special trainee programs 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. In Germany, for instance, 46 young talents (prior year: 52) were enrolled in this trainee program as at December 31, 2015. Similar programs operate in many countries around the world, including in the U.S.

Health management and occupational safety

As a result of demographic change, the company has to develop effective preventive health care programs for its aging workforce. The workplace health care management in place is an important component of the HR initiatives.

Signing the “Luxemburg Declaration on Workplace Health Promotion in the European Union” also demonstrated the Schaeffler Group’s commitment to its corporate responsibility with respect to preventive health care and occupational safety.

Occupational health and safety help maintain the health and performance of employees. As a result, they represent an important issue for which the company and its employees bear equal responsibility. In order to protect and promote employee health, working conditions and compliance with occupational safety requirements are continually reviewed and improved as part of the EnEHS management system (Energy Environmental Health and Safety).

In addition, the Schaeffler Group promotes its employees’ health-at-work-related skills and awareness and maintains long-term employability by continuously building its structured workplace health management program.

During the reporting period, the Schaeffler Group started the “pit stop” (“Boxenstopp”) health program, a scheme to prevent the main causes of absenteeism. “Pit stop basic – 15 minutes for your health” is available to all employees; it involves a short check-up providing employees with a comprehensive overview of the state of their health and a personal conversation to plan any medical procedures or lifestyle changes that might be necessary.

In addition, the Schaeffler Group’s occupational health management program is also aimed at offering employees with existing health issues, such as musculoskeletal disorders, targeted measures on a voluntary basis over and above those offered by the public health care system to ensure their long-term health. The program’s strong emphasis on a long-term perspective is demonstrated by its “Pit stop trainees” component, which the company began offering at its

Schweinfurt location this year. “Pit stop trainees” involves using training courses and activities to coach trainees on issues related to nutrition, exercise, and life with shift work from the first year of their apprenticeship. In addition, Schaeffler’s ergonomically designed work spaces are laying the foundation for the company’s long-term success.

The company again fielded its comprehensive health management at the Schweinfurt location in the Corporate Health Award in 2015, underlining the importance of health management to the Schaeffler Group.

Number of employees and structural data

The Schaeffler Group employed an average of 83,930 employees (prior year: 80,768) in 2015. The number of employees at December 31, 2015 was 84,198, 2.3 % above the prior year level. The company recruited new personnel compared to December 31, 2014 primarily in production and production-related areas – mainly in the Greater China and Europe regions, especially in Central and Eastern Europe. In the Americas region, a decrease in the headcount in South America was more than offset by a significant increase in North America, primarily in the U.S.

Number of employees – December 31 No. 022

	12/31/2015	12/31/2014	Change in %
Europe [1]	58,600	57,607	1.7
Americas	12,625	12,229	3.2
Greater China	10,216	9,741	4.9
Asia/Pacific	2,757	2,717	1.5
Schaeffler Group	**84,198**	**82,294**	**2.3**

[1] Including employees of the headquarter.

The following table summarizes data on the structure of the Schaeffler Group’s global workforce:

Workforce – structural data No. 023

	12/31/2015	12/31/2014		Change
Average age (years)	39.7	39.4	0.8	%
Average tenure (years)	11.1	10.9	1.8	%
Proportion of female employees (%)	21.0	21.0	0.0	%-pts.
Proportion of female managers (%) [1]	11.4	11.2	0.2	%-pts.
Absenteeism due to illness (%) [2]	3.6	3.3	0.3	%-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 employees have been with the Schaeffler Group (tenure) amounted to 11.1 years in 2015 (prior year: 10.9). The average age of the Schaeffler Group's workforce was 39.7 years (prior year: 39.4).

For the Schaeffler Group, diversity is closely related to the company's success, since international teams heterogeneous in terms of age and gender are particularly successful. The proportion of women among the Schaeffler Group's employees remained unchanged at 21.0 % in 2015, and the proportion of female managers was 11.4 % (prior year: 11.2 %).

On September 20, 2015, the Board of Managing Directors set targets for the proportion of females at the two levels of management immediately below the Board of Managing Directors in accordance with section 76 (4) AktG. The targets are 5 % for the first level of management and 12 % for the second level of management, to be achieved by June 30, 2017.

1.5 Corporate responsibility

Managing the company with integrity and living up to its corporate social responsibility are of the highest importance within the Schaeffler Group's corporate culture. The Schaeffler Group's sustainable manner of conducting business is based on fairness, mutual respect, and integrity. Taking into account ecological and social criteria along the entire value chain and reducing the consumption of resources are firmly anchored in the Schaeffler Group's corporate management principles.

It is very important to the company to combine economic success with acting sustainably and responsibly towards its customers and suppliers as well as the environment and its employees. The focus here is on quality, technology, and innovation. With its high-quality products and sustainable system solutions, the Schaeffler Group is helping its customers meet the expectations of changing markets while assuming responsibility for protecting the environment.

The Schaeffler Group is also creating sustainable value by continually improving its own operational processes and by being committed to its employees and its social environment. In this manner, the company is reinforcing people's trust in the company and its technologies, strengthening the Schaeffler Group's standing and position, not least in the financial markets.

Understanding people's needs and mutual trust represent the basis of the Schaeffler Group's long-term success. The company places such trust in its employees, business partners and all other stakeholders. The orientation towards corporate responsibility that is rooted in the group bolsters the Schaeffler Group's fitness for the future.

Schaeffler Group sustainable management

The Board of Managing Directors of Schaeffler AG is aware of the significance of sustainability for the company's success and future, and intends to make the Schaeffler Group even more sustainable going forward. Therefore, the company is fully committed to the ten principles of the United Nations Global Compact and advocates their implementation within the company and its sphere of influence. To this end, the company has established effective management tools and created new responsibilities:

The Schaeffler Group's Code of Conduct was fundamentally revised in 2015. It requires all of the company's employees to take into account ecological and social criteria along the entire value chain and to minimize the use of resources.

In addition, the Schaeffler Group has implemented a materiality process which consists of an annual materiality analysis performed in cooperation with key stakeholders in order to identify and weight the Schaeffler Group's key sustainability issues and to integrate them into the company's decision processes. In 2015, the Schaeffler Group is publishing its commitment, activities, and management tools related to these issues for the first time in a sustainability report in accordance with the G4 guideline of the Global Reporting Initiative (GRI).

Also new is the Schaeffler sustainability organization, comprising a Sustainability Board responsible for developing the sustainability strategy, an operating Sustainability Office, and the technical sustainability department, which fulfills a consulting and coordinating role. The sustainability organization reports directly to the Schaeffler Group's Board of Managing Directors, giving it a high standing within the overall organization.

Customers & products

Product & technology development

For the Schaeffler Group, sustainability 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 and that help customers meet their growing challenges such as reducing CO_2 emissions and rising fuel costs.

For this purpose, the Schaeffler Group is taking action by developing new product technology for the "Mobility for tomorrow": The Schaeffler Group invests extensively in researching and developing, for instance, the electrification of drives, chassis components or cost and resource-efficient reconditiong of used bearings. Schaeffler takes a comprehensive approach to managing the product life cycle:

All stages of the life cycle, from product design, validations and manufacturing through to product use and disposal or reconditioning are scrutinized and reviewed for potential improvements in resource and energy usage. Research and Development, which is in charge of this process, has amended its organizational structure to accommodate this responsibility and has further expanded its systems expertise. Please refer to the chapter on research and development on pages 12 et seq. for further detail.

A long-term relationship with the customer characterized by trust, transparency, and cooperation is a key success factor. The Schaeffler Group's customers expect solutions for more energy and CO_2 efficiency, safety, compliance with regulatory requirements, cost savings, sustainable materials, recyclability and much more. As challenges like these can only be overcome by joining efforts with the customer, open and solutions-driven cooperation with the customer is very important to the company. Openness and transparency help in further improving this cooperation and speeding up processes.

Responsibility along the value chain
The Schaeffler Group's suppliers can also contribute significantly to a more sustainable product portfolio. The company motivates and supports them in this endeavour and uses its supplier management to work towards having value chains designed more sustainably. The following priorities were set in 2015:

- developing a Supplier Code of Conduct
- integrating additional specifications regarding environment, health, and safety (EHS) into the group procedures "commodity-specific specifications" and "potential analysis", which are used to select and approve suppliers
- developing selected suppliers with respect to environmental and occupational health and safety issues
- adjusting compliance due diligence processes for dealing with business partners and suppliers to accommodate sustainability standards
- compliance with legal restrictions and customer-specific requirements with respect to purchasing undesirable chemicals and conflict minerals.

Environment & energy

Environmental protection and increasing energy efficiency and, as a result, reducing greenhouse gas emissions are further pillars of the Schaeffler Group's commitment to sustainability. The company's key tools for protecting the environment and the climate are environmental management systems in accordance with the European EMAS ("Eco-Management and Audit Scheme") Directive and/or the leading global standard ISO 14001. In addition, the company also uses energy management systems based on the ISO 50001 standard at many of its locations to make its operating processes more energy-efficient and cost-effective.

Nearly all manufacturing locations worldwide are validated and certified under EMAS and ISO 14001, respectively. 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 the Schaeffler Group's locations comply with the highest level of uniform global environmental protection and occupational safety standards. In addition to the plant in Yinchuan, the first Chinese location ever to obtain the European EMAS-validation for its environmental management, four more Chinese plants as well as three plants in Korea and the location in South Africa have been validated and entered into the site register of the European Community. In mid-November 2015, the two Canadian locations also successfully completed validation under EMAS and were entered into the site register in late January 2016. The Schaeffler Group is pioneering the consistent implementation of EMAS in these countries, as well. The Schaeffler Group plans to have all of its manufacturing locations worldwide validated under EMAS and entered into the site register by the end of 2017.

Global demand for commodities – particularly for energy – is constantly increasing. Its steady growth also raises the Schaeffler Group's need for energy. To counteract this trend, the company has been gradually implementing an energy management system meeting the global ISO 50001 standard at its locations since 2012. Schaeffler followed along its chosen path by obtaining certifications of 27 further Schaeffler Group locations this year, bringing the worldwide total to 48 by the end of 2015.

The Schaeffler Group's energy management system is based on its 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 continuously improving the system. The Schaeffler Group has derived the following three strategic energy objectives from this policy:

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

These strategic energy objectives represent the basis of the operational energy goals provided to the Schaeffler Group's production locations annually. In order to continually increase the energy efficiency of its plants, energy efficiency workshops are regularly held as part of the energy management in which plants, machinery, and processes are reviewed for potential improvements and participants then develop measures to be taken for improvement.

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

Employees

Satisfied, motivated and performance-oriented employees represent a cornerstone of the Schaeffler Group's worldwide success. Therefore, the Schaeffler Group's human resources strategy is driven by the objective of making employment at the company attractive – now and in the future – to young talents as much as to employees that have been with the company for many years. Therefore, the HR Roadmap 2020 initiatives developed as part of the company's human resources strategy focus not only on recruiting, personnel development, health management, and occupational safety (see "Employees" on pages 34 et seq.), but also on employee's work/life-balance as well as compensation and retirement benefits.

In 2015, the Schaeffler Group introduced a team leader concept in production that is unique to the industry. The new management level enables the Schaeffler Group to more extensively utilize its employees' knowledge and creativity while creating new opportunities for them to make a difference as well as career opportunities aiding employee satisfaction.

Having a family-conscious personnel policy is very important to the company. For instance, work/life-balance is a key component of the Schaeffler Group's Code of Conduct, which was reissued in 2015. The "new work place and flexible/mobile working conditions" HR initiative, which is part of the HR Roadmap 2020, also focuses on moving this issue forward.

The Schaeffler Group already offers a range of working hours schemes such as part-time and partial retirement arrangements as well as asynchronous shift arrangements for spouses both employed in production. In late 2015, the company entered into a Germany-wide agreement with its employees governing working at home, which provides employees with more flexibility in their daily routines. In addition, the Schaeffler Group supports parents at several German locations in their childcare responsibilities by providing day-care, a children-at-work-office, and specific childcare-related offerings during school holidays.

The Schaeffler Group also provides its employees with retirement benefits. To cover potential pension shortfalls, the company offers its employees attractive retirement benefit schemes financed by the employer and/or the employee. The new retirement benefit portal established in April 2015 offers personal accounts with secure access providing employees with extensive information about various retirement benefit schemes, and with the opportunity to use current data and variable simulation parameters to take a look at the income they can expect to receive from the various retirement schemes.

Corporate citizenship

Good corporate citizenship is embedded in the Schaeffler Group's core. Its global presence gives Schaeffler the opportunity to help shape the social environment and promote intercultural dialog at its company locations around the globe. The Schaeffler Group shows its commitment to the key areas of education and science, health and social affairs, and sports and cultural events in numerous ways all over the world. The Schaeffler Group attempts to generate social added value, both regionally and globally, through various initiatives, cooperations, donations and scholarships and to overcome social challenges together with its employees. 2015 saw the Schaeffler Group once more supporting numerous social projects.

The Schaeffler Group received multiple awards for its good corporate citizenship in Brazil. The awards honored numerous activities dealing with environmental, health, and safety issues, as well as the contribution made by Formare Schaeffler School, which offers an education and job opportunities to young people in the industrial city of Sorocaba and helps integrate people with disabilities into the company.

In Finland, the Schaeffler Group supports the "Life Education" project aimed at improving the health-related education of children between 3 and 13 years of age. Each year, more than 20,000 children participate in these comprehensive programs, which include counseling on the dangers of consuming drugs.

The Schaeffler Group is also consistently pursuing its education activities in China: Schaeffler Holding (China) Co., Ltd. has been cooperating with Southwest Jiaotong University (SWJTU), one of the leading universities in the field of railway engineering, under the "Schaeffler Engineering Scholarship Cooperative Agreement" since 2001. To date, nearly 100 students have received support under this program. In addition, a "railway bearing" course for masters students was set up as part of the Schaeffler Group's cooperation with SWJTU in order to share experiences and disseminate expert knowledge.

The Schaeffler Group also supports the "BAOBEI Foundation" in China. This cooperation was initiated in cooperation with the Schaeffler 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 provide financial support to a regional project. The BAOBEI Foundation arranges for surgery and postoperative rehabilitation for orphans. The name BAOBEI reflects the foundation's belief that each child is valuable and can make a unique contribution to the world.

In Germany, the Schaeffler Group joined the sponsors of "Wissensfabrik" in 2015: This initiative promotes education and entrepreneurship in Germany by acting as an intermediary between businesses, educational institutions, and science and by arranging educational partnerships.

2. Report on the economic position

2.1 Economic environment

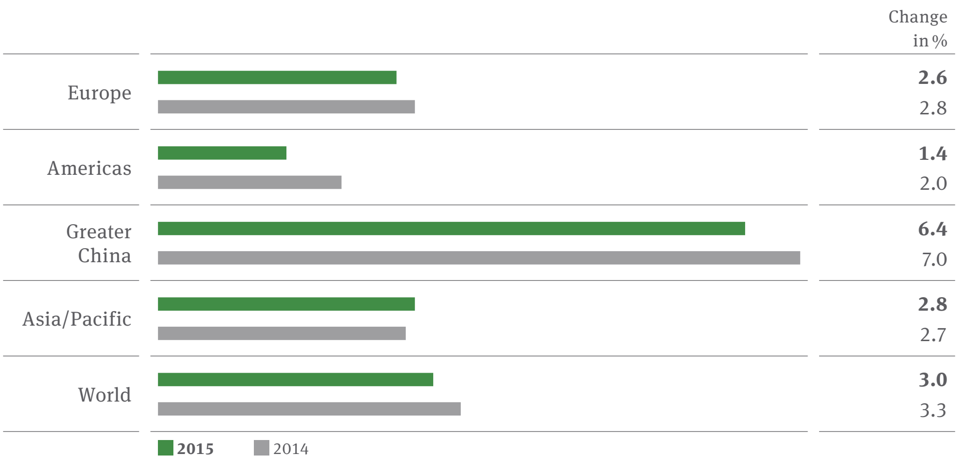
Macroeconomic environment

The global economy developed less dynamically than expected during 2015. Global gross domestic product grew by 3.0 % in 2015 (Oxford Economics, January 2016).

The merely moderate expansion is primarily due to the further economic slowdown in key emerging and developing countries. A significant reason for the economic weakness of numerous emerging economies was the slowing growth in China caused by the structural change in that country. Close economic ties mean that the slowing growth in China has noticeably hampered development in other emerging countries, for instance through lower Chinese demand for imports. In addition, the global deterioration in commodity prices, which was partly driven by the development in China, also affected emerging and developing countries dependent on commodity exports, such as Russia and Brazil.

The large western economies experienced a much more favorable trend. Driven by robust demand and dynamic investment outside the oil sector, the economic upturn in the U.S. continued. The euro region saw its economy pick up, with stronger domestic demand and rising exports helping to slightly speed up growth.

Growth in gross domestic product No. 024



Source: Oxford Economics (January 2016).
Real gross domestic product calculated based on purchasing power parities.
Regions reflect the regional structure of the Schaeffler Group.

Economic growth in the Schaeffler Group's Europe region amounted to 2.6 % in 2015, albeit varying widely across regions. Gross domestic product for the Euro region as a whole rose moderately. The economic recovery in Germany continued and the Spanish economy stabilized. Despite a gradual recovery in France and Italy, gross domestic product there proved comparatively weak. Russia is experiencing an economic crisis, primarily due to falling oil prices as well as the sanctions and uncertainty related to the Ukraine conflict. India, also part of the Europe region, was able to continue to expand.

In the Schaeffler Group's Americas region, which grew by 1.4 % overall, the economic trend varied from region to region. While U.S. gross domestic product for 2015 as a whole grew moderately despite a weak first quarter, the Latin American economy shrank under the influence of falling raw materials prices and the negative impact of the deep recession in Brazil.

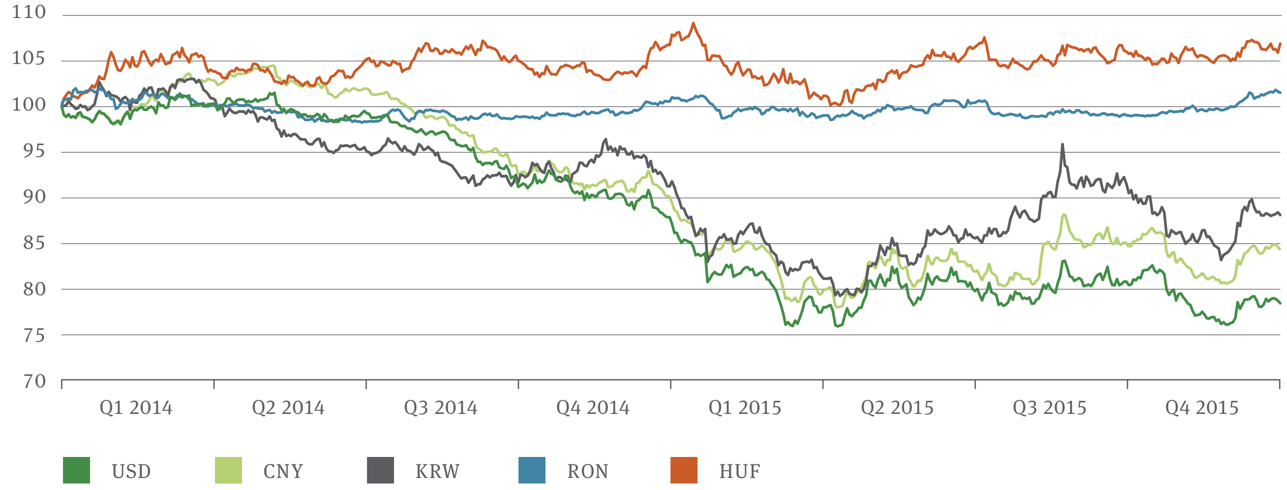
Momentum in the Schaeffler Group's Greater China region continued to slow: The economy there grew by 6.4 %, no longer achieving the level of growth seen most recently. The rate of growth ingross domestic product in China dropped just below the 7 % threshold, while the economy in Taiwan slowed down significantly, its growth remaining flat.

The economy in the Schaeffler Group's Asia/Pacific region grew by 2.8 %. Japanese gross domestic product remained weak, the economic recovery there is still fragile. The South Korean economy continued to lose momentum; Indonesian economic growth remained considerable despite a slight slowdown in momentum.

In the currency markets, certain exchange rates fluctuated significantly during the year. The weakening of the Euro against the U.S. Dollar, the Chinese Renminbi and the South Korean Won, already noticeable in 2014, continued in early 2015. Over the course of the year, the Euro stabilized against the U.S. Dollar while it rose slightly against the Renminbi and the Won. However, the average rates for the Euro fell significantly below the prior year averages in 2015. The Euro remained largely stable against the Hungarian Forint and the Romanian Leu.

Exchange rate trends No. 025

EUR against selected currencies (Index: January 01, 2014 = 100)

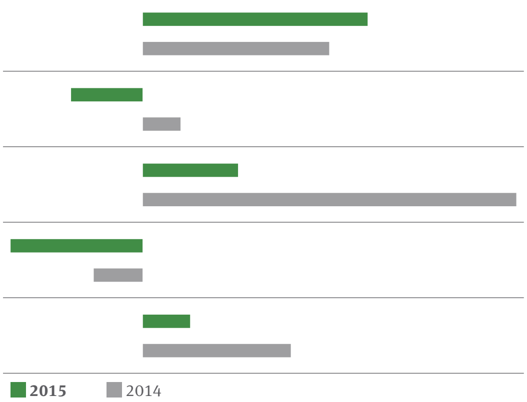


Sector-specific environment

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 only slightly, growing 1.0 % to approximately 88.3 million passenger cars and light commercial vehicles in 2016 (IHS, January 2016).

The Europe region was up considerably (4.7 %), driven by high growth rates in Italy, Spain, and Turkey. After stagnating in the prior year, the Americas region experienced a decline of 1.4 % in 2015, mainly due to a massive slump in Brazil. Greater China region growth came in at 2.0 %, falling significantly behind the growth rates seen recently. Automobile production in the Asia/Pacific region declined by 2.7 % over the course of the year, falling by as much as 5.0 % in Japan.

Automobile production No. 026



		Change in %	million units
Europe	2015	**4.7**	**26.5**
	2014	3.9	25.3
Americas	2015	**-1.4**	**20.4**
	2014	0.8	20.7
Greater China	2015	**2.0**	**23.6**
	2014	7.8	23.1
Asia/Pacific	2015	**-2.7**	**17.9**
	2014	-0.7	18.3
World	2015	**1.0**	**88.3**
	2014	3.1	87.4

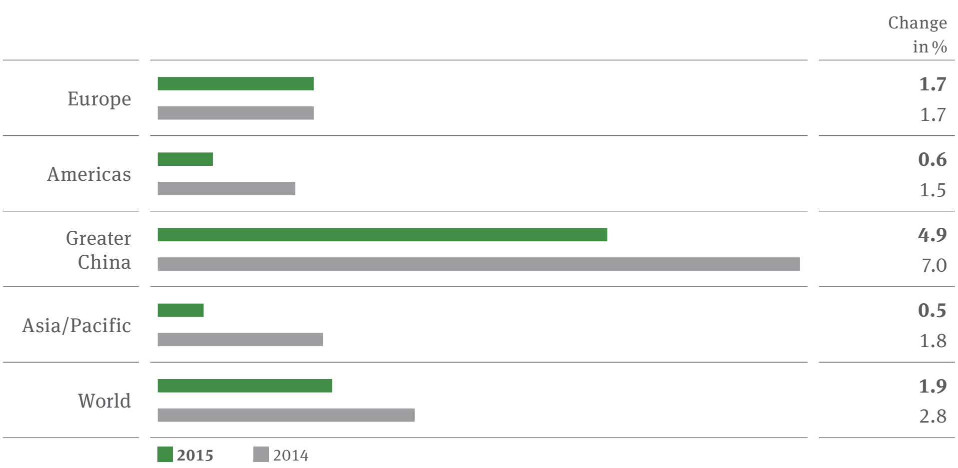
Source: IHS (January 2016).
Regions reflect the regional structure of the Schaeffler Group.

Industrial production

Preliminary figures indicate that worldwide industrial production, measured as gross value added based on constant prices and exchange rates, grew by 1.9 % in 2015, falling behind the prior year (Oxford Economics, December 2015).

Industrial production in the Europe region was up 1.7 %, with above-average growth in India offsetting a decline in Russia. In the Americas (0.6 %) and Asia/Pacific (0.5 %) regions, the trend stagnated due to negative growth rates in Latin America and Japan, respectively. Although the Greater China region grew by 4.9 %, it was unable to achieve the growth rates it experienced in prior years.

Industrial production No. 027



Source: Oxford Economics (December 2015).
Real gross value added in divisions 05 to 39 of the NACE Rev.2 system.
Regions reflect the regional structure of the Schaeffler Group.

2.2 Course of business

Overview of results of operations 2015

Although the economic environment in 2015 was challenging, the Schaeffler Group was able to continue the successful performance of the prior year.

The Schaeffler Group's results of operations were marked by a volatile environment. A weaker market trend in the summer months, particularly in the Automotive business in China and in the worldwide Industrial business, held back the Schaeffler Group's sales growth. On the other hand, the weakening of the Euro against key currencies, especially the U.S. Dollar and the Chinese Renminbi, had a generally favorable effect on sales.

The Schaeffler Group's **revenue** rose to EUR 13,226 m (prior year: EUR 12,124 m) in 2015, an increase of 9.1 % over the prior year. The company's revenue trend benefitted from the currency translation impact of the weaker Euro. Excluding the impact of currency translation, revenue grew by 3.5 %. All four of the Schaeffler Group's regions reported revenue increases excluding the impact of currency translation.

Revenue

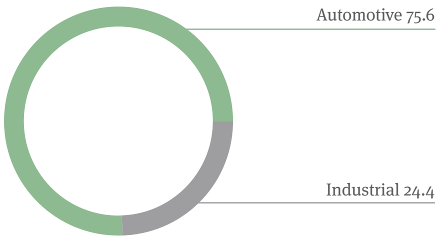
EUR 13.2 bn

Automotive division revenue increased by 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, revenue grew by 5.8 %. Thus, the division has again generated growth significantly higher than the growth in global production volumes of passenger cars and light commercial vehicles of 1.0 %. The OEM business benefitted particularly from the high level of demand for Schaeffler products in the U.S. and strong growth in China in the first half of 2015. In addition, demand in the Asia/Pacific region picked up noticeably during the latter half. The division also profited from significant additional revenue in the Aftermarket business, which generated proportionally higher revenue growth at constant currency than the OEM business.

Industrial division revenue rose by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015. However, excluding the impact of currency translation, revenue declined by 3.2 %. Except for the Greater China region, where demand increased primarily as a result of the upturn in the wind power sector business, revenue excluding the impact of currency translation declined in all regions. The determining factors included the lasting weakness in demand in the oil, gas, and mining sectors as well as in the Aftermarket business, which worsened in the second half of 2015.

Schaeffler Group revenue by division No. 028

in percent



Schaeffler Group revenue by region No. 029

in percent by market view

EBIT margin before special items

12.7 %

The Schaeffler Group's **EBIT** declined by EUR 121 m or 7.9 % to EUR 1,402 m in 2015 (prior year: EUR 1,523 m). Its EBIT margin amounted to 10.6 % (prior year: 12.6 %). In 2015, EBIT was negatively affected by a EUR 238 m provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the company recognized expenses of EUR 36 m related to the realignment of the Industrial division ("CORE" program) in 2015. This contrasts with an unfavorable impact on earnings related to legal cases in the amount of EUR 38 m in the prior year. Before these special items, the company's EBIT amounts to EUR 1,676 m (prior year: EUR 1,561 m; +7.4 %) and its EBIT margin is 12.7 % (prior year: 12.9 %).

Net income declined by 8.6 % from EUR 662 m to EUR 605 m. Excluding net income attributable to non-controlling interests of EUR 14 m (prior year: EUR 8 m), net income attributable to shareholders of the parent company amounted to EUR 591 m, 9.6 % less than in the prior year (prior year: EUR 654 m). Earnings per share were EUR 0.88 (prior year: EUR 1.29) for common shares and EUR 1.28 (prior year: EUR 1.29) for common non-voting shares[3].

Free cash flow

EUR 370 m

The Schaeffler Group generated **free cash flow** of EUR 370 m in 2015, EUR 322 m more than the prior year amount of EUR 48 m. The main driver behind this is operating cash flow, which has increased from EUR 900 m to EUR 1,372 m despite the prepayment penalty of EUR 173 m (prior year: EUR 114 m) paid in connection with the refinancing transaction. However, the prior year amount was affected by the payment of the EUR 371 m EU antitrust penalty. Capital expenditures increased from EUR 857 m to EUR 1,025 m (+19.6 %) and represent 7.7 % of revevnue (prior year: 7.1 %).

The return on capital employed (ROCE) amounted to 18.8 % (prior year: 22.5 %). ROCE before special items was 22.5 % (prior year: 23.1 %), slightly below the prior year. While capital employed increased by 10.4 %, EBIT before special items rose by only 7.4 %. The increase in capital employed is primarily due to higher production-related property, plant and equipment.

[3] Earnings per share was calculated in accordance with the requirements of IAS 33: The newly issued common non-voting shares are included on a proportional basis in the calculation of earnings per share, although their holders are entitled to profits for the entire year. Please refer to Note 3.7 to the consolidated financial statements for the calculation of earnings per common and common non-voting share.

Significant events 2015

Schaeffler AG listing

Schaeffler AG's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. A total of 166 million common non-voting bearer shares were admitted for trading. 66 million of these common non-voting shares were issued in connection with a Schaeffler AG capital increase and 100 million common non-voting shares were sold by Schaeffler Verwaltungs GmbH. At December 31, 2015, approximately 72 million of these shares are widely held by national and international investors. The remaining approximately 94 million shares are held by Schaeffler Verwaltungs GmbH. The free float amounts to approximately 43.1 % of the common non-voting shares. The placement price for the common non-voting shares was set at EUR 12.50 per share on October 08, 2015. Schaeffler AG received gross proceeds of approximately EUR 825 m from the capital increase, which it largely used to repay debt. Schaeffler AG's share capital consists of both the 166 million common non-voting shares and a further 500 million common shares; the latter are held by Schaeffler Verwaltung Zwei GmbH and are not listed on the stock exchange. The free float currently represents approximately 10.8 % of Schaeffler AG's total common and common non-voting share capital. The listing represented an important component of the realignment of the company's capital and corporate structure and represents the basis for the Schaeffler Group's continuing profitable growth. Following a regular review of its small-cap index, Deutsche Börse decided on December 03, 2015 to include Schaeffler AG in the SDAX index effective December 21, 2015. This demonstrates that the Schaeffler shares meet not only the high transparency requirements of the Prime Standard, but also the size criteria regarding market capitalization and liquidity that are relevant for inclusion in this index (see "Capital structure", page 79).

Realignment of Industrial business under "CORE" program

On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division. The realignment is aimed at improving the efficiency and competitive position of the Industrial business for the long term in order to facilitate profitable growth. The development program is titled "CORE", and its key elements are increased sales growth, enhanced delivery performance and service quality, stronger customer orientation, as well as cost savings and efficiency improvements. In addition to these structural changes, measures taken to optimize the product portfolio and speed up supply to the market will improve the division's competitive position and open up opportunities for further growth (see "Industrial division", pages 8 et sec.).

"ONE Schaeffler" program

The Schaeffler Group's Executive Board agreed on a portfolio of 20 initiatives (later expanded by a 21st initiative) in November 2013 in order to improve the company's structures and processes, drive forward higher-level business issues, and strengthen inter-departmental cooperation within the Schaeffler Group. The initiatives were combined into a program named "ONE Schaeffler" governing design, implementation, and management using uniform guidelines and criteria. The 21 initiatives were largely completed by the end of December 2015. On December 07, 2015, the Schaeffler Group's Executive Board decided to end the "ONE Schaeffler" program effective December 31, 2015 as scheduled and to transfer certain initiatives to the "4 plus One" agenda.

Refinancing transaction

On March 26, 2015, the Schaeffler Group announced a refinancing transaction of approximately EUR 1.5 bn which was completed on April 27, 2015. The company placed a total of three bond issues. The placement comprised two secured EUR and one secured USD bond issues. One EUR bond, which has a principal of EUR 400 m, bears interest at 2.50 % and carries a term of five years. The other EUR bond, with a principal of EUR 600 m and a term of ten years, bears interest at 3.25 %. The USD bond with a principal of USD 600 m has a term of eight years and bears interest at 4.75 %. The proceeds of the new bond issues were largely used to redeem two outstanding series of bonds. The company redeemed one series of EUR bonds totaling EUR 800 m and one series of USD-bonds totaling USD 600 m, both bearing interest at 7.75 % and due in February 2017. The proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty (see "Capital structure", page 79).

Changes in Board membership

The company made the following changes to its Board of Managing Directors in 2015. At its meeting on December 12, 2014, Schaeffler AG's Supervisory Board appointed Dr. Ulrich Hauck to the Board of Managing Directors. He assumed the role of Chief Financial Officer of Schaeffler AG from Klaus Rosenfeld on April 01, 2015. Rosenfeld had served as both Chief Executive Officer and Chief Financial Officer since October 04, 2013. At its meeting on April 27, 2015, Schaeffler AG's Supervisory Board also appointed Dr. Stefan Spindler to the Board of Managing Directors effective May 01, 2015. Dr. Spindler took over responsibility for the Industrial division from Robert Schullan, who resigned effective April 30, 2015. In addition, Schaeffler AG's Supervisory Board appointed Corinna Schittenhelm to the Board of Managing Directors effective January 01, 2016 at its meeting on October 05, 2015. Schittenhelm assumed the Human Resources function from Kurt Mirlach, who left the company effective December 31, 2015 at the end of his contract. On November 19, 2105, Yvonne Münch and Barbara Resch were appointed to the Supervisory Board as new employee representatives to replace Jürgen Bänsch and Thomas Mölkner (see "Corporate governance", "Governing bodies of the company", pages 154 et sec.).

Results of operations compared to outlook 2015

In its report for 2014, the Schaeffler Group had an outlook regarding revenue growth excluding the impact of currency translation of 5 to 7 % for 2015. Due to a weaker-than-expected market trend during the summer months of 2015, primarily in the Automotive business in China and in the Industrial business worldwide, Schaeffler AG's Board of Managing Directors had reduced its outlook for revenue growth excluding the impact of currency translation to 4 to 5 % in September 2015. The outlook related to the EBIT margin, capex ratio and free cash flow remained unchanged during the year.

Comparison to outlook 2015 No. 030

	Actual 2014	Outlook 2015	Actual 2015
Revenue growth in % compared with prior year (at constant currency)	9.0 %	4 to 5 % [1]	3.5 %
EBIT margin (before special items)	12.9 %	12 to 13 %	12.7 %
Capital expenditures as a percentage of revenue (capex ratio)	7.1 %	6 to 8 %	7.7 %
Free cash flow	EUR 48 m	Positive free cash flow, improved compared to 2014	EUR 370 m

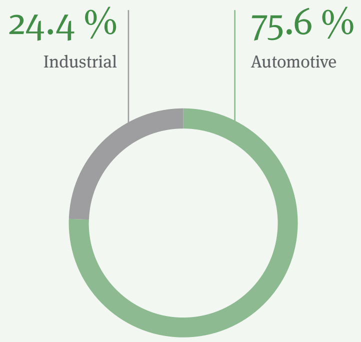
[1] *Adjusted to 4 to 5 % on September 21, 2015 (original outlook 5 to 7 %).*

Schaeffler has largely met its financial targets in 2015. The EBIT margin before special items remained high at 12.7 %. Free cash flow of EUR 370 m considerably exceeded the prior year amount, which was affected by the payment of the EU antitrust penalty of EUR 371 m. At 5.4 % and 7.7 %, respectively, the research and development and capex ratios were in line with the outlook. Solely the company's revenue growth at constant currency of 3.5 % was below the target range, which had been reduced to 4 to 5 % from 5 to 7 % on September 21, 2015. This was primarily due to lower than expected growth in the industrial sectors relevant to the Schaeffler Group in the fourth quarter of 2015.

2.3 Earnings

Schaeffler Group earnings

Revenue EUR 13,226 m



EBIT before special items EUR 1,676 m

Positive group-level revenue trend continued: Revenue EUR 13,226 m; growth of 9.1 % p.a. (3.5 % at constant currency) // Revenue largely driven by higher volumes in Automotive // Increased R&D activities to secure new technologies and innovations // EBIT negatively affected by special items

Schaeffler Group earnings No. 031

in € millions	2015	2014	Change in %
Revenue	13,226	12,124	9.1
• at constant currency			3.5
Cost of sales	-9,448	-8,708	8.5
Gross profit	3,778	3,416	10.6
Functional expenses [1]	-2,047	-1,853	10.5
Earnings before financial result and income taxes (EBIT)	1,402	1,523	-7.9
• in % of revenue	10.6	12.6	-
EBIT before special items [2]	1,676	1,561	7.4
• in % of revenue	12.7	12.9	-
Financial result	-547	-619	-11.6
Income taxes	-250	-242	3.3
Net income [3]	591	654	-9.6
Earnings per common non-voting share (basic/diluted, in €)	1.28	1.29	-0.8

[1] Research and development, selling and administration.
[2] EBIT before special items for legal cases and restructuring.
[3] Attributable to shareholders of the parent company.

The Schaeffler Group increased its revenue by 9.1 % to EUR 13,226 m (prior year: EUR 12,124 m) in 2015. Excluding the impact of currency translation, revenue grew by 3.5 %. The Automotive division contributed revenue growth of 5.8 % excluding the impact of translation, once again significantly exceeding global growth in the production of passenger cars and light commercial vehicles of 1.0 %. The Industrial division, on the other hand, reported a decline in revenue of 3.2 % excluding the impact of translation.

All four of the Schaeffler Group's regions generated revenue growth in 2015, albeit bolstered by a considerable favorable impact of currency translation. In Europe, the Schaeffler Group's revenue grew by 2.1 % (1.0 % at constant currency). Revenue increases of 17.5 % (8.2 % at constant currency) in the Americas region and 23.5 % (6.0 % at constant currency) in the Greater China region were particularly significant. The Asia/Pacific region reported growth of 13.5 % (5.0 % at constant currency).

Cost of sales increased by 8.5 % to EUR 9,448 m (prior year: EUR 8,708 m) in 2015. Gross profit was up 10.6 % at EUR 3,778 m (prior year: EUR 3,416 m). At 28.6 %, the company's gross margin was slightly above the prior year level (28.2 %), with both the Automotive and the Industrial divison contributing to this increase.

Research and development expenses increased by 15.8 % to EUR 720 m (prior year: EUR 622 m) or 5.4 % (prior year: 5.1 %) of revenue in 2015. This increase primarily relates to expenses for future mobility concepts in the Automotive division and mechatronics, sensors, and digitalization in the Industrial division.

Research and Development expenses No. 032

	2011	2012	2013	2014	2015
Research and development expenses (in € millions)	495	593	611	622	720
Research and development expenses (in % of revenue)	5.2 %	5.5 %	5.5 %	5.1 %	5.4 %
Number of research and development staff [1]	5,465	6,098	6,039	6,387	6,650

[1] Averages.

Selling and administrative expenses increased by 7.8 % to EUR 1,327 m (prior year: EUR 1,231 m). Besides cost increases due to inflation, the increase is primarily due to a focused strengthening of the selling functions as well as higher freight costs driven by higher volumes. Total functional costs increased 10.5 % to EUR 2,047 m (prior year: EUR 1.853 m), growing to 15.5 % of revenue (prior year: 15.3 %).

EBIT fell by EUR 121 m or 7.9 % to EUR 1,402 m (prior year: EUR 1,523 m). The Schaeffler Group's EBIT margin of 10.6 % was below the prior year level of 12.6 %. EBIT was negatively affected by a EUR 238 m provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the company recognized expenses of EUR 36 m related to the realignment of the Industrial division ("CORE" program) in 2015. This contrasts with an unfavorable impact on earnings of a provision for legal risks in the amount of EUR 38 m in the prior year. Before these special items, the company's EBIT amounts to EUR 1,676 m (prior year: EUR 1,561 m) and its EBIT margin is 12.7 % (prior year: 12.9 %). The slight decrease in EBIT margin before special items was mainly attributable to higher investments made in research and development and to higher selling expenses.

The Schaeffler Group's financial result improved by EUR 72 m to EUR -547 m (prior year: EUR -619 m) in 2015.

Schaeffler Group financial result

No. 033

in € millions	2015 Financial expenses	2015 Financial income	2015 Financial result
Interest expense on financial debt	-513	0	-513
Interest income on shareholder loans	0	72	72
Foreign exchange gains and losses	-224	0	-224
Fair value changes and compensation payments on derivatives	6	228	234
Fair value changes on embedded derivatives	-96	17	-79
Interest income and expense on pensions and partial retirement obligations	-42	0	-42
Other	-5	10	5
Total	**-874**	**327**	**-547**

in € millions	2014 Financial expenses	2014 Financial income	2014 Financial result
Interest expense on financial debt	-488	0	-488
Interest income on shareholder loans	0	4	4
Foreign exchange gains and losses	-244	0	-244
Fair value changes and compensation payments on derivatives	-5	231	226
Fair value changes on embedded derivatives	-66	11	-55
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-21	10	-11
Total	**-875**	**256**	**-619**

Interest expense on financial debt of EUR 513 m (prior year: EUR 488 m) for 2015 includes interest of EUR 296 m (prior year: EUR 320 m) paid and accrued on the group's external financing arrangements, prepayment penalties of EUR 173 m (prior year: EUR 114 m) for the redemption of bonds, and amortization of transaction costs, including those incurred in connection with past refinancing transactions, of EUR 44 m (prior year: EUR 44 m).

Interest income on loans to shareholders amounted to EUR 72 m (prior year: EUR 4 m) and resulted from the loans granted in December 2014 and primarily receivable from Schaeffler Verwaltung Zwei GmbH in 2015.

Foreign exchange losses on financial assets and liabilities amounted to EUR 224 m (prior year: EUR 244 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 234 m (prior year: EUR 226 m) under fair value changes and compensation payments on derivatives.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 79 m (prior year: EUR 55 m).

Pensions and partial retirement obligations gave rise to net interest expense of EUR 42 m (prior year: EUR 51 m). See Note 4.10 to the consolidated financial statements for additional details on pensions.

Income tax expense amounted to EUR 250 m in 2015 (prior year: EUR 242 m), resulting in an effective tax rate of 29.2 % (prior year: 26.8 %) The prior year's effective tax rate benefitted from one-time items.

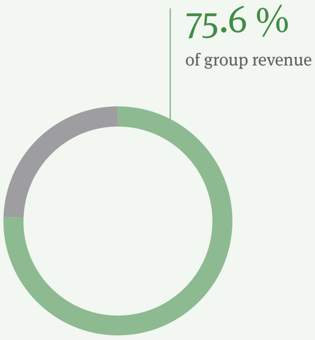
Net income attributable to shareholders of the parent company was EUR 591 m (prior year: EUR 654 m) in 2015.

Basic and diluted earnings per common share declined to EUR 0.88 (prior year: EUR 1.29) in 2015. Basic and diluted earnings per common non-voting share amounted to EUR 1.28 (prior year: EUR 1.29). The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 421 million) and 116 million (prior year: 84 million), respectively[4].

[4] Earnings per share are calculated in accordance with IAS 33.

Automotive division

Revenue EUR 9,993 m



EBIT before special items EUR 1,362 m

Revenue growth outpaces increase in global production volumes of passenger cars and light commercial vehicles // Strong increase in revenue at constant currency in Aftermarket business // High, stable gross margin reflects profitable growth // Increased R&D activities to secure new technologies and innovations

Automotive division earnings No. 034

in € millions	2015	2014	Change in %
Revenue	**9,993**	**8,986**	**11.2**
• at constant currency			5.8
Revenue by business division			
BD Engine Systems	2,585	2,266	14.1
• Share of revenue in %	25.9	25.2	
BD Transmission Systems	4,240	3,826	10.8
• Share of revenue in %	42.4	42.6	
BD Chassis Systems	1,468	1,360	7.9
• Share of revenue in %	14.7	15.1	
BD Automotive Aftermarket	1,700	1,534	10.8
• Share of revenue in %	17.0	17.1	
Revenue by region 1)			
Europe	5,227	5,079	2.9
• Share of revenue in %	52.3	56.5	
Americas	2,288	1,874	22.1
• Share of revenue in %	22.9	20.9	
Greater China	1,422	1,149	23.8
• Share of revenue in %	14.2	12.8	
Asia/Pacific	1,056	884	19.5
• Share of revenue in %	10.6	9.8	
Cost of sales	-7,189	-6,501	10.6
Gross profit	2,804	2,485	12.8
EBIT	**1,124**	**1,238**	**-9.2**
• in % of revenue	11.2	13.8	-
EBIT before special items 2)	**1,362**	**1,260**	**8.1**
• in % of revenue	13.6	14.0	-

Prior year information presented based on 2015 segment structure.
1) Based on market (customer location).
2) EBIT before special items for legal cases.

Automotive division revenue increased by 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, the growth rate was 5.8 %. Thus, the business expanded considerable faster than global production volumes for passenger cars and light commercial vehicles, which grew by 1.0 % in 2015. The growth rate in excess of the rise in global automobile production was due to an increase in the value of Schaeffler products installed per vehicle. From a regional perspective it was primarily high demand in the U.S. that contributed to the additional revenue. The Aftermarket was also very successful.

Overall, revenue trends varied widely across market regions in 2015. The Europe region generated 2.9 % in additional revenue (2.1 % at constant currency), less than the average growth in regional production volumes (+4.7 %). This was primarily due to projects winding down that were not fully offset by start-ups. The Americas region reported the highest growth rate in the Automotive division in 2015. This region's revenue increased by 22.1 % (13.2 % at constant currency) although automobile production declined by 1.4 %. The division also expanded its revenue significantly in the Greater China region, generating additional revenue of 23.8 % (6.6 % at constant currency) while that region's vehicle production only grew by 2.0 %. Revenue in the Asia/Pacific region was up 19.5 % (10.8 % at constant currency), while vehicle production there declined by 2.7 %.

The Automotive division business is organized in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions (BD), all of which reported revenue growth in 2015.

The **Engine Systems BD** generated revenue growth of 14.1 % (6.1 % at constant currency) during the year. This growth was primarily buoyed by the fully variable valve train components and accessory drive product groups. Production start-ups, for instance of the innovative thermal management module, also generated considerable additional revenue. This module helps reduce fuel consumption and CO_2 emissions.

Transmission Systems BD revenue rose by 10.8 % (4.9 % at constant currency), largely driven by significant demand for components for automated transmissions, such as torque converters. The Automotive division also increased sales of clutches and gearing components used in manual transmissions. In addition, the dual-mass flywheel product group also experienced a significant increase in volume.

The **Chassis Systems BD** generated revenue growth of 7.9 % (3.3 % at constant currency) mainly based on the solid performance of the newest generation of wheel bearings, highly integrated units containing mounting brackets for the brake disk, rim, and wheel carrier that ensure top running accuracy.

The **Automotive Aftermarket BD** increased revenue by 10.8 % (9.9 % at constant currency) in 2015. The increase was primarily due to higher sales in the Americas and Europe regions. Reasons for the additional revenue in Americas include increased requirements of vehicle/automobile manufacturers (OES customers). Europe not only reported strong growth in Southern and Western Europe, but also generated considerable additional revenue in Eastern Europe. The main reason behind the higher revenue was increased market coverage as a result of an expanded customer base.

Cost of sales increased by 10.6 % to EUR 7,189 m (prior year: EUR 6,501 m), growing slightly less than revenue. In total, the Automotive division improved its gross profit by EUR 319 m or 12.8 % to EUR 2,804 m (prior year: EUR 2,485 m). The division's gross margin of 28.1 % was slightly ahead of prior year (prior year: 27.7 %). The Automotive division is thus continuing the prior years' profitable growth, offsetting cost increases, primarily due to collectively bargained wage and salary increases, with consistent cost improvements, an increasing proportion of value added locally in the growth markets, and a more profitable revenue mix.

Functional costs increased 13.9 % to EUR 1,394 m (prior year: EUR 1,224 m), rising slightly to 13.9 % of revenue (prior year: 13.6 %). The main driver of this increase was research and development expenses rising by 17.6 % to EUR 587 m (prior year: EUR 499 m) or 5.9 % (prior year: 5.6 %) of revenue, reflecting increased activities aimed at offering solutions for future mobility concepts for motor vehicles, ranging from chassis innovations and optimizing the classic drive train with an internal combustion engine as well as the transmission to hybrid solutions and electric mobility applications.

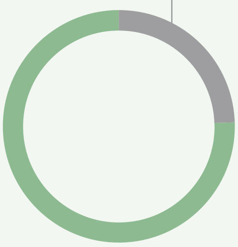
In addition, selling and administrative expenses rose by 11.3 % to EUR 807 m (prior year: EUR 725 m). Besides cost increases due to inflation, the increase is primarily due to a focused strengthening of the selling functions as well as higher freight costs driven by higher volumes.

Automotive division EBIT declined by 9.2 % to EUR 1,124 m (prior year: EUR 1,238 m), and its EBIT margin decreased to 11.2 % (prior year: 13.8 %). EBIT includes EUR 238 m in provisions for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In the prior year, expenses for legal cases amounted to EUR 22 m. Before these special items, EBIT rose by 8.1 % to EUR 1,362 m (prior year: EUR 1,260 m), whereas the division's EBIT margin before special items declined slightly to 13.6 % (prior year: 14.0 %). Higher investments made in research and development as well as other operating expenses, for instance for adjustments to staffing levels, where the main contributors to this margin decline. A slightly improved gross margin had an offsetting effect.

Industrial division

Revenue EUR 3,233 m

EBIT before special items EUR 314 m



Revenue at constant currency decreased in both business divisions // Gross margin improved slightly // Increased R&D activities in mechatronics, sensors, and digitalization // EBIT negatively affected by restructuring expenses related to "CORE" program

Industrial division earnings No. 035

in € millions	2015	2014	Change in %
Revenue	**3,233**	**3,138**	**3.0**
• at constant currency			-3.2
Revenue by region [1]			
Europe	1,827	1,829	-0.1
• Share of revenue in %	56.5	58.3	
Americas	617	599	3.0
• Share of revenue in %	19.1	19.1	
Greater China	480	391	22.8
• Share of revenue in %	14.8	12.4	
Asia/Pacific	309	319	-3.1
• Share of revenue in %	9.6	10.2	
Revenue by business division			
BD Industrial Applications	2,051	1,977	3.7
• Share of revenue in %	63.4	63.0	
BD Industrial Aftermarket	1,182	1,161	1.8
• Share of revenue in %	36.6	37.0	
Cost of sales	-2,259	-2,207	2.4
Gross profit	974	931	4.6
EBIT	**278**	**285**	**-2.5**
• in % of revenue	8.6	9.1	-
EBIT before special items [2]	**314**	**301**	**4.3**
• in % of revenue	9.7	9.6	-

Prior year information presented based on 2015 segment structure.
[1] Based on market (customer location).
[2] EBIT before special items for legal cases and restructuring.

Industrial division revenue increased by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015. Excluding the impact of currency translation, the division reported a revenue decline of 3.2 %.

Until December 31, 2015, the Industrial division managed its business primarily using two global business divisions (BD) and their business units as profit centers: the Industrial Applications BD, which consisted of the OEM business in the industrial sector, and the Industrial Aftermarket BD, which represented the trading, spare parts, and service business. Since January 01, 2016, the Industrial business is primarily managed based on regions due to its wide customer and business structure. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

The **Industrial Applications BD** generated EUR 2,051 m in revenue (prior year: EUR 1,977 m) in 2015, up 3.7 % (-2.7 % at constant currency). The mobility, energy & raw materials, production machinery, and aerospace sectors reported varying revenue trends.

The aerospace sector reported revenue growth. However, revenue excluding the impact of currency translation declined, mainly driven by the industrial gears and agricultural engineering sectors. In the motorcycle sector, on the other hand, revenue increased excluding the impact of currency translation.

Revenue in the energy and raw materials sector was considerably higher than in prior year, also showing a slight increase excluding the impact of currency translation. The increase was buoyed by the wind power sector business in the Greater China and Europe regions. In contrast, the mining sector and the drilling equipment and conveyor systems sector reported considerably lower revenue than last year excluding the impact of currency translation; reasons for the decline included decreasing demand in the oil, gas, and mining markets.

Production machinery revenue was up slightly compared to prior year, although it declined excluding the impact of currency translation. The most significant sector – machine tools – and the textile and printing machinery sectors experienced a slight decrease in revenue excluding the impact of currency translation, while the food processing and packaging sectors reported a slight increase in revenue excluding the impact of currency translation.

The aerospace sector reported revenue growth, while revenue fell slightly when the impact of currency translation is excluded, as the Americas region was unable to fully offset weaker revenue in the Europe region.

Industrial Aftermarket BD revenue rose by 1.8 % to EUR 1,182 m (prior year: EUR 1,161 m) in 2015. However, excluding the impact of currency translation, revenue declined by 4.0 %.

Revenue trends varied widely between the Industrial division's regions in 2015. In Europe, revenue was approximately in line with the prior year (-2.0 % at constant currency). The Americas region reported growth of 3.0 % (-7.3 % at constant currency). Growing at 22.8 %, Greater China region revenue was significantly higher than in the prior year (4.1 % at constant currency), while Asia/Pacific revenue fell 3.1 % compared to prior year (-11.5 % at constant currency).

Industrial division cost of sales increased by 2.4 % to EUR 2,259 m (prior year: EUR 2,207 m) in 2015. Gross profit grew by 4.6 % to EUR 974 m (prior year: EUR 931 m), and the division's gross margin rose slightly by 0.4 percentage points to 30.1 % (prior year: 29.7 %). Raw materials prices were slightly below the prior year during the 2015 reporting period.

Functional costs increased by 3.8 % to EUR 653 m (prior year: EUR 629 m). At 20.2 % (prior year: 20.0 %), functional costs as a percentage of revenue were slightly above the prior year level. Research and development expenses increased by 8.1 % to EUR 133 m (prior year: EUR 123 m) in 2015, largely due to higher expenses for mechatronics, sensors, and digitalization. Selling and administrative expenses rose by 2.8 % to EUR 520 m (prior year: EUR 506 m), which was mainly due to inflation.

Industrial division EBIT declined by 2.5 % to EUR 278 m (prior year: EUR 285 m). Its EBIT margin decreased to 8.6 % (prior year: 9.1 %). EBIT was held back by expenses of EUR 36 m for provisions recognized in connection with the “CORE” program. In the prior year, expenses for legal cases amounted to EUR 16 m. Before these special items, divisional EBIT amounted to EUR 314 m (prior year: EUR 301 m) and the divisional EBIT margin to 9.7 % (prior year: 9.6 %). The slight increase in the EBIT margin was mainly attributable to an improved gross margin, which was partially offset by, inter alia, higher investments made in research and development.

Performance indicators and special items

EBIT, EBITDA, debt to EBITDA ratio, ROCE, and Schaeffler Value Added and the corresponding amounts before special items are indicators that are not defined in International Financial Reporting Standards (IFRS). Therefore, these indicators should be considered supplementary information.

The key indicators used in evaluating the company’s operations are EBIT and the EBIT margin. In addition, the company calculates EBITDA, which represents EBIT before amortization of intangible assets, depreciation of property, plant and equipment, and impairment losses. EBITDA is primarily used to calculate the debt to EBITDA ratio. This ratio is used to evaluate the financing structure and is the ratio of net financial debt to EBITDA, where net financial debt is defined as the sum of current and non-current financial debt net of cash and cash equivalents. The Schaeffler Group’s key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. ROCE corresponds to EBIT in relation to average capital employed. Average capital employed is calculated as the sum of property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters. Schaeffler Value Added is calculated as EBIT less the cost of capital. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

In order to make the evaluation of the company’s results of operations as transparent as possible, the Schaeffler Group reports the indicators described above before special items. Special items are items whose nature, frequency and/or size may render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group’s profitability. In addition to presenting special items, the company also aims to make the evaluation of the company’s results of operations as transparent as possible by presenting its revenue figures excluding the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

In 2015, special items relate primarily to legal cases and restructuring.

Reconciliation

No. 036

	Total		Automotive		Industrial	
in € millions	2015	2014	2015	2014	2015	2014
EBIT	**1,402**	**1,523**	**1,124**	**1,238**	**278**	**285**
• in % of revenue	10.6	12.6	11.2	13.8	8.6	9.1
Special items						
Legal cases	238	38	238	22	0	16
Restructuring	36	0	0	0	36	0
EBIT before special items	**1,676**	**1,561**	**1,362**	**1,260**	**314**	**301**
• in % of revenue	12.7	12.9	13.6	14.0	9.7	9.6
EBITDA	**2,096**	**2,172**				
• in % of revenue	15.8	17.9				
Special items						
Legal cases	238	38				
Restructuring	36	0				
EBITDA before special items	**2,370**	**2,210**				
• in % of revenue	17.9	18.2				
Net financial debt	4,889	5,778				
/ EBITDA	2,096	2,172				
Debt to EBITDA ratio	**2.3**	**2.7**				
Net financial debt	4,889	5,778				
/ EBITDA before special items	2,370	2,210				
Debt to EBITDA ratio before special items	**2.1**	**2.6**				
EBIT	1,402	1,523				
/ Average capital employed	7,455	6,756				
ROCE (in %)	**18.8**	**22.5**				
EBIT before special items	1,676	1,561				
/ Average capital employed	7,455	6,756				
ROCE before special items (in %)	**22.5**	**23.1**				
EBIT	1,402	1,523				
• Cost of capital	745	676				
Schaeffler Value Added	**657**	**847**				
EBIT before special items	1,676	1,561				
• Cost of capital	745	676				
Schaeffler Value Added before special items	**931**	**885**				

2.4 Financial position and finance management

Cash flow and liquidity

The Schaeffler Group generated free cash flow of EUR 370 m (prior year: EUR 48 m) in 2015.

Cash flow No. 037

in € millions	2015	2014	Change in %
Cash flows from operating activities	1,372	900	52.4
Cash used in investing activities	-1,002	-852	17.6
Free cash flow	**370**	**48**	**> 100**
Cash provided by (used in) financing activities	-212	271	-
Net increase (decrease) in cash and cash equivalents	**158**	**319**	**-50.5**
Net increase (decrease) in cash and cash equivalents	5	17	-70.6
Cash and cash equivalents as at beginning of period	636	300	> 100
Cash and cash equivalents	**799**	**636**	**25.6**

Cash flows from operating activities increased by EUR 472 m to EUR 1,372 m (prior year: EUR 900 m) compared to the prior year, primarily due to an improvement in operating activities in 2015. In addition, the prior year amount was affected by the payment of the EU antitrust penalty of EUR 371 m. Interest paid, which includes the prepayment penalty of EUR 173 m (prior year: EUR 114 m) paid in connection with the refinancing transaction, declined by EUR 12 m compared to the prior year. Income taxes paid increased by EUR 81 m to EUR 358 m (prior year: EUR 277 m) in 2015. Cash outflows of EUR 116 m (prior year: EUR 121 m) related to expanding working capital were in line with the prior year.

Driven by higher expenditures on property, plant and equipment, cash used in investing activities (see “Additions to intangible assets and property, plant and equipment”) rose to EUR 1,002 m in 2015, considerably exceeding the prior year level of EUR 852 m. In 2015, capital expenditures on property, plant and equipment and intangible assets of EUR 1,025 m (prior year: EUR 857 m) contrasted with cash inflows from disposals of assets and reimbursements of development costs of EUR 26 m (prior year: EUR 8 m). The capex ratio for intangible assets and property, plant and equipment was 7.7 % (prior year: 7.1 %) of consolidated revenue in 2015. The increase in investing activities is designed to facilitate future growth.

These developments resulted in free cash flow of EUR 370 m (prior year: EUR 48 m) for 2015.

EUR 212 m in cash was used in financing activities in 2015 (prior year: EUR 271 m provided by financing activities).

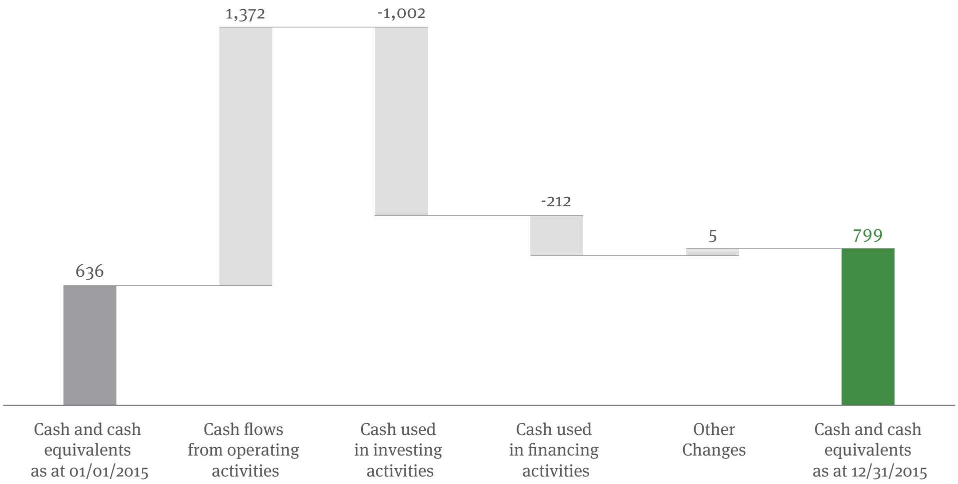
Refinancing the bonds resulted in cash inflows of EUR 204 m that were used to finance transaction costs and prepayment penalties. The payments of the prepayment penalties and transaction costs are included in cash flows from operating activities. EUR 250 m of the EUR 251 m in dividends paid represented the dividend paid to Schaeffler Verwaltung Zwei GmbH. Furthermore, other financing activities include cash inflows of EUR 197 m received by Schaeffler AG from Schaeffler Verwaltung Zwei GmbH in partial repayment of an outstanding loan receivable.

The listing resulted in cash inflows, net of transaction costs, of EUR 810 m that were used to partially prepay the company's institutional loan tranches. Total net partial prepayments made during the year amounted to EUR 1,175 m.

Cash and cash equivalents increased by EUR 163 m to EUR 799 m at December 31, 2015.

Change in cash and cash equivalents No. 038

in € millions



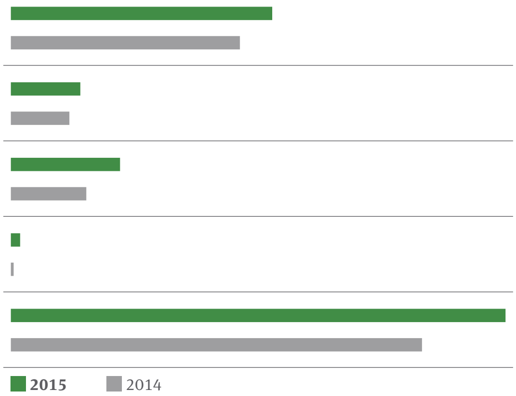
At December 31, 2015, cash and cash equivalents amounted to EUR 799 m (prior year: EUR 636 m) and consisted primarily of bank balances. EUR 198 m (prior year: EUR 172 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a revolving line of credit of EUR 1.0 bn (prior year: EUR 1.0 bn), of which EUR 24 m (prior year: EUR 34 m) were utilized at December 31, 2015 primarily in the form of letters of credit.

Capital expenditures

Among the bases of the Schaeffler Group's growth strategy are investments in new products and technologies as well as in expanding the group's global production network. Investing in intangible assets and property, plant and equipment is a key growth driver for the Schaeffler Group.

The Schaeffler Group increased its capital expenditures on property, plant and equipment and intangible assets (capex) by 19.6 % to EUR 1,025 m (prior year: EUR 857 m) in 2015. The capex ratio was 7.7 % (prior year: 7.1 %) of consolidated revenue in 2015.

Capital expenditures by region (capex) No. 039



	in € millions	Change in %
Europe	**556** 491	13.2
Americas	**170** 148	14.9
Greater China	**250** 182	37.4
Asia/Pacific	**49** 36	36.1
Schaeffler Group	**1,025** 857	19.6

Regions reflect the regional structure of the Schaeffler Group.

EUR 556 m of the EUR 1,025 m in total capital expenditures were made in the Europe region. In order to strengthen its competitive position, the Schaeffler Group primarily invested in expanding capacity and functionalities. Approximately EUR 170 m, EUR 250 m, and EUR 49 m of total capital expenditures were made in the Americas, Greater China, and Asia/Pacific regions, respectively.

Besides expanding capacity and functionalities, additions to intangible assets and property, plant and equipment were mainly made for product start-ups and to replace assets as necessary. 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. Additions made to expand capacity accounted for approximately 38 % of total additions to intangible assets and property, plant and equipment, while approximately 31 % were invested for new product start-ups. Further additions to intangible assets and property, plant and equipment were made to replace plants (approximately 14 %) and expand functionalities (approximately 11 %) as well as for rationalization measures (approximately 4 %). These additions to intangible assets and property, plant and equipment represent the basis for continually improving the quality and reliability of supply of the Schaeffler Group. In addition, they increase the Schaeffler plants' productivity by replacing obsolete machinery with innovative and more efficient equipment. In addition to the construction of new manufacturing locations such as the one in Rayong, Thailand, additions to intangible assets and property, plant and equipment made in 2015 also related to the "European Distribution Center" (EDC) project. The Schaeffler Group continued construction on the EDC Center (Kitzingen, Germany) and EDC South (Carisio, Italy) locations during the year.

The Schaeffler Group increased its additions to intangible assets and property, plant and equipment by 21.3 % compared to the prior year, mostly in the Automotive division. In the Industrial division, additions to intangible assets and property, plant and equipment rose by 7.4 %. Additions to intangible assets and property, plant and equipment as a percentage of consolidated revenue amounted to 8.5 % (prior year: 7.8 %). Amortization and depreciation as a percentage of consolidated revenue amounted to 5.2 % (prior year: 5.4 %) in 2015. At December 31, 2015, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 352 m (prior year: EUR 262 m).

Financial debt

Net financial debt declined by EUR 889 m to EUR 4,889 m (prior year: EUR 5,778 m) in 2015. The reduction was primarily attributable to the net proceeds of the listing and the significant improvement in free cash flow.

The debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income taxes, depreciation and amortization and impairment losses (EBITDA), amounted to 2.3 at December 31, 2015 (prior year: 2.7). The net debt to EBITDA ratio before special items related to legal provisions and restructuring expenses for the "CORE" programm is 2.1 (prior year: 2.6)

Net financial debt No. 040

in € millions	12/31/2015	12/31/2014	Change in %
Bonds	5,048	4,634	8.9
Loan tranches Facilities Agreement	632	1,774	-64.4
Other financial debt	8	6	33.3
Total financial debt	**5,688**	**6,414**	**-11.3**
Cash and cash equivalents	799	636	25.6
Net financial debt	**4,889**	**5,778**	**-15.4**

On March 26, 2015, the Schaeffler Group announced a refinancing transaction of approximately EUR 1.5 bn which was completed on April 27, 2015.

The company placed a total of three bond issues. The placement comprised two secured EUR and one secured USD bond issues. The first EUR bond, which has a principal of EUR 400 m, bears interest at 2.50 % and carries a term of five years. The second EUR bond, with a principal of EUR 600 m and a term of ten years, bears interest at 3.25 %. The USD bond with a principal of USD 600 m has a term of eight years and bears interest at 4.75 %.

The new bonds were issued by Schaeffler Finance B.V. and are listed on the Euro MTF market of the Luxembourg Stock Exchange; they were guaranteed by Schaeffler Verwaltung Zwei GmbH and certain of its subsidiaries when they were issued. At the time of issue, the rating agencies Standard & Poor's and Moody's rated the bonds BB- and Ba2.

The proceeds of the new bond issues were largely used to redeem two outstanding series of bonds. The company redeemed the EUR 800 m EUR bond series and the USD 600 m USD bond series, both bearing interest at 7.75 % and due in February 2017. In addition, the proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty for the bonds redeemed.

Schaeffler AG was listed on the stock exchange on October 09, 2015. The listing is described in more detail under „Shareholders' equity". The guarantees issued by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG to the Schaeffler Group's creditors were released on October 09, 2015.

Also on October 09, 2015, the rating agency Moody's upgraded Schaeffler AG's company rating to Ba2 from Ba3. Moody's also confirmed Schaeffler AG's and Schaeffler B.V.'s secured bond ratings of Ba2 and unsecured bond ratings of B1. The outlook on all ratings is stable.

Over the course of 2015, Schaeffler AG partially prepaid a total of approximately EUR 1,267 m[5] of its institutional loan tranches. The partial prepayments were financed using the proceeds of Schaeffler AG's listing in October 2015 (EUR 821 m prepayment) and from available liquidity in June 2015 (EUR 210 m) and in November 2015 (EUR 236 m). The company paid off a total of EUR 500 m of its Senior Term Loan B EUR and a total of USD 860 m of its Senior Term Loan B USD.

[5] The net cash outflows for partial prepayments of EUR 1,175 m shown in the "Cash flow and liquidity" chapter include cash inflows from hedging instruments of EUR 92 m. These cash inflows from hegding instruments are presented under repayments of loans, as were the cash outflows from the hedged item.

The Facilities Agreement consists of the following loan tranches at December 31, 2015:

Facility agreement loan tranches

No. 041

Tranche	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Coupon 12/31/2015	Coupon 12/31/2014	Maturity
Senior Term Loan B	EUR	250	750	251	757	Euribor + 3.50 % [1]	Euribor + 3.50 % [1]	05/15/2020
Senior Term Loan B	USD	440	1,300	392	1,031	Libor + 3.50 % [2]	Libor + 3.50 % [2]	05/15/2020
Revolving Credit Facility [3]	EUR	1,000	1,000	-11	-14	Euribor + 2.6875 % [4]	Euribor + 2.875 %	10/27/2019
Total				**632**	**1,774**			

[1] Euribor floor of 0.75 %.
[2] Libor floor of 0.75 %.
[3] EUR 24 m (December 31, 2014: EUR 34 m) were drawn down as at December 31, 2015, primarily in the form of letters of credit.
[4] Since October 16, 2015.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2015:

Schaeffler Group bonds

No. 042

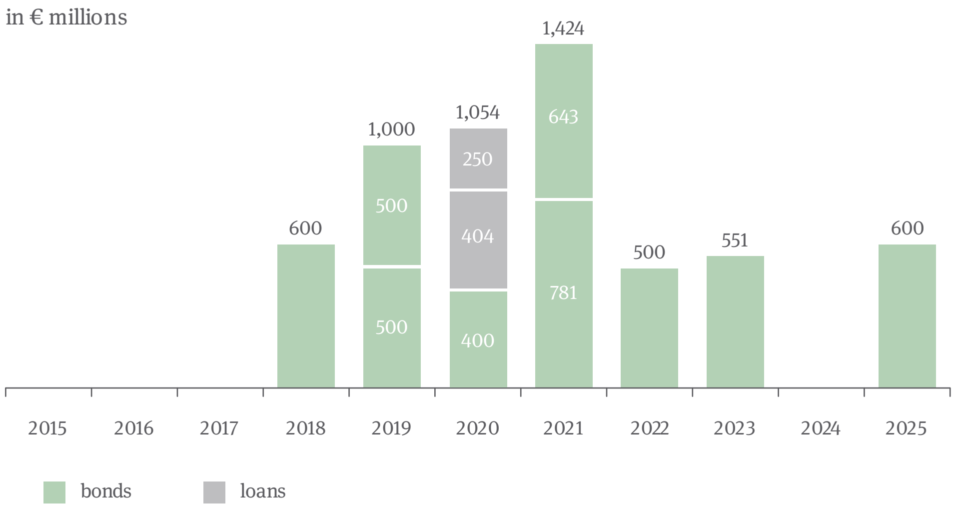
ISIN	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Coupon	Maturity
XS0923613060	EUR	600	600	597	596	4.25 %	05/15/2018
XS1067864881 [1]	EUR	500	500	497	496	3.25 %	05/15/2019
XS1067862919	EUR	500	500	497	496	2.75 %	05/15/2019
XS1212469966	EUR	400	0	396	0	2.50 %	05/15/2020
US806261AJ29	USD	700	700	637	571	4.25 %	05/15/2021
US806261AE32	USD	850	850	777	696	4.75 %	05/15/2021
XS1067864022	EUR	500	500	499	499	3.50 %	05/15/2022
US806261AM57	USD	600	0	553	0	4.75 %	05/15/2023
XS1212470972	EUR	600	0	595	0	3.25 %	05/15/2025
XS0741938624 [2]	EUR	0	800	0	791	7.75 %	02/15/2017
US806261AC75 [2]	USD	0	600	0	489	7.75 %	02/15/2017
Total				**5,048**	**4,634**		

[1] Bond is unsecured.
[2] Bonds were redeemed early on April 27, 2015.

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

The company's maturity profile, which consists of the two institutional loan tranches and the bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at December 31, 2015:

Maturity profile (principal outstanding as at December 31, 2015) No. 043



Schaeffler's existing loan agreements require the group to comply with certain financial covenants. These financial covenants are a senior debt leverage cover and a senior interest cover. Compliance with financial covenants is continually monitored and reported to the lending banks on a regular basis. The company has complied with the financial covenants as stipulated in the debt agreements throughout 2015.

Finance management

The objective of the Schaeffler Group's finance management is to ensure that sufficient liquidity is available to the Group and to its foreign and domestic subsidiaries at all times. Finance management primarily comprises capital management and liquidity management.

Actively managing capital provides the necessary financial resources, ensures the availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. To this end, the Schaeffler Group has laid the foundations for obtaining debt and equity funding 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 financing terms.

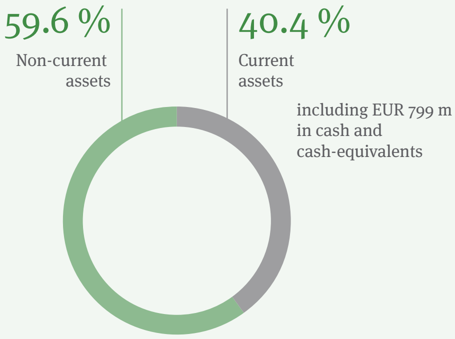
External group financing is provided by capital market instruments as well as syndicated and bilateral lines of credit from international banks and institutional investors. One such line of credit is a contractually agreed revolving credit facility of EUR 1,000 m available to manage the Schaeffler Group's short- to medium liquidity needs. Please refer to section 2.4 "Financial position and finance management" – "Financial debt" for further details on the various instruments representing the group financing arrangements.

The Schaeffler Group has a policy of financing its domestic and foreign subsidiaries from internal sources. In accordance with this policy, subsidiaries' financing needs are met using internal loans to the extent possible and economically justifiable. As a result, subsidiaries are primarily financed by loans provided by Schaeffler AG and one other subsidiary. Liquidity is balanced between group companies using cash pools or intercompany loans. In a few cases, Corporate Treasury obtains lines of credit for subsidiaries from local banks for legal, tax, or other reasons. Local financing is primarily used to manage working capital.

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

2.5 Net assets and capital structure position

Assets

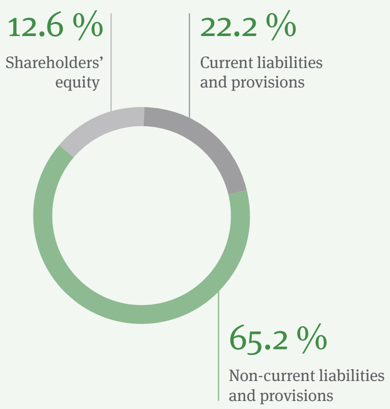


Total assets up 7.4 % // Increased investing activities expand property, plant and equipment // Positive business growth results in higher inventories and trade receivable

Asset structure No. 044

in € millions	12/31/2015	12/31/2014	Change in %
Intangible assets	589	555	6.1
Property, plant and equipment	4,180	3,748	11.5
Other financial assets	2,123	1,978	7.3
Other assets	57	58	-1.7
Income tax receivables	4	8	-50.0
Deferred tax assets	485	455	6.6
Total non-current assets	**7,438**	**6,802**	**9.4**
Inventories	1,812	1,713	5.8
Trade receivables	2,023	1,900	6.5
Other financial assets	123	343	-64.1
Other assets	211	181	16.6
Income tax receivables	74	42	76.2
Cash and cash equivalents	799	636	25.6
Total current assets	**5,042**	**4,815**	**4.7**
Total assets	**12,480**	**11,617**	**7.4**

Shareholders' equity and liabilities



Shareholders' equity improved significantly by listing and net income // EUR 238 m in provisions for legal risks // EUR 36 m in provisions for restructuring related to CORE // Financial debt reduced by 11.3 %

Capital structure No. 045

in € millions	12/31/2015	12/31/2014	Change in %
Total shareholders' equity	**1,568**	**258**	**> 100**
Provisions for pensions and similar obligations	1,942	1,984	-2.1
Provisions	182	70	> 100
Financial debt	5,685	6,413	-11.4
Income tax payables	210	237	-11.4
Other financial liabilities	12	21	-42.9
Other liabilities	6	8	-25.0
Deferred tax liabilities	107	106	0.9
Total non-current liabilities	**8,144**	**8,839**	**-7.9**
Provisions	431	232	85.8
Financial debt	3	1	> 100
Trade payables	1,405	1,261	11.4
Income tax payables	112	155	-27.7
Other financial liabilities	512	558	-8.2
Other liabilities	305	313	-2.6
Total current liabilities	**2,768**	**2,520**	**9.8**
Total shareholders' equity and liabilities	**12,480**	**11,617**	**7.4**

Assets

The Schaeffler Group's total assets increased by EUR 863 m or 7.4 % to EUR 12,480 m (prior year: EUR 11,617 m) in 2015.

Property, plant and equipment expanded by EUR 432 m to EUR 4,180 m (prior year: EUR 3,748 m), largely due to an increase in investing activities. Additions of EUR 1,048 m were partially offset by EUR 663 m in depreciation.

Non-current other financial assets rose by EUR 145 m to EUR 2,123 m (prior year: EUR 1,978 m) as at December 31, 2015. This balance includes EUR 1,773 m in loans receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH, including a loan receivable from Schaeffler Verwaltung Zwei GmbH of EUR 270 m which arose in connection with Schaeffler AG taking on the cash pooling function and was converted from a short-term loan to a long-term loan receivable in 2015. Schaeffler Verwaltung Zwei GmbH reduced these loans receivable by voluntarily repaying a total of EUR 197 m during the year. Favorable changes in the fair value of non-current derivatives hedging the bonds denominated in U.S. Dollars were the primary reason for the remaining increase in other financial assets.

The increase in inventories of EUR 99 m and in trade receivables of EUR 123 m is mainly attributable to business growth in 2015 as well as the impact of currency translation.

Other current financial assets decreased by EUR 220 m to EUR 123 m (prior year: EUR 343 m), primarily as a result of the conversion of the loan receivable described above, which was partially offset by favorable changes in the fair value of derivatives hedging currency risk from operations.

Cash and cash equivalents increased by EUR 163 m to EUR 799 m at December 31, 2015 (prior year: EUR 636 m) (see "Cash flow", page 70).

Shareholders’ equity and liabilities

The Schaeffler Group has considerably strengthened its capital structure in 2015. Shareholders’ equity (including non-controlling interests) increased by EUR 1,310 m to EUR 1,568 m as at December 31, 2015 (prior year: EUR 258 m). In addition to consolidated net income of EUR 605 m, it was primarily the listing completed on October 09, 2015 which helped bolster shareholders’ equity. A dividend of EUR 250 m was paid to the company’s shareholder Schaeffler Verwaltung Zwei GmbH in 2015. Total other comprehensive income amounted to EUR 142 m (prior year: other comprehensive loss of EUR 238 m) as at December 31, 2015, and consisted primarily of the impact of translating the net assets of foreign group companies (EUR 34 m), of remeasurements of pensions and similar obligations (EUR 63 m), and of cash flow hedges (EUR 46 m). The equity ratio was 12.6 % at December 31, 2015 (prior year: 2.2 %).

The increase in non-current provisions by EUR 112 m to EUR 182 m (prior year: EUR 70 m) is primarily attributable to a provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. EUR 95 m have been included in non-current provisions for this issue. In addition, provisions were recognized for restructuring, primarily for the “CORE” program, including EUR 28 m of non-current provisions.

Non-current financial debt declined by EUR 728 m to EUR 5,685 m (prior year: EUR 6,413 m), primarily due to voluntary partial prepayments of institutional loan tranches that were partially offset by the impact of translating financial debt denominated in U.S. Dollars to Euro (see Financial debt, pages 73 et sec.).

The increase in current provisions of EUR 199 m to EUR 431 m (prior year: EUR 232 m) was mainly attributable to the provisions for legal risks (EUR 143 m) and restructuring (EUR 14 m) referred to above.

The increase in trade payables by EUR 144 m was largely the result of business growth, increased investing activities, and the impact of currency translation.

The Schaeffler Group’s significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group’s obligations under non-cancellable operating rental and lease agreements totaled EUR 126 m at December 31, 2015 (prior year: EUR 120 m); obligations under finance leases were insignificant.

Listing

Schaeffler AG was listed on the Frankfurt Stock Exchange on October 09, 2015.

In preparation for the listing, Schaeffler AG's extraordinary shareholder meeting on September 08, 2015 passed the following resolutions amending the company's articles of incorporation with respect to share capital, which became legally effective when they were entered into the Commercial Register on October 05, 2015:

(1) Share split:
Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). This change re-divided Schaeffler AG's share capital into 600 million registered common no-par-value shares, of which 500 million no-par-value shares were held by Schaeffler Verwaltung Zwei GmbH and 100 million no-par-value shares were held by Schaeffler Verwaltungs GmbH. Following the re-division, all of the company's shares were converted to bearer shares.

(2) Conversion to common non-voting shares held by Schaeffler Verwaltungs GmbH:
The common bearer shares held by Schaeffler Verwaltungs GmbH (100 million) were converted to common non-voting no-par-value bearer shares. The common non-voting shares are entitled to a preferred dividend of EUR 0.01 per share.

(3) Increase in share capital:
Schaeffler AG increased its share capital to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares. The common non-voting shares carry dividend rights from January 01, 2015 and are also entitled to a preferred dividend of EUR 0.01 per share.
On September 21, 2015, Schaeffler AG and Schaeffler Verwaltungs GmbH announced their intention to place up to 166 million new and existing common non-voting shares with German and foreign institutional investors and to have Schaeffler AG's shares listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

The 66 million shares issued in connection with Schaeffler AG's capital increase and 9 million shares to be sold by Schaeffler Verwaltungs GmbH were offered on October 05, 2015. The placement price was set at EUR 12.50 per share on October 08, 2015. Schaeffler's common non-voting shares started trading on October 09, 2015. Schaeffler AG received gross proceeds of EUR 825 m from the placement.

Following the listing, one of the underwriting banks acquired a total of approximately 3.4 million Schaeffler AG shares in order to stabilize the share price. The bank put these shares to Schaeffler Verwaltungs GmbH on November 09, 2015 under an option written by that company. Since the exercise of this option, Schaeffler AG's free float amounts to approximately 10.8 %.

2.6 Value management

Ensuring that the Schaeffler Group continues to meet its core business objective of growing profitably in the long-term necessitates a value-based approach to managing its business portfolio. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. Neither indicator is directly used in managing the Schaeffler Group's operations, although Schaeffler Value Added represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management (see "Value-based management" on page 32).

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

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

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

ROCE and Schaeffler Value Added No. 046

in € millions	12/31/2015	12/31/2014
EBIT (in EUR m)	1,402	1,523
EBIT before special items (in EUR m)	1,676	1,561
Cost of capital (in EUR m)	745	676
Cost of capital (in %)	10.0	10.0
Capital employed (in EUR m)	7,455	6,756
ROCE (in %)	18.8	22.5
ROCE before special items (in %)	22.5	23.1
Schaeffler Value Added (in EUR m)	657	847
Schaeffler Value Added before special items (in EUR m)	931	885

2.7 Overall assessment of the 2015 business year

The Board of Managing Directors considers 2015 a satisfactory year overall. In a challenging economic environment, the Schaeffler Group was able to continue the successful performance of the prior year. The outlook for the financial performance indicators provided in the group management report of the Schaeffler Group as at December 31, 2014 were largely achieved. The outlook for revenue growth excluding the impact of currency translation, which was reduced from 5 to 7 % to 4 to 5 % in September 2015, was narrowly missed due to a weaker-than-expected trend in the industrial sectors relevant to the Schaeffler Group during the fourth quarter of 2015.

Growth in worldwide automobile and industrial production was disappointing. Particularly global production volumes for passenger cars and light commercial vehicles did not live up to what was expected at the beginning of 2015, which was attributable to lower growth rates in Americas, primarily in Brazil, and in Greater China. Worldwide industrial production also experienced weaker growth than anticipated.

In this environment, the group reported revenue of EUR 13,226 m, representing **revenue growth** of 9.1 %. Excluding the favorable impact of currency translation, revenue rose by 3.5 %. The Automotive division generated revenue growth of 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, revenue increased by 5.8 %. Thus, the division has once more grown significantly faster than global production volumes of passenger cars and light commercial vehicles. Industrial division revenue rose by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015 due to currency translation. However, excluding the favorable impact of currency translation, revenue declined by 3.2 %. The determining factor for this decline was the lasting weakness in demand, particularly in the oil, gas, and mining sectors as well as in the Aftermarket business, which deteriorated in the second half of 2015.

Given the sluggish trend in production volumes for passenger cars and light commercial vehicles, the Board of Managing Directors views the growth in Automotive division revenue as encouraging. The Automotive division met its target of generating above-market revenue growth. The revenue trend in the Industrial division, on the other hand, was disappointing.

The Schaeffler Group's **EBIT margin** amounted to 10.6 % (prior year: 12.6 %) in 2015. Earnings were negatively affected by expenses related to a EUR 238 m provision recognized for legal risks and by EUR 36 m in expenses incurred for restructuring provisions recognized in connection with the organizational realignment of the Industrial division ("CORE" program). The provision was recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. This contrasts with an adverse impact on earnings related to legal cases in the amount of EUR 38 m in the prior year. Before these special items, the company's EBIT margin amounted to 12.7 %, nearly flat with the prior year (prior year: 12.9 %). Considering that the company has invested significantly more in research and development in 2015, the group's profitability has improved.

The Board of Managing Directors looks back on an improvement in **free cash flow**. The Schaeffler Group reported free cash flow of EUR 370 m in 2015, EUR 322 m more than the prior year amount of EUR 48 m. The prior year amount was affected by the payment of the EU antitrust penalty of EUR 371 m. The increase in operating cash flow, mainly due to improved operating activities, has more than offset the increase in capital expenditures (capex). The Schaeffler Group has thus considerably reinforced its internal financial strength in 2015. The Board of Managing Directors considers the development of cash flow encouraging.

2.8 Net assets, financial position and earnings of Schaeffler AG

Schaeffler AG is a corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. It acts as a management holding company and is responsible for directing the Schaeffler Group and managing its business.

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's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. With this listing, the company has created the basis for successfully continuing the Schaeffler Group's profitable growth in the coming years, effectively reducing its interest charges, strengthening its operating cash flow, and, thus, its financial strength. The proceeds of the listing have helped improve its equity ratio and reduce its debt to EBITDA ratio.

Since January 01, 2016, all staff at the Schaeffler Group's corporate head office are employed by Schaeffler AG.

Schaeffler AG earnings

Schaeffler AG earnings No. 047

in € millions	2015	2014	Change in %
Income from equity investments	1,119	1,116	0.3
Interest result	-359	-404	-11.1
General and administrative expenses	-97	-28	> 100
Net other operating expenses	34	-290	-
Result from ordinary activities	**697**	**394**	**76.9**
Extraordinary income	0	54	- 100
Income taxes	-122	-58	> 100
Net income for the year	**575**	**390**	**47.4**
Retained earnings brought forward	3,096	2,956	4.7
Retained earnings	**3,671**	**3,346**	**9.7**

Income from equity investments consists entirely of the net income of Schaeffler Technologies AG & Co. KG.

Interest result consists of the following:

Schaeffler AG interest result No. 048

2015			
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt [1]	-543	0	-543
Fair value changes and compensation payments on derivatives	-14	0	-14
Interest income and expense on pensions and partial retirement obligations	-5	0	-5
Other	0	203	203
Total	**-562**	**203**	**-359**

2014			
in € millions	Financial expenses	Financial income	Financial result
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**

[1] Incl. transaction costs.

Interest expense on financial debt amounted to EUR 543 m in 2015 (prior year: EUR 562 m) and includes interest paid and accrued on the company's institutional loans of EUR 79 m (prior year: EUR 90 m). The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via intercompany loans, resulted in interest paid and accrued of EUR 216 m (prior year: EUR 235 m). The prepayment penalty of EUR 177 m payable in connection with the early redemption of certain bonds was also transferred to Schaeffler AG. Interest expense further includes EUR 15 m (prior year: EUR 53 m) in transaction costs and EUR 56 m (prior year: EUR 70 m) in other interest payments.

Changes in the fair value of and compensation payments on derivatives resulted in losses of EUR 14 m (prior year: EUR 101 m) due entirely to changes in the fair value of derivatives embedded in bank debt.

Other operating income primarily included realized and unrealized foreign exchange gains and losses. This line item also includes compensation to subsidiaries of EUR 49 m (prior year: EUR 66 m) for providing collateral for the group financing arrangement held by Schaeffler AG.

Income taxes increased by EUR 64 m to EUR 122 m in 2015 (prior year: EUR 58 m). The increase resulted from current tax expense of EUR 58 m (prior year: EUR 141 m) and deferred tax expense of EUR 64 m (prior year: deferred tax benefit of EUR 83 m). The increase in deferred tax expense compared to the prior year was primarily the result of the reduction in deferred tax assets recognized on investments in partnerships by companies within the Schaeffler AG tax group.

Schaeffler AG intends to pay a dividend of 25 to 35 % of consolidated net income to its shareholders in the future. Both common and common non-voting shares carry dividend rights. Common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per share.

The Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share to the annual general meeting. This represents a dividend of 28.9 % of net income, before special items related to legal cases and restructuring, attributable to shareholders. In addition, the company intends to exercise the option to pay a special dividend that was created in connection with the listing. The special dividend is expected to amount to EUR 0.15 per common share and per common non-voting share.

Schaeffler AG financial position and net assets

Schaeffler AG financial position and net assets No. 049

in € millions	12/31/2015	12/31/2014	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	1,798	1,724	4.3
	15,907	15,833	0.5
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	11,100	10,745	3.3
2. Other assets	178	123	44.7
II. Cash at banks	449	297	51.2
	11,727	11,165	5.0
C. Excess of plan assets over post-employment benefit liability	6	7	-14.3
Total assets	**27,640**	**27,005**	**2.4**
SHAREHOLDERS' EQUITY AND LIABILITIES			
A. Shareholders' equity			
I. Share capital	666	600	11.0
II. Capital reserves	2,359	1,600	47.4
III. Retained earnings	3,671	3,346	9.7
	6,696	5,546	20.7
B. Special reserve	10	13	-23.1
C. Provisions			
1. Provisions for pensions and similar obligations	23	17	35.3
2. Tax provisions	79	125	-36.8
3. Other provisions	142	176	-19.3
	244	318	-23.3
D. Liabilities			
1. Bank debt	654	1,822	-64.1
2. Amounts payable to affiliated companies	19,604	18,805	4.2
3. Other liabilities	52	30	73.3
	20,310	20,657	-1.7
E. Deferred income	67	222	-69.8
F. Deferred tax liabilities	313	249	25.7
Total shareholders' equity and liabilities	**27,640**	**27,005**	**2.4**

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

Loans receivable from affiliated companies of EUR 1,798 m (prior year: EUR 1,724 m) are primarily receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH.

Receivables and other assets consisted of the following:

Schaeffler AG receivables and other assets

No. 050

	12/31/2015			12/31/2014		
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
Receivables from affiliated companies	11,100	0	0	10,745	0	0
• short-term loans	7,699	0	0	8,292	0	0
• other financial receivables	377	0	0	530	0	0
• other receivables	3,024	0	0	1,923	0	0
Other assets	79	36	63	14	109	0

Short-term loans and other financial receivables relate to Schaeffler AG's cash pooling function 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 3,000 m (prior year: EUR 1,881 m).

Schaeffler AG has been managing the Schaeffler Group's cash pool since October 01, 2014 and had cash at banks of EUR 449 m (prior year: EUR 297 m) at the end of the reporting period.

On September 08, 2015, the extraordinary shareholder meeting of Schaeffler AG passed a resolution to increase its share capital by EUR 66 m by issuing 66 million common non-voting no-par-value bearer shares. The placement price for the shares offered in the listing was set at EUR 12.50 per share. Schaeffler AG received gross proceeds of EUR 825 m from the capital increase.

Provisions decreased by EUR 74 m to EUR 244 m (prior year: EUR 318 m), mainly due to lower tax provisions for expected income tax payments and reduced provisions for pending losses on derivative financial instruments used to hedge the Schaeffler Group's currency risk.

Bank debt decreased by EUR 1,168 m to EUR 654 m (prior year: EUR 1,822 m) due in particular to the proceeds from the placement of common non-voting shares and voluntary prepayments (see "Financial debt", pages 73 et sec.).

Schaeffler AG liabilities No. 051

	12/31/2015			12/31/2014		
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	654	0	0	0	1,822
Amounts payable to affiliated companies	14,558	2,043	3,003	14,194	2,826	1,785
• loans	13,927	2,043	3,003	13,553	2,826	1,785
• other financial debt	574	0	0	566	0	0
• other liabilities	57	0	0	75	0	0
Other liabilities	52	0	0	30	0	0

The increase in short-term loans due to affiliated companies is attributable to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Amounts due to affiliated companies include amounts payable to Schaeffler Finance B.V. of EUR 5,052 m (prior year: EUR 4,673 m) relating largely to the transfer of the proceeds from the bond issuances 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 net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2015.

4. Report on opportunities and risks

The Schaeffler Group's risk management system is an integral component of its governance structure and covers both risks and opportunities. The Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. To be able to appropriately respond to these risks, the company 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 can lead to favorable deviations from budgeted results.

4.1 Risk management system

The Schaeffler Group intentionally takes risks in order to meet its corporate objectives. The objective of the risk management system is to identify these risks on a timely basis and to manage them in accordance with the company's risk appetite. This applies particularly to risks to the company's continued existence as a going concern and to its development, which are responded to with appropriate action. Consciously addressing identified risks and regularly monitoring risk factors is designed to increase risk awareness and ensure a continuous improvement process.

The groupwide risk management system is based on the management-oriented enterprise risk management (ERM) approach, which in turn has its basis in the globally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in this framework, the processes of the risk management system are linked to financial reporting and the internal control system. The various components of the COSO Framework can be found in the Schaeffler Group's risk management process described below.

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 Schaeffler AG audit committee and ensures that necessary risk management measures are approved. Details of the risk management system are set out in a risk management guideline issued by the Board of Managing Directors and 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 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. All instructions from Risk Management are binding on all individuals responsible for risk.

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.

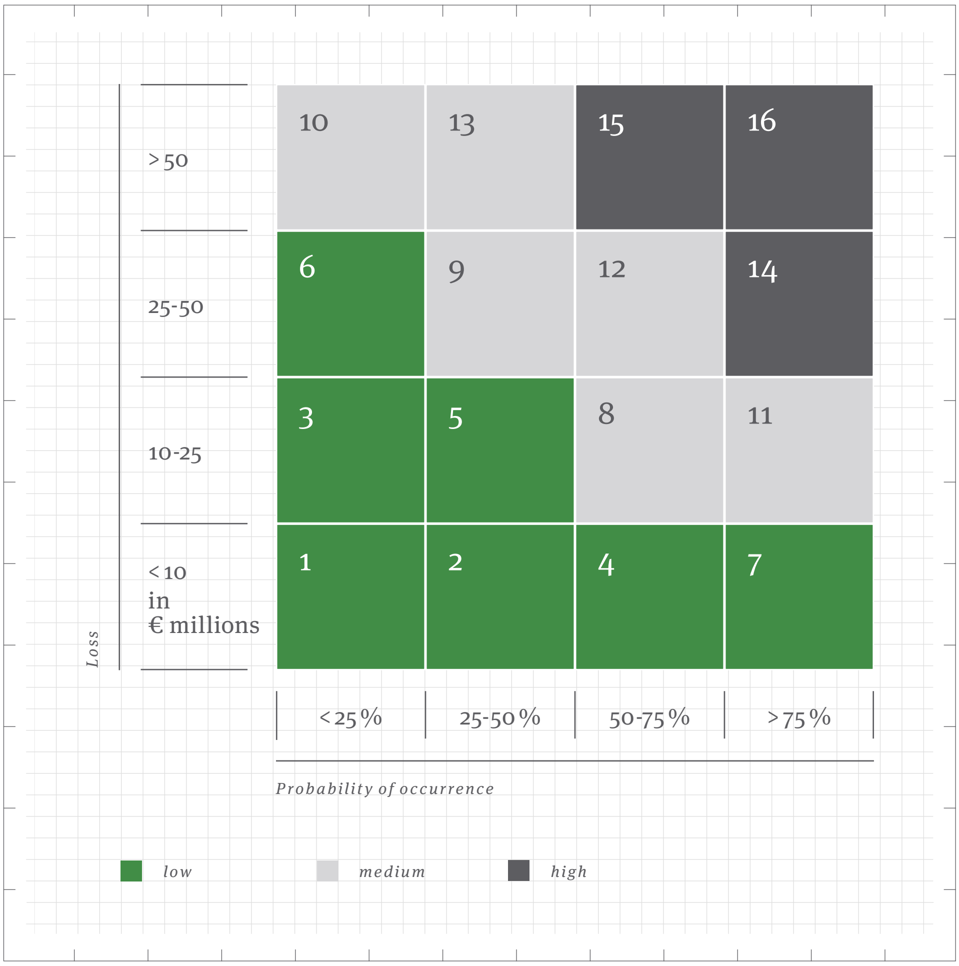
The risk management system consists of a multi-phase process spanning various levels and organizational units in order to appropriately reflect the matrix structure of the Schaeffler Group. In a bottom-up process, risks are identified and analyzed at the subsidiary level. Based on this analysis, the 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 dimensions of the Schaeffler Group's matrix structure are reflected in the risk management system. Risks are identified at all material Schaeffler AG subsidiaries on a semiannual basis. Operating management is responsible for identifying risks. The time period for identifying risks is three years, longer than the outlook horizon. 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 2015, 61 of 154 Schaeffler Group entities were included, representing 97 % of revenue and 92 % of the Schaeffler Group's EBIT.

Structure of risk management system No. 052

The risk management system only deals with risks affecting the Schaeffler Group and its significant consolidated subsidiaries and exceeding a threshold of one million Euros. 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; measures already in place can reduce the gross exposure with respect to both monetary impact and probability of occurrence. The net exposure represents the amount of loss and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

The amount of damage impact and probability of occurrence of each risk is estimated based on its impact on net assets, financial position, and earnings of the Schaeffler Group. The combination of estimated monetary impact and probability of occurrence determines the risk class. The defined 16 risk classes are classified as low (risk class 1 to 7), medium (risk class 8 to 13) or high (risk class 14 to 16) depending on their impact on net assets, financial position, and earnings. Risk classes are presented graphically using a risk matrix.

Risk matrix No. 053



Identified risks are actively managed to achieve the company's intended level of risk mitigation. Management takes measures to avoid or reduce risks or to provide safeguards against them. Any risks that cannot be mitigated by taking appropriate action are classified as business risks. Risks with a low impact on the Schaeffler Group are managed by operating management. Risks with a medium or high potential damage, 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 kept up to date. The current status is regularly reported to the Board of Managing Directors and the Audit Commitee Board.

Corporate risk management reports to the Board of Managing Directors on the risk situation semiannually, which ensures that the Board of Managing Directors is continually updated on the current risk situation of the Schaeffler Group and its change over time. All net exposures with a medium or high potential damage are reported to the Board of Managing Directors. These reports also include an aggregated summary of identified opportunities. Between regular reporting dates, emerging risks are reported using a defined ad hoc process, ensuring timely communication of emerging risks to the Board of Managing Directors.

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. In addition, internal audit issues a statement on the effectiveness of the risk management system each year. The audit follows a two-step process which assesses both the conceptual design and operational implementation, and reviews, in particular, the objectives set and the identification, assessment and management of risk.

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 si protected, Schaeffler has captured risks in a risk management tool developed specifically for this purpose.

4.2 Internal control system

Paralleling the risk management system, the Schaeffler Group has a system of internal controls over financial reporting (ICS) ensuring the accuracy of the accounting system and the related financial reporting.

Like the risk management system, the Schaeffler Group's ICS is conceptually based on the COSO Framework. The components defined in the Framework are applied to all levels of the group, especially including the preparation of the separate and consolidated financial statements of Schaeffler AG.

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform groupwide chart of accounts represents the base data for the preparation of the separate and consolidated financial statements. Many subsidiaries receive support from an internal shared service organization in this process. Schaeffler obtains assistance from external specialists in dealing with certain complex issues requiring extensive specialized knowledge (such as the valuation of pension obligations).

Conceptual requirements and deadlines as well as reasonability checks at the corporate level are designed to ensure that the separate and consolidated financial statements of Schaeffler AG are prepared and issued correctly and on time.

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

- An accounting manual sets out uniform accounting policies, taking into account new financial reporting standards required to be applied for the first time.
- Closing instructions issued quarterly provide Schaeffler AG subsidiaries with information on all relevant issues regarding the content as well as the processes and deadlines for preparing the financial statements.
- Responsibilities regarding the preparation of separate and consolidated financial statements are clearly assigned.
- The operating units and the various staff members involved in the process stay in close contact on accounting matters.

The process for preparing the separate and consolidated financial statements itself is secured by numerous control activities, taking into account materiality. In particular, these include extensive systems-based reasonability checks, controls using reviews (by a second member of staff) performed on a regular basis, and reasonability checks of the quarterly and annual consolidated financial statements at the corporate level.

As at each year-end, management assesses the appropriateness and effectiveness of the ICS in place. To this end, the Schaeffler Group uses a standardized methodology to identify the group companies and processes relevant to ICS, define the required controls and document them in accordance with uniform requirements. This is then followed up with a review of the effectiveness of the defined controls that is performed using a risk-based approach, either by the reporting unit itself, by internal audit, or as part of the audit of the consolidated financial statements.

These arrangements as well as their continuous improvement are designed to provide reasonable assurance that the ICS prevents significant misstatements of the financial statements and consolidated financial statements.

The Board of Managing Directors considers the system of internal controls over the preparation of the annual and consolidated financial statements of Schaeffler AG to be effective for 2015.

4.3 Risks

The risks set out below could take on a medium or high potential damage for the Schaeffler Group's earnings, financial position, and net assets within the planning horizon. The expected impact of these risks is reflected in the outlook for 2016. 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. 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 divisions.

Strategic risks

The Schaeffler Group's strategic risks especially include technological risks.

Technological risks
The markets for the products the Schaeffler Group offers are subject to significant technological change, continuously developing technological standards, changing customer preferences, and constantly emerging innovative new products. Existing technologies and products may be entirely replaced by newly developed and marketed technologies and newly introduced products. For instance, 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 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 designed to offset any potential future losses in revenue from conventional drive trains. The Schaeffler Group's competitiveness depends fundamentally on its ability to keep up with technological developments, maintain its technology leadership, and continue to manufacture innovative products cost effectively. Not achieving this objective would represent a medium risk to the Schaeffler Group's earnings that would last beyond the planning horizon.

Operating risks

The key operating risks of the Schaeffler Group are listed below.

Loss of market share
The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. As a result, the company 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. Especially the automotive supply sector is characterized by a high level of capital expenditures, a high rate of technological change, constant progress in production technology and high pressure on pricing from OEMs. The Schaeffler Group's key customers include well-known OEMs and suppliers who are themselves subject to significant competitive pressure with respect to innovation and costs and, therefore, strive to obtain 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. The Schaeffler Group mainly competes with other international suppliers, and to some degree also with regional suppliers, on price, quality, reliability of supply, and design, as well as on the ability to offer technological support and service worldwide. Should the company become no longer able to compete on one of these factors, customers may decide to obtain products and services from competitors. Due to the tight competition it faces, the Automotive division assesses its risk of losing market share as considerably higher. Besides the price, another deciding factor in the Industrial division and in the Aftermarket business is 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.

Loss of market share could have a medium impact on the Schaeffler Group'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

One significant factor in customers' decision to purchase the products offered by the Schaeffler Group is their high quality. To secure this level of quality for the long-term, the Schaeffler Group employs a certified quality management system, supported by additional quality improvement processes. However, there is a risk that poor quality products end up getting delivered, causing product liability risk. The use of defective products can lead to damage, unplanned repairs, or recalls on the part of the customer which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased warranty and liability risk vis-à-vis the Schaeffler Group's customers. 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 have a medium impact on 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

As the Schaeffler Group is a global supplier in the automotive and industrial sector, demand for Schaeffler products is to a large extent driven by global economic conditions. 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. Particularly in the Automotive division, 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. The large number of economic factors affecting global demand for automobiles leads to significant fluctuations in automobile production, which makes forecasting sales exactly considerably more difficult. 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 have a medium impact on the company's earnings. The distribution of revenue across both divisions and the large degree of diversification within the divisions help reduce the probability of a sales-driven decline in revenue for the Schaeffler Group as a whole.

Production risk

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. At several locations, ensuring the best-possible utilization of capacity requires having only one of a given type of machine available. 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 either be 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 failure of a bottleneck machine occur, however, this would represent a medium risk to the Schaeffler Group's earnings. To minimize the loss from such a failure, the Schaeffler Group either identifies alternative suppliers or maintains safety stock.

Product piracy risks

The Schaeffler brands INA, LuK, and FAG are associated with a high standard of quality, making them increasingly susceptible to product piracy. Such pirated products are normally sold at significantly reduced prices, which can lead to increased pressure on the Schaeffler Group's prices. 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 combatting counterfeit products, which damage its image as well as its revenue. Based on the large number of counterfeit products seized, the Schaeffler Group estimates the impact of this issue on its net assets, financial position and earnings to be medium.

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

Current and future investigations regarding violations of antitrust law could have an adverse impact on the net assets, financial position, and results of operations of the Schaeffler Group as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in cash outflows. A Schaeffler Group company continues to be subject to an antitrust investigation in Brazil. The Schaeffler Group has received a request from the antitrust authorities in India. The Schaeffler Group is cooperating with the investigating authorities. The imposition of penalties cannot be ruled out. In addition, a local subsidiary in Korea is subject to legal proceedings, as well. The Schaeffler Group has recognized appropriate provisions. In Spain and Korea, the company has appealed judgments imposing penalties.

In addition, claims for damages have been filed against Schaeffler Group companies as a result of antitrust proceedings. The Schaeffler Group has recognized appropriate provisions for these claims.

Litigation

Certain Schaeffler Group companies are involved in various legal cases or could become involved in additional litigation. These or potential legal cases could lead to claims for damages or to other cash outflows. In addition, the company's or their opponents' legal expenses could be significant. These legal cases are mainly related to the Schaeffler Group's business. The Schaeffler Group expects the impact of legal cases on its net assets, financial position and earnings to be medium.

Compliance risk

Current and future investigations regarding instances of non-compliance could have a negative impact on the Schaeffler Group's net assets, financial position, and results of operations as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in cash outflows.

Financial risks

Financial risks include tax risks and pension risks as well as the impact of changes in foreign exchange rates and liquidity risk.

Tax risks

The Schaeffler Group is subject to tax audits worldwide. Tax authorities' interpretation of the tax law or of relevant facts made in current or future tax audits may differ from that of the Schaeffler Group. This may lead to adjustments to tax bases and increases in the tax liability. An adjustment to the tax base can have a high impact, particularly on the Schaeffler Group's financial position.

Pension risks

The Schaeffler Group has extensive pension obligations, particularly in Germany, the U.S., and the United Kingdom. The obligations in the Anglo-Saxon countries are financed by pension funds. Pension obligations are measured using actuarial valuations based on assumptions regarding possible future events, such as the discount rate, increases in wages, salaries, and pensions, and statistical life expectancy. Plan assets may be invested in various asset classes, such as equity instruments, fixed-income securities, or real estate, which are subject to fluctuations in value. A change in the parameters listed above can have a medium impact on the Schaeffler Group's net assets, particularly in Germany and the United Kingdom.

Currency risks

The Schaeffler Group is exposed to a wide range of currency risks due to its international reach. Potential foreign exchange rate fluctuations can have a medium impact on revenue as well as on 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 forward exchange contracts and cross-currency swaps. 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 reduce the impact of changes in exchange rates on its competitive position. However, exchange rate trends can have a medium impact on the Schaeffler Group's net assets, results of operations, and financial 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 financing needs cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's financing requirements were met throughout the year 2015 by existing financing instruments and by 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 of up to twelve 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 one million Euros and other bilateral lines of credit held by various subsidiaries.

The Schaeffler Group's loan and bond agreements, which are generally long-term, 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 monitored on an ongoing basis and regularly 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 have a medium impact on the Schaeffler Group's net assets, financial position, and results of operations. The probability of these situations actually occurring is considered low.

4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. Opportunities are discussed with the Board of Managing Directors during the regular Strategy Dialog and, based on these discussions, strategies are derived to determine the future direction of the Schaeffler Group.

An aggregated overview of the opportunities identified in the Strategy Dialog 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 lie in strategic trends and in changes to the legal environment that may lead to increased demand for Schaeffler products.

Strategic 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 operational opportunities specifically result from the following factors:

Global presence

Shifting activities to local markets enables the Schaeffler Group 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, generally providing an opportunity to participate in increased demand. The company has invested in significant additional resources in order to increase its local presence in the emerging countries, and plans to continue to pursue this growth strategy.

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.

Public mobility

The increasing number of people living in mega-cities is making public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g. by high-speed train, more and more attractive and important. Especially rail vehicles represent an extremely interesting, growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the drive train are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market a market of the future not only with respect to OEMs but also to the Aftermarket business.

Urbanization

People are increasingly moving to larger cities and metropolises for their job, cultural events, or consumer spending. As a result, energy and water consumption is expected to continue to rise in these central locations in the future. In addition, the increasing electrification of automobiles will drive a growing need for energy. The rising demand for energy and the beginning transition to renewable energy both lead to an inevitable demand for energy from renewable sources. Especially in the wind business, the Schaeffler Group is actively doing research, but is also already operating successfully in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

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 developments.

Operational opportunities

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

Digitalization
The internet of things finding its way into the factory has started a fourth industrial revolution. Future scenarios in practice often referred to under the heading “Industry 4.0” are characterized by highly individualized products in very flexible manufacturing conditions. In future, companies will network their machinery, warehousing systems and equipment around the world. The accompanying global digitalization is progressing at an enormous speed everywhere. 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, sensors, actuators, control elements, and software components are being added to rolling bearings. 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.

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: Governments are prescribing certain limits for fleet consumption, to be achieved via their model mix. 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 assigning a company rating for the Schaeffler Group and instrument ratings to 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 to obtain financing. In 2015, Standard & Poor's company rating remained unchanged at "BB-" with a stable outlook. Moody's raised its company rating one level to "Ba2" with a stable outlook in October 2015. The instrument rating for secured bonds and loans is still at "BB-" (Standard & Poor's) and "Ba2" (Moody's). The instrument rating for unsecured bonds is also unchanged at "B" (Standard & Poor's) and "B1" (Moody's).

Financial markets: Favorable trends in interest and foreign exchange rates can positively impact the Schaeffler Group's financial result and earnings. The company constantly monitors the financial markets in order to detect any impact on the Schaeffler Group on a timely basis and identify any potential need for action.

Overall assessment of Schaeffler Group opportunities and risks

The outlook 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 damage of certain medium risks has changed, but these changes do not affect the overall assessment of the group's risks.

The overall assessment of the significant opportunities and risks does not indicate any risks which, either individually or in combination with other risks, jeopardize the company's continued existence as a going concern.

5. Report on expected developments

5.1 Expected economic and sales market trends

Economists expect the global economy to grow by 3.1 % in 2016, which is merely in line with the growth rate for 2015 (Oxford Economics, February 2016). Based on this forecast, the Schaeffler Group anticipates global economic growth of approximately 3 % in 2016.

The global economic outlook is subject to a number of uncertainties. If the recent turmoil in the financial markets continues or increases, a loss in consumer confidence and further tightening of financing conditions could ensue. Should the Chinese economy grow more slowly than expected, this would have a significant international impact via that country's exports, and would also further speed up the deterioration of global commodity prices. Although a "hard landing" for China is generally considered unlikely, factors such as excess capacity in the real estate sector and high debt levels throughout the economy pose risks to the country's further development. The tightened U.S. interest rate policy entails the risk of an outflow of capital from a number of emerging and developing countries. A further appreciation of the U.S. Dollar could also put pressure on these countries' currencies and lead to credit crises where foreign debt is high. The increase in the existing geopolitical tensions in many regions around the world also harbors risks for global trade and the capital movements.

Based on the forecasts of research institute IHS, the Schaeffler Group expects to see global automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, increase by approximately 2 % in 2016. The Schaeffler Group's growth expectation for automobile production in the Europe region is approximately the same, and in the Americas region automobile production is expected to rise by approximately 1 %. In the Asia/Pacific region, automobile production is expected to rise by approximately 1 % in total, while the Schaeffler Group expects an increase of approximately 5 % for Greater China.

The Schaeffler Group expects global industrial production to grow slightly in 2016. This expectation is based on the company's own estimates, taking into account the large number of markets in which the Schaeffler Group's customers operate.

5.2 Schaeffler Group outlook

Outlook 2016 No. 054

	Outlook 2016	Actual 2015
Revenue growth in % compared with prior year (at constant currency)	3 to 5 %	3.5 %
EBIT margin (before special items)	12 to 13 %	12.7 %
Free cash flow	Approx. EUR 600 m	EUR 370 m

The Schaeffler Group expects its revenue to grow by 3 to 5 % excluding the impact of currency translation in 2016. This outlook is based on the assumption that global automobile production will expand by approximately 2 % and worldwide industrial production will grow slightly.

The Schaeffler Group expects its Automotive division to continue to grow faster than global automobile production of passenger cars and light commercial vehicles in 2016. Existing volume supply agreements with OEM customers confirm this estimate. Given the increasing number of passenger cars worldwide, the Aftermarket business will also likely continue to grow.

In the Industrial division, sluggish order intake in the fourth quarter of 2015 and the still strained economic environment in certain sectors suggest flat or slightly declining revenue levels in 2016.

Based on these considerations, the company expects to generate an EBIT margin before special items of 12 to 13 % in 2016[6].

The Schaeffler Group expects approximately EUR 600 m in free cash flow for 2016.

Herzogenaurach, February 22, 2016

The Board of Managing Directors

[6] Please see pages 68 et sec. for further detail on special items.

Corporate governance

[7] Included in the management report.

1. Corporate governance report and corporate governance declaration

Corporate governance stands for responsible management focused on adding long-term value. Efficient cooperation between the Board of Managing Directors and the Supervisory Board as well as openness and transparency are key aspects of the Schaeffler Group's corporate governance that strengthen the confidence of shareholders, business partners, and employees in the company's management and supervision.

1.1 Corporate governance principles

It is very important to the Schaeffler Group to combine economic success with acting responsibly toward the environment, people, and society. Sustainable management and good corporate citizenship have been essential elements of the Schaeffler Group's long-standing corporate culture and represent the foundation of long-term profitable growth. At the core of this growth strategy are highest quality, outstanding technology, and strong innovative ability, in doing business with customers as well as in the group's internal processes. Being an innovation and technology leader with extensive expertise, the Schaeffler Group's products and solutions help make the mobility of tomorrow eco-friendly and energy-efficient. Managing the company with integrity, complying with legal regulations, and good corporate citizenship are integral components of Schaeffler's long-standing corporate culture. The Schaeffler Group's manner of conducting business is based on compliance with the law, fairness, mutual respect, and integrity. Under its comprehensive Code of Conduct applicable worldwide, the Schaeffler Group is committed to a culture of sustainability and views that as a prerequisite for the company's long-term success. The Code of Conduct defines principles of acting with integrity and in compliance with the law. These principles apply equally to everyone – the Board of Managing Directors, management, and every single employee – and also represent a promise to the shareholders and other stakeholders of the company. The Schaeffler Group's Code of Conduct was fundamentally revised in 2015.

With two exceptions, the Board of Managing Directors and the Supervisory Board comply with the German Corporate Governance Code in conducting their affairs: The Code recommends for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation. In addition, the Supervisory Board has not set an age limit for the members of the Supervisory Board, because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

1.2 Mode of operation of the Board of Managing Directors and the Supervisory Board and membership and mode of operation of their committees

Schaeffler AG's governance structure follows the two-tier model set out in the German Stock Corporations Act. The Board of Managing Directors has direct responsibility for managing the company. The members of the Board of Managing Directors are jointly responsible for managing the company. The Chief Executive Officer coordinates the work of the members of the Board of Managing Directors. The Supervisory Board appoints, supervises, and advises the Board of Managing Directors and is involved in decisions that are fundamental to the company. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. Based on the organizational structure, 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 strategic direction, and managing the implementation of the company's strategy, taking into account the interests of shareholders, employees, and other stakeholders of the company in order to add long-term value. The Schaeffler Group's business is managed using a three-dimensional matrix consisting of the divisions, the functions, and the regions. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

The members of the Board of Managing Directors run the business in accordance with the law, the company's articles of association, and the internal rules of procedure, taking into account the obligation to obtain approval set out in the Supervisory Board's internal rules of procedure. The members of the Board of Managing Directors ensure that the company has appropriate risk management and risk controlling systems in place and complies with the recommendations and suggestions of the German Corporate Governance Code in their actions.

Under the internal rules of procedure, specific management responsibilities are assigned to each member of the Board of Managing Directors. Their responsibility for jointly managing the company remains unaffected. Each member of the Board of Managing Directors is directly responsible for his or her assigned area of responsibility, taking into account the joint responsibility of the Board of Managing Directors.

Supervisory Board

The Supervisory Board is responsible for advising and monitoring the Board of Managing Directors in managing the company. The Board of Managing Directors has to involve the Supervisory Board in any decisions that are fundamental to the company. The Supervisory Board appoints the members of the Board of Managing Directors and sets their remuneration (details of remuneration: see remuneration report). Under a resolution passed by the Supervisory Board on September 30, 2015 the Board of Managing Directors has to have at least one female member. Additionally, the Supervisory Board keeps diversity in mind when making appointments to the Board of Managing Directors, particularly with respect to giving appropriate consideration to women. Together, the Supervisory Board and the Board of Managing Directors ensure that long-term succession planning is performed for the Board of Managing Directors. Members may serve on the Board of Managing Directors until their 68th birthday. The Supervisory Board fulfills its responsibilities in accordance with the requirements of the law, the company's articles of association, and the internal rules of procedure. The internal rules of procedure of the Supervisory Board govern the Board's organization and activities. In addition, the internal rules of procedure set out which legal transactions and measures taken by the Board of Managing Directors require approval by the Supervisory Board. The Supervisory Board has decided to perform an efficiency audit of the Supervisory Board's activities in 2016; the manner in which this efficiency audit is to be performed has not yet been determined.

The Supervisory Board consists of twenty members. Ten of these members are appointed by the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. Members should have the knowledge, skills, and technical experience required to properly perform their duties and be able devote sufficient time to these duties. Members of the Supervisory Board should not serve on the governing body of or in a consulting capacity to significant competitors of the Schaeffler Group. Taking into account the company's specific situation, the Supervisory Board has set the following concrete targets for its composition:

- The Supervisory Board aims to maintain the current proportion of members with an international background.
- Under the assumption that all employee representatives on the Supervisory Board can be considered independent, the Supervisory Board aims to have a minimum of 15 independent members (as defined in the German Corporate Governance Code).
- Members of the Supervisory Board should not normally serve on the Board for more than three terms of office.

The Supervisory Board has not set an age limit for its members, because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

The Supervisory Board also aims to ensure diversity among its members and avoid conflicts of interest.

The Supervisory Board holds a minimum of two meetings during each of the first and second six months of the calendar year to discuss current issues and pass any resolutions required. Additional meetings are held when and if the interests of the company require.

Under its internal rules of procedure, the Supervisory Board establishes a total of four committees. The mediation committee established in accordance with sections 27 (3) and 31 (3) of the German Co-Determination Act is responsible for proposing to the Supervisory Board a candidate for appointment to the Board of Managing Directors if the two-thirds majority required for an appointment was not obtained initially. The committee members are Maria-Elisabeth Schaeffler-Thumann as well as Georg F. W. Schaeffler, Norbert Lenhard, and Jürgen Wechsler; Georg F. W. Schaeffler chairs the committee.

The nomination committee proposes to the Supervisory Board appropriate candidates for election to the Supervisory Board by the annual general meeting. The members of the nomination committee are the Chairman of the Supervisory Board, Georg F. W. Schaeffler, as well as Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk, with Georg F. W. Schaeffler chairing the committee.

The executive committee consists of Maria-Elisabeth Schaeffler-Thumann as well as Georg F. W. Schaeffler, Norbert Lenhard, Jürgen Wechsler, Prof. KR Ing. Siegfried Wolf, and Barbara Resch; Georg F. W. Schaeffler is the committee's chairman. The executive committee advises and assists the Chairman of the Supervisory Board and his Deputy in their Supervisory Board responsibilities. It prepares the meetings of the Supervisory Board.

Another significant responsibility of the executive committee is preparing personnel decisions to be made by the Supervisory Board. It makes recommendations regarding new appointments or reappointments to and dismissals from the Board of Managing Directors. It also prepares the Supervisory Board's decision regarding the remuneration system and individual remuneration of the members of the Board of Managing Directors.

In addition, the executive committee passes resolutions regarding the approval of certain legal transactions and measures specified in the Supervisory Board's internal rules of procedure on behalf of the Supervisory Board to the extent such delegation is not prohibited by section 107 (3) (3) German Stock Corporations Act.

The audit committee is responsible for preparing the Supervisory Board's decision on adoption of the separate financial statements and approval of the consolidated financial statements. To this end, it is responsible for the preliminary review of the separate and consolidated financial statements, the management report and the group management report, the proposals for the appropriation of earnings, and for discussing the long-form audit report with the auditors. It is also responsible for the preliminary review of the report on relations with affiliated companies and for preparing the Supervisory Board's nomination of the auditors to be appointed by the annual general meeting.

The audit committee has the responsibility and authority to engage the auditors on behalf of the Supervisory Board, determine areas of focus for the audit, and agree the audit fees with the auditors. In addition, the audit committee monitors the independence, qualifications, and efficiency of the auditors as well as the rotation of audit team members. On behalf of the Supervisory Board, the audit committee monitors the financial reporting process and the effectiveness of Internal Audit, the internal control system, and the risk management system, and addresses compliance within the company. It also regularly obtains information on the areas of focus for the audit as well as audit results from Internal Audit.

The audit committee consists of six members. His position automatically makes the Chairman of the Supervisory Board a committee member. The chairman of the audit committee has to be independent and can neither be a former member of the Board of Managing Directors nor the Chairman of the Supervisory Board; he should be particularly knowledgeable about and experienced in the application of accounting principles as well as internal control procedures. As the former chief financial officer of the Bertelsmann Group, the chairman of the audit committee, Dr. Siegfried Luther, meets these requirements. The remaining members of the audit committee are Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, Jürgen Worrich, and Dr. Reinold Mittag.

Cooperation between Board of Managing Directors and Supervisory Board

The Board of Managing Directors and the Supervisory Board cooperate closely for the good of the company. Thus, the Board of Managing Directors regularly consults with the Supervisory Board on the strategic direction of the company and discusses the status of strategy implementation with the Supervisory Board. The Board of Managing Directors is required to submit any fundamental legal transactions and measures to the Supervisory Board or the executive committee for approval.

On a regular basis, the Board of Managing Directors provides comprehensive and timely information to the Supervisory Board on all matters of relevance to the company with respect to strategy implementation, planning and budgeting, results of operations, risk management, and compliance. It discusses deviations of results of operations from budgets and targets and the reasons for those deviations. Documents required for decisions, especially the separate financial statements, the consolidated financial statements, and the long-form audit report, are provided to the members of the Supervisory Board in due time before the meeting. The cooperation between the Board of Managing Directors and the Supervisory Board is characterized by mutual trust and a culture of open discussion as well as maintaining strict confidentiality.

The Chairman of the Supervisory Board regularly keeps in contact with the Board of Managing Directors and particularly with the Chief Executive Officer including between meetings, and discusses with him issues related to the company's strategy implementation, planning and budgeting, results of operations, risk management, and compliance. The Chief Executive Officer immediately informs the Chairman of the Supervisory Board of important events significant to evaluating the company's situation and development as well as for managing the company.

Avoiding conflicts of interest

The members of the Board of Managing Directors and of the Supervisory Board are required to immediately disclose any conflict of interest to the Supervisory Board. Significant transactions between the company and members of the Board of Managing Directors or parties related to them require the Supervisory Board's approval. Consulting and other service contracts as well as contracts for specific deliverables between the company and members of the Supervisory Board also require approval by the Supervisory Board. The Supervisory Board reports to the annual general meeting on any conflicts of interest and their resolution. Neither the members of the Board of Managing Directors nor those of the Supervisory Board have experienced any conflicts of interest in 2015.

Gender quota

As the Supervisory Board currently has four female members, it has not yet reached the proportion of 30 % that is legally required.

The Board of Managing Directors meets the target set by the Supervisory Board, as it has had one female member since January 01, 2016.

The target quota for females at the first level of management has been set at 5 % and at 12 % for the second level of management. The company expects to meet both of these quotas by their deadline (June 30, 2017).

1.3 Other information on corporate governance

Shares held by members of the Board of Managing Directors and the Supervisory Board, directors' dealings

On December 31, 2015, Schaeffler Verwaltung Zwei GmbH held a 75.1 % interest (500 million common shares) in Schaeffler AG, and Schaeffler Verwaltungs GmbH held a 14.1 % interest (approximately 94 million common non-voting shares). These shareholdings are attributable to Supervisory Board members Georg F. W. Schaeffler and Maria-Elisabeth Schaeffler-Thumann. The remaining Supervisory Board members held less than 1 % of the common and common non-voting shares of the company as at the reporting date. Shares held by members of the Board of Managing Directors on December 31, 2015 also represent less than 1 % of the company's common and common non-voting shares.

Under section 15a German Securities Trading Act ("Wertpapierhandelsgesetz" – WpHG), the members of the Board of Managing Directors and the Supervisory Board are legally required to disclose any acquisition or disposal of shares in Schaeffler AG or their derivative financial instruments if the value of transactions executed by the member and parties related to it during a calendar year reaches or exceeds EUR 5,000. The transactions reported to Schaeffler AG in 2015 were made public appropriately and are available for download from the company's website at: www.schaeffler.com/ir.

Transparency

The company aims to provide information on the situation of the company at the same time and on an equal footing to institutional investors, shareholders, financial analysts, business partners, employees, and the interested public by regular, transparent, and up-to-date communication. All significant information, such as press releases, ad hoc releases, and voting rights notifications as well as presentations given at analysts' conferences, all financial reports, and the financial calendar are published on the Schaeffler Group's website. Investor Relations maintains close contact with shareholders on an ongoing basis.

Relationships with shareholders and annual general meeting

Shareholders exercise their rights at the annual general meeting. The annual general meeting passes resolutions on granting discharge to the Board of Managing Directors and the Supervisory Board, appropriating retained earnings, capital transactions, amendments to the company's articles of association, and appointing auditors. It has to be held during the first eight months of each year.

The company has issued common non-voting and common shares. Common non-voting shares do not convey voting rights, but entitle the holder to a preferred dividend of EUR 0.01 per share. At the annual general meeting 2016, the common non-voting shares do not convey any voting rights in accordance with section 140 (2) (1) AktG, either.

Shareholders have to register for the annual general meeting in due time in order to attend the annual general meeting. An invitation and other published documents (e.g. annual report) containing information on the items on the agenda of the annual general meeting are provided to shareholders before the annual general meeting. This information is also available from the company's website.

Financial reporting and financial statement audit

Schaeffler AG prepares its separate financial statements in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG). The consolidated financial statements are prepared in accordance with the principles set out in International Financial Reporting Standards (IFRS) as adopted by the EU.

It was agreed with Schaeffler AG's auditors that the Chairman of the Supervisory Board and the chairman of the audit committee would be informed promptly of any grounds for disqualification or indications of bias arising during the audit to the extent they are not remedied immediately. It was also agreed that the auditors would report on all findings and events arising during the performance of their audit that are significant to the responsibilities of the Supervisory Board. Under the agreement, the auditors have to inform the Supervisory Board and note in their long-form audit report if, during the course of the audit, they become aware of any facts rendering the declarations on the German Corporate Governance Code issued by the Board of Managing Directors and the Supervisory Board inaccurate. The audit committee monitors the auditors' independence. In letters dated March 24, 2015 and October 13, 2015, the auditors have issued a binding independence letter for the year ended December 31, 2015.

1.4 Declaration by the Board of Managing Directors and the Supervisory Board of Schaeffler AG pursuant to § 161 AktG on the German Corporate Governance Code

In March 2016, the Board of Managing Directors and the Supervisory Board issued the following updated version of their respective declaration of conformity originally issued in December 2015 pursuant to section 161 AktG. The declarations have both been made available to the public on the internet at www.schaeffler.com/ir.

Since the listing of its common non-voting shares on October 09, 2015, Schaeffler AG complies with the recommendations of the "Governmental Commission German Corporate Governance Code" as amended on May 05, 2015 ("Code") with the exceptions described below and will also comply with the recommendations in the future with the exceptions described below:

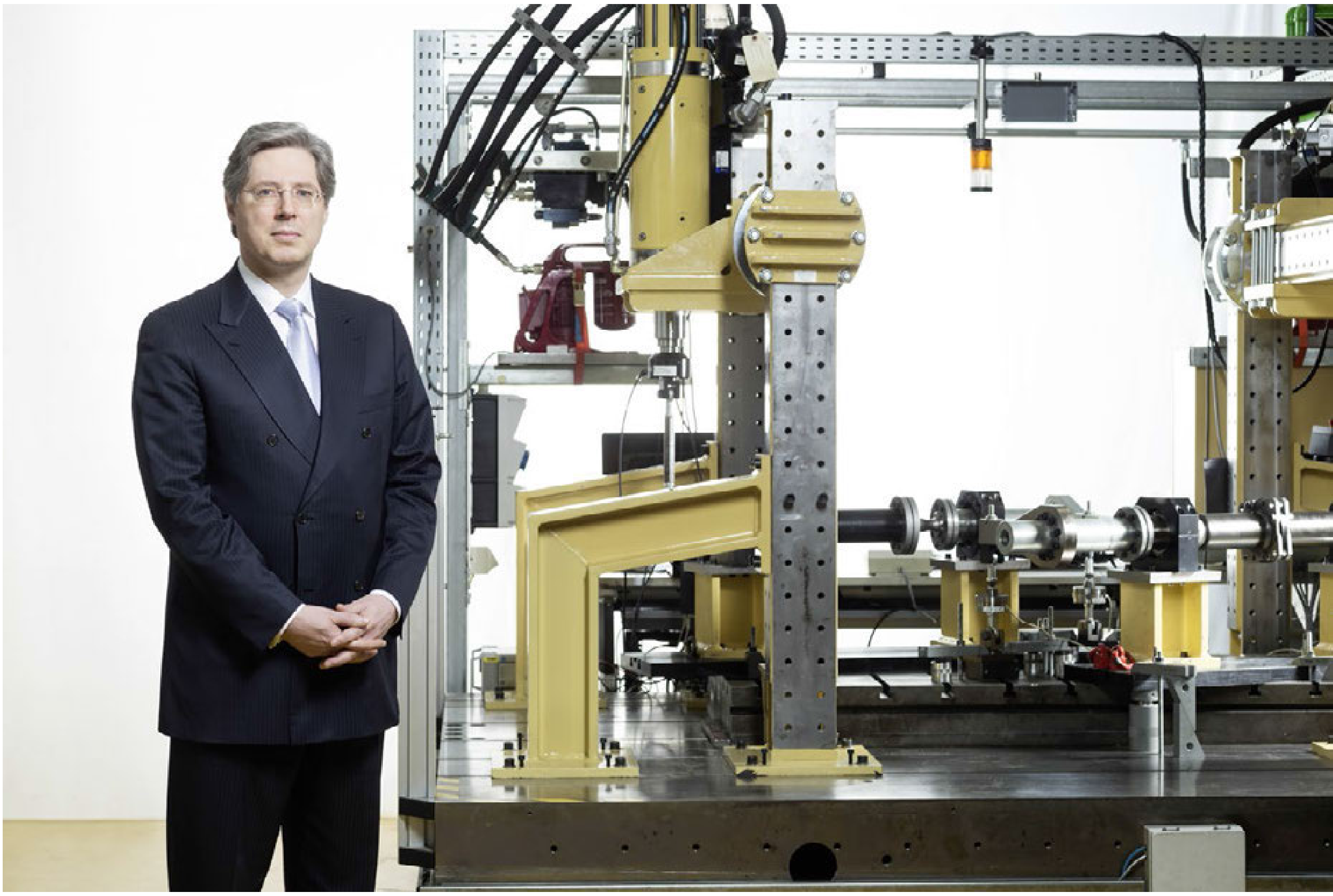
The Code recommends in item 4.2.5 for the presentation of the remuneration of the Board of Managing Directors the use of template charts, which also provide for the presentation of comparative figures for the preceding year. As Schaeffler AG only has been converted into a stock corporation in October 2014 and the group management has only been transferred to the company at this point in time the remuneration report 2015 deviates from this recommendation.

The Code recommends in item 5.4.1 para. 2, that the Supervisory Board shall specify concrete objectives regarding its composition and also set an age limit for the members of the Supervisory Board. The Supervisory Board of Schaeffler AG will not set such age limit because it is of the opinion that this criterion is not informative with respect to the suitability of a person to perform as a member of the Supervisory Board.

Herzogenaurach, March 2016

For the Supervisory Board	For the Board of Managing Directors
sgd.	sgd.
Georg F. W. Schaeffler	Klaus Rosenfeld
Chairman of the Supervisory Board	Chief Executive Officer

2. Report of the Supervisory Board



Georg F. W. Schaeffler

Ladies and Gentlemen,

During a challenging year, the Supervisory Board has performed the duties mandated by law, the company's articles of association, and its internal rules of procedure and has provided advice to the 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. The Board of Managing Directors regularly informed the Supervisory Board in written and oral reports about the company's strategy, the status of strategy implementation, the company's results of operations, and about significant transactions as well as the related risks and opportunities. In addition, relevant short- and long-term planning and budgeting matters as well as compliance and risk management matters were discussed. 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.

The members of the Supervisory Board were also available for consultation 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 matters and developments on an ongoing basis.

There were no conflicts of interests related to members of the Board of Managing Directors or the Supervisory Board in 2015.

Elections to the Supervisory Board

Elections for the employee representatives on the Supervisory Board were held on November 19, 2015 to replace the employee representatives appointed by the court on December 02, 2014. Norbert Lenhard, Dr. Reinold Mittag, Yvonne Münch, Barbara Resch, Stefanie Schmidt, Dirk Spindler, Jürgen Stolz, Salvatore Vicari, Jürgen Wechsler, and Jürgen Worrich were elected.

Due to this election, elections had to be held for the office of the Deputy Chairman of the Supervisory Board in accordance with section 27 German Co-Determination Act ("Mitbestimmungsgesetz" – MitbestG) and for the employee representatives on the committees.
Jürgen Wechsler was re-elected Deputy Chairman of the Supervisory Board. Norbert Lenhard, Barbara Resch, and Jürgen Wechsler were elected to the executive committee.
Dr. Reinold Mittag, Salvatore Vicari, and Jürgen Worrich were elected to the audit committee.
The employee representative on the committee established in accordance with section 27 (3) German Co-Determination Act is Norbert Lenhard.

Committees

The committees of the Supervisory Board currently consist of the following members:

- Mediation committee established in accordance with section 27 (3) German Co-Determination Act:
  Georg F. W. Schaeffler (Chairman),
  Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, Jürgen Wechsler
- Executive committee:
  Georg F. W. Schaeffler (Chairman),
  Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, Barbara Resch, Jürgen Wechsler,
  Prof. KR Ing. Siegfried Wolf
- Audit committee:
  Dr. Siegfried Luther (Chairman),
  Georg F. W. Schaeffler, Dr. Reinold Mittag, Robin Stalker, Salvatore Vicari, Jürgen Worrich
- Nomination committee:
  Georg F. W. Schaeffler (Chairman),
  Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk

The Supervisory Board is of the opinion that it has a sufficient number of independent members (as defined in the German Corporate Governance Code).

Appointments to 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), Dr. Ulrich Hauck, Norbert Indlekofer, Oliver Jung, Prof. Dr. Peter Pleus, Corinna Schittenhelm, and Dr. Stefan Spindler.

Dr. Ulrich Hauck was appointed by the Supervisory Board on December 12, 2014 and took over as Chief Financial Officer on April 01, 2015. Dr. Stefan Spindler was appointed by the Supervisory Board on April 27, 2015 and took over the Industrial division on May 01, 2015. Corinna Schittenhelm took over her new responsibilities as Chief Human Resources Officer on January 01, 2016, having been appointed by the Supervisory Board on October 01, 2015.

In accordance with the internal rules of procedure of the Board of Managing Directors, Klaus Rosenfeld is responsible for the CEO functions and Dr. Ulrich Hauck for Finance, Prof. Dr.-Ing. Peter Gutzmer for Technology, Prof. Dr. Peter Pleus and Norbert Indlekofer for the Automotive division, Dr. Stefan Spindler for the Industrial division, Oliver Jung for Operations, and Corinna Schittenhelm is responsible for Human Resources.

Main activities
The Supervisory Board held four regular meetings and two extraordinary meetings in 2015. It also passed three resolutions in writing.

At its meeting on March 25, 2015, the Supervisory Board dealt with personnel issues and with the Schaeffler Group's results of operations. It also adopted the separate financial statements for 2014 and approved the consolidated financial statements. In addition, it approved the report of the Supervisory Board and approved the Supervisory Board's proposed agenda items for the annual general meeting on April 14, 2015. There was also a report on the Europe region.

On April 27, 2015, the Supervisory Board appointed Dr. Stefan Spindler to the Board of Managing Directors by a resolution passed in writing.

The meeting on May 20, 2015 dealt with the Schaeffler Group's latest results of operations, the results for the first quarter of 2015 and the interim report as at March 31, 2015. There was also a report on the Americas region.

The Schaeffler Group's listing was the topic of two extraordinary Supervisory Board meetings on September 01, 2015 and September 08, 2015. Measures taken in connection with the listing were approved on September 08, 2015 and corresponding proposals submitted to the general meeting for decision. In addition, an ad hoc committee was established and the internal rules of procedure of the Supervisory Board amended to conform to the German Corporate Governance Code. The Supervisory Board also approved the new remuneration scheme for the Board of Managing Directors.

In a resolution passed in writing on September 30, 2015, the Supervisory Board decided, in accordance with section 111 (5) German Stock Corporations Act, that the Board of Managing Directors has to have at least one female member by June 30, 2017.

At its regular meeting on October 01, 2015, the Supervisory Board dealt with the Schaeffler Group's latest results of operations as well as the results for the first half of 2015 and the interim report as at June 30, 2015. There was also a report on the "CORE" program and the Schaeffler Automotive Aftermarket.

In a resolution passed in writing on November 25, 2015, the Supervisory Board appointed a new Deputy Chairman pursuant to section 27 (1) German Co-Determination Act as well as the employee representatives to the executive and audit committees and the committee in accordance with section 27 (3) German Co-Determination Act (mediation committee).

At its last regular meeting in 2015 on December 11, 2015, the Supervisory Board approved the budget for 2016 and the long-range plan for the years 2016 to 2020 (including the capital expenditure plan). The Board also appointed the members of the nomination committee, approved the declaration of conformity in accordance with section 161 German Stock Corporations Act, and made additional determinations in accordance with section 5 German Corporate Governance Code (details are discussed in the corporate governance report). In addition, it discussed personnel issues, results of operations, and the results for the third quarter of 2015 and the interim report as at September 30, 2015.

The employee representatives objected to joint compliance with the gender quota on the Supervisory Board in accordance with section 96 paragraph 2 sentence 3 German Stock Corporations Act based on a resolution passed by a majority vote on December 10, 2015.

The executive committee of the Supervisory Board held four regular meetings and three extraordinary meetings in 2015. Each meeting was used to prepare the subsequent meeting of the full Supervisory Board. In addition, the executive committee addressed the “CORE” program and the “EDC” project and discussed the new remuneration scheme for the Board of Managing Directors in preparation for a resolution to be passed by the Supervisory Board.

The audit committee held four regular meetings in 2015. At these meetings, “compliance”, “internal audit”, and the “risk management system” were reported on on a regular basis. The audit committee also addressed the separate and consolidated financial statements of the Schaeffler Group for 2014, the quarterly report as at March 31, 2015, the semiannual report as at June 30, 2015, and the quarterly report as at September 30, 2015. At its meeting on March 24, 2015, it recommended to the annual general meeting that it appoint KPMG AG auditors of the separate and consolidated financial statements. The audit committee also engaged KPMG AG as auditors and determined areas of focus for the audit. In addition, the audit committee dealt with the issues of transfer pricing and hedging currency risk.

There was no need to convene the nomination committee or the mediation committee.

Separate and consolidated financial statements 2015

KPMG has audited the separate financial statements and the combined management report as at December 31, 2015 prepared by the Board of Managing Directors in accordance with German commercial law, including the accounting records and the accounting-related internal control system as well as the early warning risk identification system.

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 German Stock Corporations Act. The report covers the period from January 01, 2015 to December 31, 2015.

The consolidated financial statements of Schaeffler AG as at and for the year ended December 31, 2015 were prepared 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) German Commercial Code. The consolidated financial statements were also audited by KPMG.

The auditors have issued unqualified audit opinions on the separate financial statements and the consolidated financial statements. They also found that the Board of Managing Directors has made the arrangements required by section 91 (2) German Stock Corporations Act for the timely identification of risks, and that the early warning risk identification system is suitable for identifying on a timely basis any developments jeopardizing the existence of the company as a going concern. has issued the following unqualified audit opinion on the dependency report in accordance with section 313 (3) German Stock Corporations Act

“In accordance with our conscientious audit and assessment, we confirm that the statements of fact in the report are correct, the consideration given by the company in the course of the transactions listed in the report was not unreasonably high, and 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 10, 2016. The audit committee scrutinized the development of earnings for 2015, 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 11, 2016. 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 together 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.

The Supervisory Board has reviewed the appropriation of retained earnings proposed by the Board of Managing Directors and will, together with the Board of Managing Directors, propose to the annual general meeting the payment of a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share as well as the payment of a special dividend of EUR 0.15 per share.

The listing, in particular, made 2015 an extremely challenging 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 the management, and to all employees of Schaeffler AG and the group companies for their dedication and their constructive teamwork.

On behalf of the Supervisory Board

Georg F. W. Schaeffler

Chairman

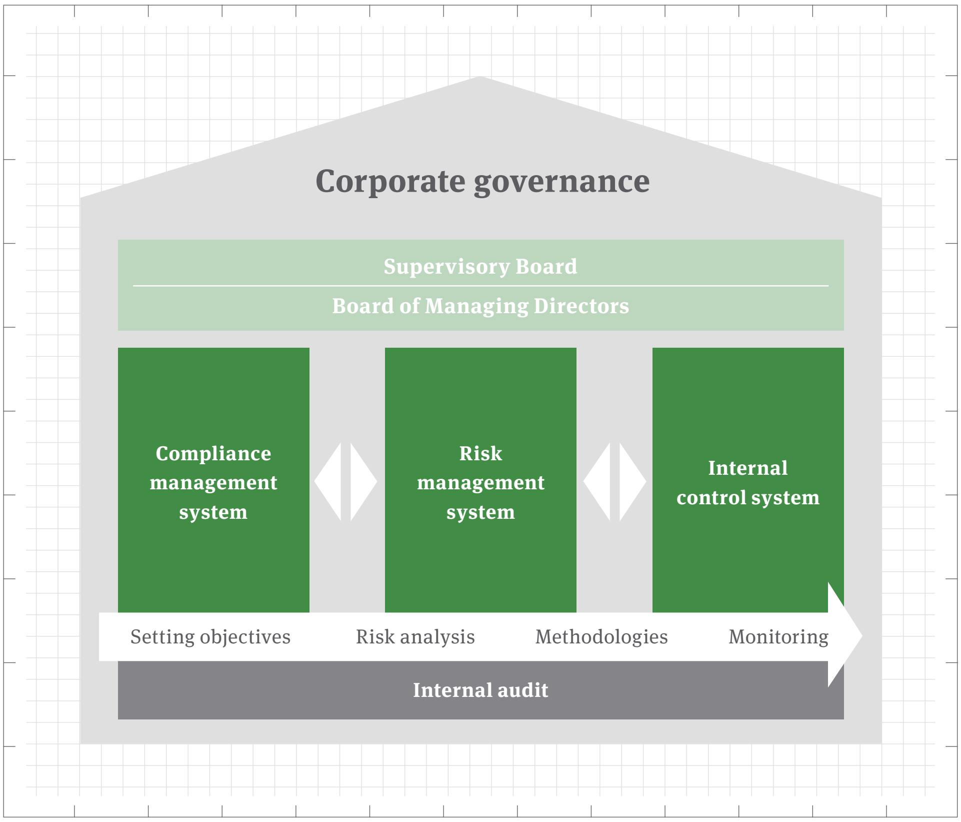
Herzogenaurach, March 11, 2016

3. Governance structure

The Schaeffler Group's governance structure is aimed at coordinating the activities of the governance subsystems subordinate to the Supervisory Board and the Board of Managing Directors:

- Compliance management system
- Risk management system
- Internal control system and
- Internal audit

Schaeffler Group governance structure No. 055



Coordinating the operation of the subsystems helps to identify, assess, monitor, and manage risks to the continued existence and development of the Schaeffler Group early on.

To this end, the Schaeffler Group established the Group Compliance & Risk Committee (GCRC) in the first quarter of 2015. It consists of the heads of the subsystems and the heads of other risk and corporate functions. The GCRC is responsible for assisting the Board of Managing Directors with its organizational responsibilities with respect to compliance and risk management. Among the key objectives of the GCRC are defining and delineating responsibilities and interfaces and preventing redundancies in the process. In addition, it is expected to create a consistent and complete view of the risk situation in the divisions, functions, and regions based on a uniform measurement and prioritization methodology. A further objective is developing and monitoring risk mitigation activities. The Compliance & Risk Working Group consisting of staff representatives from the functions represented on the GCRC provides operational support to the GCRC.

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized three lines of defense model. It assigns clear responsibility for dealing with risks to the company's continued existence or development and is based on the principle that primary responsibility for a risk lies with its originator.

Three lines of defense model

- In the **first**, operating, **line of defense**, operating business units are responsible for developing and performing controls to prevent risk. If prevention is not feasible, risks have to be identified and reduced to an appropriate level.
- The **second line of defense** defines global standards and controls, regularly monitors compliance with them, and reports on their effectiveness. Classic risk functions such as controlling, risk management, compliance, and legal are assigned to the second line.
- The **third line of defense** is the audit by Internal Audit. Independent audits are designed to evaluate control effectiveness and identify improvements.

The first line of defense is responsible for any risks materializing. If, however, the first line of defense can demonstrate that it has performed all relevant controls in full and in accordance with the standards and control requirements set by the second line of defense, responsibility rests with the second line of defense.

3.1 Compliance management system

Integrity is one of the mainstays of the Schaeffler Group's manner of conducting business. Under the Schaeffler Code of Conduct, the Board of Managing Directors and all employees are required to comply with all applicable local, national, and international laws and regulations, wherever the Schaeffler Group does business. A compliance organization covering the entire Schaeffler Group provides them with support in doing so.

The Schaeffler Group's Board of Managing Directors emphatically supports the underlying compliance management system (CMS) and the necessity of consistently complying with legal requirements and internal regulations.

The CMS is based on the three pillars prevention, detection, and reaction and is part of the second line of defense within the Schaeffler Group's governance structure. The CMS in its current state is the result of a comprehensive revision initiated by the Board of Managing Directors in 2013 as part of the "Compliance Fit & Proper" program, a component of the "ONE Schaeffler" program. Following the successful completion of a review of the underlying conceptual design in accordance with the Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems IDW AsS 980 by an external audit firm in 2014, the external audit firm is scheduled to review the implementation of the CMS in late 2016.

The CMS comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early on, violations of law in the area of corruption, money-laundering, competition and antitrust law, and economic criminal activity. It also serves to actively manage risk and protect the company and its employees. The CMS consists of seven core components: Compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

The compliance organization derives its arrangements for preventing violations of antitrust and competition legislation, corruption, economic crime, and money-laundering from a regular groupwide risk analysis using a risk-based approach. The risk analysis provides information on the current situation with respect to risks arising from operations and on the effectiveness of the prevention arrangements in place. The analysis is primarily based on interviews with management and employees of all divisions and regions with the objective of obtaining from the interviewee estimates of the probability of occurrence and the size of the potential loss of pertinent risk scenarios that are as close to the business processes as possible. These estimates are supplemented by sector and expert knowledge, experience with actual compliance violations, results of controls and audits, as well as by using operation-, market-, and country-specific risk criteria ranging from publicly available risk indicators, such as the Corruption Perception Index compiled by Transparency International, to issues regarding the location-specific design of Sales and Distribution.

The Schaeffler Group's Group Chief Compliance Officer heads up the compliance organization and reports directly to the Chief Executive Officer. The Group Chief Compliance Officer also has a reporting line to the Chairman of the Supervisory Board and reports to the chairman of the audit committee on a regular basis. The compliance department provides the Group Chief Compliance Officer with the support of a network of experienced compliance specialists spanning all of the Schaeffler Group's Europe, Americas, Greater China, and Asia/Pacific regions.

When it comes to defining and monitoring appropriate groupwide compliance standards and activities, he utilizes a centralized team of experts at the head office in Herzogenaurach which was expanded in 2015.

Measures designed to prevent compliance violations include the Schaeffler Group's Code of Conduct, guidelines on behavior in compliance with antitrust and competition legislation, fighting corruption, and protecting confidential information, web-based and classroom training sessions, and a compliance helpdesk available for consultation on specific compliance issues. In addition, the company has also put in place arrangements for detecting any compliance violations; these arrangements include audits and controls as well as a whistleblower system, which also facilitates reporting violations on an anonymous basis.

In 2015, the Schaeffler Group established a separate team of specialists, located in the compliance department, which is responsible for independently investigating alleged violations and following up on the necessary consequences. It analyzes the causes of misconduct, derives suggestions for remedial measures, and follows up on their implementation. Violations of laws and regulations or of internal rules on compliance are not tolerated and result in disciplinary action.

The Schaeffler Group has further expanded its arrangements and measures for complying with legal requirements and internal rules in 2015. Among other things, the increase in staffing levels within the compliance organization was completed, the Group Compliance & Risk Committee (GCRC) was established, and the Code of Conduct was expanded. In addition, a more extensive scenario-based risk analysis was performed for the Europe region and started in the other regions, as well. Implementation of a register of contacts with competitors was initiated, as was a groupwide business partner due diligence process. This underlines the Schaeffler Group's expectations of its business partners with respect to acting with integrity and abiding by rules.

These developments have largely brought the Compliance Fit & Proper program to completion in 2015. Certain steps remain to be implemented in 2016.

In preparation for Schaeffler AG's listing on October 09, 2015, the Schaeffler Group has also expanded its arrangements for complying with the legal requirements related to the capital markets. In addition to continuing the groupwide insider list, the members of the Board of Managing Directors and the Supervisory Board as well as employees were informed of their obligations under capital markets laws and the consequences of the listing, and an insider committee was established whose activities include maintaining the insider list, deciding on how to deal with potential insider information, and ensuring compliance with the requirements of capital markets laws.

Significant compliance-related risks are set out in the report on opportunities and risks (see pages 93 et seq.).

3.2 Risk management system

Like the compliance management system, the risk management system is part of the second line of defense in the Schaeffler Group's governance structure. It comprises all activities and arrangements made to identify, assess, prevent, and mitigate risk. A risk is defined as the danger that events or actions will prevent a company from achieving its plan or successfully implementing its strategies. For all identified risks, the probability of occurrence and possible impact on achieving objectives are continually identified, assessed, appropriate action initiated and followed-up on. Please refer to pages 93 et seq. in the report on opportunities and risks for a detailed discussion of the risk management system.

3.3 Internal control system

The second line of defense also comprises the Schaeffler Group's internal control system. The internal control system consists of technological and organizational arrangements and controls that have been systematically designed to ensure compliance with guidelines and to prevent loss or damage that may be caused by the company's employees or by third parties. Controls can be performed both process-dependent or independently of the process. The Schaeffler Group's internal control system is based on the COSO model and consists of the following components: Control environment, risk assessment, control activities, information and communication, and monitoring. It is focused on financial reporting and represents the arrangements and controls ensuring that the consolidated financial statements are prepared in accordance with financial reporting standards and ensuring accurate external financial reporting. Please refer to pages 93 et seq. in the report on opportunities and risks for a detailed discussion of the internal control system.

3.4 Internal Audit

Internal Audit represents the third line of defense of the Schaeffler Group's governance structure. Internal Audit provides independent and objective audit and consulting services focused on adding value and improving business processes. The internal audit function contributes to meeting the corporate objectives the Schaeffler Group has communicated by assessing and helping to improve the effectiveness of risk management, controls, and management and supervisory processes using a systematic and goal-oriented approach. Responsibility for establishing the internal audit function and for its effectiveness rests with the Board of Managing Directors and cannot be delegated. Hence, Internal Audit reports to the entire Board of Managing Directors. Organizationally, Internal Audit is assigned to the Chief Executive Officer of Schaeffler AG.

The Schaeffler Group has made the following arrangements to ensure the independence and objectivity of Internal Audit:

- direct organizational link to the Chief Executive Officer to ensure there are no gaps in audit coverage;
- neither the head of Internal Audit nor audit staff have any operational responsibilities;
- reports annually on potential impairment of independence to the CEO/the Board of Managing Directors/audit committee;
- audit planning and significant changes therein have to be approved by the Board of Managing Directors and documented appropriately.

Internal Audit consists of the functions "Methods, Reporting and Quality", "Corporate Audits", and the "IT and Special Audits" unit. It has locations in each of the four regions, and each region has its own head of Internal Audit.

Internal Audit serves to safeguard operations and assets and specifically audits whether the principles of efficiency, expediency, security, and "orderliness" are observed in operational processes. Their responsibilities specifically include, but are not limited to, the following activities:

- audit and assessment of the appropriateness, efficiency, and effectiveness of the internal control system;
- audit and assessment of the appropriateness, efficiency, and effectiveness of the management and supervisory processes;
- audit and assessment of the finance and accounting systems, the information system, and the reporting system.
- audit and assessment of the effectiveness of risk management;
- audit and assessment of the effectiveness of arrangements for preventing and detecting fraud;
- audit of arrangements for safeguarding assets;
- audit and assessment of the implementation of and compliance with legal requirements and the company's internal rules ("orderliness");
- performance of special investigations with respect to fraud, conflicts of interest and other irregularities.

Internal Audit performs systems- and effectiveness audits. Systems audits either involve auditing selected areas (e.g. procurement) at subsidiaries or documenting and analyzing the actual processes in place at foreign (distribution) companies. Any findings documented during such systems audits are assigned to one of three assessment areas („orderliness", "internal monitoring system", "business processes"). Effectiveness audits involve testing the effectiveness of the risk management system or the internal control system of subsidiaries. Compliance risks are covered in the "orderliness" assessment area.

In a preliminary study done in preparation for audit assignments, Internal Audit exchanges information with other departments (e.g. Compliance, Controlling, Legal, Quality, Risk Management) in order to obtain sufficient reliable, relevant, and constructive information to achieve its audit objectives, Internal Audit performs its audit assignments on location at the business units/subsidiaries.

In its audit reports, Internal Audit communicates its findings, its recommendations for mitigating risk, and the persons responsible for implementation, with whom they agree binding implementation dates. In a monitoring and follow-up process, Internal Audit monitors implementation of its recommendations for remediating identified deficiencies.

In accordance with the International Standards for the Professional Practice of Internal Auditing 2013 of the Institute of Internal Auditors (IIA), the head of Internal Audit maintains a quality assurance and improvement program covering all of Internal Audit's responsibilities.

4. Remuneration report

This remuneration report describes the main features of the remuneration system for the Board of Managing Directors, i.e. the remuneration structure and amount. In addition, the remuneration report provides disclosures about benefits the company has promised to provide to the members of the Board of Managing Directors upon termination of their employment as well as disclosures on the remuneration of the Supervisory Board.

4.1 Main features of the remuneration system for the Board of Managing Directors in effect since the listing

As stipulated in the German Corporate Governance Code (GCGC) and section 87 German Stock Companies Act ("Aktiengesetz"-AktG), the Supervisory Board determines the total remuneration and reviews the remuneration scheme on a regular basis, which includes reviewing the appropriateness of the remuneration of the Board of Managing Directors once a year. To ensure that the total remuneration is appropriate, the Supervisory Board takes into account customary levels of remuneration both in other companies of comparable size within the same industry and country (horizontal comparison) and in comparison to the wage and salary structure within the enterprise itself (vertical comparison of remuneration of Board of Managing Directors to the company's workforce).

In preparation for the listing, Schaeffler AG's Supervisory Board approved the enhancement of the remuneration system for the members of the Board of Managing Directors on September 08, 2015. This remuneration system is effective for all members of the Board of Managing Directors whose term of office extends beyond December 31, 2015 and became effective retroactively as at January 01, 2015 on the date of the listing, October 09, 2015.

The total remuneration of the Board of Managing Directors is performance- and success-based and supports the Schaeffler Group's operational and strategic objectives in a dynamic and international environment. The remuneration of each member of the Board of Managing Directors consists of a fixed amount as well as short- and long-term variable components. Variable remuneration is largely long-term in nature. In addition, the members of the Board of Managing Directors are granted customary fringe benefits, pension commitments, insurance benefits, and the use of a company car.

Remuneration of Board of Managing Directors – system and components No. 056

Components	Performance metric	Range of remuneration	Conditions for payment	Payment cycle
Non-performance-based components				
Fixed remuneration	Function and responsibility	None	Contractually agreed	Monthly
Fringe benefits	Function and responsibility	None	Contractually agreed	Payment not applicable
Performance-based components				
Short-term bonus	Free cash flow (FCF) and Schaeffler Value Added (SVA) of the Schaeffler Group (weighted equally) [1]	0 % –150 % (target bonus = 100 %)	Meeting annual performance targets	Annually
Long-term bonus	Share price trend underlying performance share units (PSUs) granted and meeting targets consisting of:	Maximum is the number of PSUs granted, minimum number is nil		
Performance Share Unit Plan (PSUP)	50 % service condition and 25 % relative Total-Shareholder-Return-(TSR)-based performance target and 25 % cumulative FCF-based performance target	Share price cap: double the share price at grant date	Meeting the service condition and/or performance targets	4 years after grant date
Retirement benefits			Retirement or triggering event	Generally monthly

[1] Starting in 2016, the performance of divisional CEOs is also measured based on the relevant division's SVA and working capital.

Non-performance-based components

Fixed remuneration
Each ordinary member of the Board of Managing Directors receives an identical amount of fixed remuneration; the Chief Executive Officer receives twice this amount.[8] Fixed remuneration is paid in twelve equal installments.

Fringe benefits
Fringe benefits include the use of a company car, including for private purposes, and customary insurance benefits such as directors' and officers' liability insurance (D&O insurance). This D&O insurance policy includes a deductible provision that is in accordance with section 93 (2) Sentence 3 AktG. Tax on the pecuniary advantage related to fringe benefits granted is paid individually by each member of the Board of Managing Directors. No loans were granted to members of the Board of Managing Directors in 2015.

[8] This applies to all members of the Board of Managing Directors whose term of office extends beyond December 31, 2015.

Performance-based components

Short-term variable component – short-term bonus
Since the date the agreements amending the employment contracts of the members of the Board of Managing Directors became effective, members of the Board of Managing Directors whose term of office extends beyond December 31, 2015 receive an annual short-term bonus if the relevant targets are met. The amendment agreements set out the individual target-based bonus awarded if 100 % of the performance targets are met.

The Supervisory Board determines the performance target tiers on an annual basis. The targets underlying the remuneration reflect the strategic direction of the Schaeffler Group. The amount of the short-term bonus payable is determined based on the extent to which the performance targets have been met. The performance targets are weighted equally and consist of the Schaeffler Group's free cash flow (FCF) and Schaeffler Value Added (SVA).[9]

FCF is generally calculated based on the Schaeffler Group's cash flows from operating activities and from investing activities for the relevant year. SVA is generally based on the Schaeffler Group's EBIT less its cost of capital.[10]

At the beginning of each year, the Supervisory Board can determine other strategic targets in addition to the FCF and SVA performance targets. The short-term bonus may lapse in its entirety if the minimum targets are not met. In any event, payment of a short-term bonus is limited to 150 % of the individual target-based bonus, regardless of whether an additional strategic target is set. The short-term bonus earned during a year is paid in a lump sum once the extent to which targets have been met has been determined and the Supervisory Board has passed the relevant resolution.

Long-term variable component – long-term bonus (Performance Share Unit Plan, PSUP)
On September 08, 2015, the Supervisory Board passed a resolution to implement a share-based remuneration instrument in form of a PSUP for members of the Board of Managing Directors whose term of office extends beyond December 31, 2015, in order to align the interests of the Board of Managing Directors with those of the shareholders and to promote the sustainable development of the Schaeffler Group.

One performance share unit (PSU) conveys the right to a cash payment amounting to the average share price of the last 60 trading days of the performance period provided the previously defined performance targets have been achieved. The PSUP is granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of that year. The target amount per tranche is stipulated in the agreements amending the employment contracts of the members of the Board of Managing Directors and is aimed at creating a remuneration structure that is largely oriented toward the long term. The Supervisory Board sets the performance target tiers on an annual basis. The target amount of the variable long-term remuneration exceeds the target bonus under the variable short-term remuneration. In addition, the number of PSUs granted to each individual member of the Board of Managing Directors is based on that member's duties and responsibilities. The number of PSUs cannot increase.

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[9] Starting in 2016, the performance of divisional CEOs is also measured based on the relevant division's value added and working capital.

[10] See section "Value management" on page 83.

Vesting of PSUs is linked to the following three conditions:

- 50 % of PSUs (base number) are granted subject to a service condition. The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.
- 25 % of the PSUs are granted subject to a long-term FCF-based performance target which involves a comparison of cumulative FCF for the performance period to the target FCF.
- 25 % of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The 2015 tranche of PSUs subject to FCF- and TSR-based performance targets vests based on the following target tiers.

PSUP performance targets (1) No. 057

Cumulative free cash flow for the performance period	Number of FCF PSUs vested in %
Cum. FCF compared to target FCF > 6.01 %	100 %
2.01 % < cumulative FCF compared to target FCF < 6.00 %	75 %
-2.00 % < cumulative FCF compared to target FCF < 2.00 %	50 %
-6.00 % < cumulative FCF compared to target FCF < -2.01 %	25 %
Cum. FCF compared to target FCF < -6.01 %	0 %

PSUP performance targets (2) No. 058

TSR outperformance over the performance period	Number of TSR PSUs vested in %
> 25 %	100 %
5 % < TSR outperformance ≤ 25 %	75 %
-5 % < TSR outperformance ≤ 5 %	50 %
-25 % < TSR outperformance ≤ -5 %	25 %
≤ -25 %	0 %

[11] Taking into account the rules applicable to leavers.

The target amounts for the FCF-based performance target are derived from the Schaeffler Group's medium-term plan, and the Supervisory Board reviews and sets them before each tranche is granted. The payment under a PSU is capped at double the underlying share price at the grant date. The underlying share price of the 2015 tranche is EUR 13.15. The PSUs granted to each individual and the related fair values in 2015 are as follows:

PSUs granted in 2015[1)] No. 059

	Target amount in € thousands	Number of PSUs granted on October 09, 2015 [2)]	Grant date fair value per PSU in €	Grant date fair value in € thousands
Klaus Rosenfeld (CEO)	1,300			
Base number of PSUs		49,429	11.58	572
FCF PSUs		24,715	11.58	286
TSR PSUs		24,715	6.96	172
Norbert Indlekofer	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
Prof. Dr. Peter Pleus	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
Dr. Stefan Spindler	533			
Base number of PSUs		20,278	11.58	235
FCF PSUs		10,140	11.58	117
TSR PSUs		10,140	6.96	71
Prof. Dr. Peter Gutzmer	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
Dr. Ulrich Hauck	600			
Base number of PSUs		22,813	11.58	264
FCF PSUs		11,407	11.58	132
TSR PSUs		11,407	6.96	79
Oliver Jung	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
Total	**6,233**	**474,016**	-	**4.940**

1) Kurt Mirlach and Robert Schullan left the Board of Managing Directors of Schaeffler AG as at December 31 and April 30, 2015, respectively. They were not granted any PSUs for 2015.
2) Equals the number of PSUs outstanding as at December 31, 2015.

The PSUs granted are classified and measured as cash-settled share-based compensation. The fair value for PSUs subject to the TSR-based performance target was determined using a binomial model. The fair value of the base number and of the PSUs subject to the FCF-based performance target was determined based on the price of the company's common non-voting shares as at the measurement date. The valuation model takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target tiers, expected dividend payments, as well as the volatility of the company's common non-voting shares and of the benchmark index).

The valuation as at the grant date reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.2 %,
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.66 %,
- expected volatility of Schaeffler AG common non-voting shares of 33.34 %,
- expected volatility of the benchmark index of 18.97 %,
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.34.

Retirement benefits
Every current member of the Board of Managing Directors is entitled to retirement benefits. The pension resulting from the various individual retirement benefit commitments is generally calculated as a percentage of pensionable employment income based on the duration of the individual's service on the Board of Managing Directors. Individual percentages vary between 1.50 % and 3.0 % per year of membership on the Board of Managing Directors. Benefit commitments for each member of the Board of Managing Directors are tailored individually. The pension received by a member of the Board of Managing Directors is based on their last pensionable employment income before retirement. Individual maximum pensions range from 40 % to 60 % of pensionable employment income.

Pension payments commence in the form of retirement benefits if employment ends at or after attainment of the age of 65, and in the form of disability benefits if employment ends due to disability. Beneficiaries are entitled to claim a reduced pension early as a retirement benefit beginning at age 60. Upon the death of a member of the Board of Managing Directors, the spouse is entitled to between 50 % and 60 % of the pension as a surviving dependants' pension. Surviving dependent children are entitled to 10 % or 20 % of the pension, respectively depending on whether the have lost one or both parents.

The pension increases by 1.0 % each year beginning at retirement. The pension of a member of the Board of Managing Directors is subject to annual increases by the same percentage as the consumer price index in Germany. This also applies to disability, widows' and orphans' pensions.

The following table summarizes the service cost and defined benefit obligation of pension benefits earned up to December 31, 2015, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service.

Service cost for 2015 and defined benefit obligations as at December 31, 2015 in accordance with IAS 19 No. 060

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2015	1,240	7,875
Norbert Indlekofer	2015	205	5,300
Prof. Dr. Peter Pleus	2015	380	5,282
Dr. Stefan Spindler	2015	164	168
Prof. Dr. Peter Gutzmer	2015	273	4,178
Dr. Ulrich Hauck	2015	337	345
Oliver Jung	2015	288	2,166
Former members of the Board of Managing Directors			
Kurt Mirlach [1]	2015	266	4,391
Robert Schullan [2]	2015	130	3,824
Total		**3,283**	**33,529**

[1] Kurt Mirlach left the Board of Managing Directors of Schaeffler AG as at December 31, 2015.
[2] Robert Schullan left the Board of Managing Directors of Schaeffler AG as at April 30, 2015. His employment contract continued until December 31, 2015.

Change in remuneration system

When the new remuneration system for the Board of Managing Directors went into effect, the members of the Board of Managing Directors were granted a one-time sign-on bonus to offset the shortfall in liquidity caused by the change. The sign-on bonus was only granted to members of the Board of Managing Directors whose term in office extends beyond December 31, 2015. The first half of the sign-on bonuses was paid in October 2015 and the second half will be paid in October 2016.

In addition, certain members of the Board of Managing Directors have received interest-free advances on their variable short-term remuneration in connection with the change in the remuneration system and adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand.

Benefits granted in connection with the termination of membership on the Board of Managing Directors

Payments made to a member of the Board of Managing Directors upon early termination of their employment agreement without due cause are limited to two years' remuneration (severance cap) and solely represent compensation for the remaining term of the employment agreement. The severance cap is generally calculated based on the total remuneration for the last full financial year and also on the expected total remuneration for the current year where applicable.

Members of the Board of Managing Directors whose employment has terminated are generally subject to a noncompetition clause for a period of two years following termination of their employment agreement. In return, they are entitled to compensation in the amount of 50 % of the average contractual remuneration granted to the member of the Board of Managing Directors for the last twelve months before the end of their employment. Contractual remuneration includes both performance-based and non-performance-based remuneration components. Income from other employment is deducted from the compensation payment in accordance with section 74c HGB. Dr. Ulrich Hauck and Dr. Stefan Spindler, who were appointed to the Board of Managing Directors in 2015, were guaranteed such noncompetition compensation in their employment agreements.

Robert Schullan left Schaeffler AG's Board of Managing Directors early at his own request effective April 30, 2015. He was entitled to receive non-performance-based remuneration including all fringe benefits until December 31, 2015, a total of EUR 301 thousand.

External activities of members of the Board of Managing Directors

The members of the Board of Managing Directors have agreed to work exclusively for the company. External activities, whether paid or unpaid, require prior approval by the executive committee of the Supervisory Board. This ensures that neither the time commitment involved nor the related remuneration conflict with the individual's responsibilities towards Schaeffler AG. External activities representing a position on legally required supervisory boards or similar supervisory bodies of commercial enterprises are listed in section 5 "Governing bodies of the company". Serving in such positions in relation to group companies is not remunerated separately.

Appropriateness of the remuneration of the Board of Managing Directors

In accordance with section 87 AktG, the Supervisory Board of Schaeffler AG ensures that the remuneration of individual members of the Board of Managing Directors bears a reasonable relationship to the duties and performance of such member as well as the condition of the company. The Supervisory Board obtained the assistance of an independent remuneration expert for purposes of reviewing whether the remuneration of the Board of Managing Directors is appropriate.

4.2 Main features of the remuneration system for and amounts of remuneration of the Board of Managing Directors in effect prior to the listing

Prior to the listing, the remuneration system included fixed and variable components. The total remuneration of each member of the Board of Managing Directors is capped ("hard cap"). The fixed component of remuneration was based on the duties and responsibilities of each member of the Board of Managing Directors. In addition to the fixed component, each member of the Board of Managing Directors also received a performance-based bonus, which was calculated based on the following factors:

- operating earnings compared to minimum return on revenue,
- actual working capital compared to budgeted working capital, and
- individual performance factor.

Total remuneration of the entire Board of Managing Directors for 2014 under the remuneration system in effect prior to the listing amounted to EUR 2 m, including EUR 1 m for the fixed component and EUR 0 m for the variable performance-based bonus. As Schaeffler AG's Board of Managing Directors was not appointed until October 24, 2014, prior year figures are not fully comparable to the figures for 2015. In addition, the members of the Board of Managing Directors received fringe benefits which included the use of a company car for private purposes, insurance benefits, D&O insurance, and retirement benefits.

The previous remuneration system was based on individual contractual arrangements entered into prior to the company's listing on the capital markets. On the date of the listing, the new remuneration system meeting the requirements for remuneration systems of listed companies became effective retroactively as at January 01, 2015. As a result, remuneration under the previous system is not presented by individual for 2014. Remuneration for all of 2015 based on the remuneration system in effect since the listing is disclosed by individual.

The remuneration system in effect prior to the listing remained applicable to the two members of the Board of Managing Directors who left the company, Kurt Mirlach (left effective December 31, 2015) and Robert Schullan (left effective April 30, 2015), without change in 2015.

4.3 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the remuneration granted for and paid in 2015.

Remuneration and payments for 2015
Klaus Rosenfeld (Chief Executive Officer since October 24, 2014) No. 061

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	1,200	1,200	1,200	1,200
Sign-on bonus	1,200	1,200	1,200	600 [1]
Fringe benefits	27	27	27	27
Total	**2,427**	**2,427**	**2,427**	**1,827**
One-year variable remuneration – short-term bonus	1,200	0	1,800	953
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	1,031 [2]	0	2,600	0
Total	**4,658**	**2,427**	**6,827**	**2,780**
Pension cost	1,240	1,240	1,240	1,240
Total remuneration	**5,898**	**3,667**	**8,067**	**4,020**

[1] Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
[2] Fair value at the grant date in accordance with IFRS 2.

Norbert Indlekofer (Member of the Board of Managing Directors since October 24, 2014)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 [1)]
Fringe benefits	27	27	27	27
Total	**1,227**	**1,227**	**1,227**	**927**
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 [2)]	0	1,900	0
Total	**2,880**	**1,227**	**4,477**	**1,642**
Pension cost	205	205	205	205
Total remuneration	**3,085**	**1,432**	**4,682**	**1,847**

1) Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
2) Fair value at the grant date in accordance with IFRS 2.

Prof. Dr. Peter Pleus (Member of the Board of Managing Directors since October 24, 2014)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 [1)]
Fringe benefits	41	41	41	41
Total	**1,241**	**1,241**	**1,241**	**941**
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 [2)]	0	1,900	0
Total	**2,894**	**1,241**	**4,491**	**1,656**
Pension cost	380	380	380	380
Total remuneration	**3,274**	**1,621**	**4,871**	**2,036**

1) Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
2) Fair value at the grant date in accordance with IFRS 2.

Dr. Stefan Spindler
(Member of the Board of Managing Directors since May 01, 2015)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	400	400	400	400
Sign-on bonus	600	600	600	300 [1)]
Fringe benefits	13	13	13	13
Total	**1,013**	**1,013**	**1,013**	**713**
One-year variable remuneration – short-term bonus	500	0	750	397
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	423 [2)]	0	1,066	0
Total	**1,936**	**1,013**	**2,829**	**1,110**
Pension cost	164	164	164	164
Total remuneration	**2,100**	**1,177**	**2,993**	**1,274**

1) Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
2) Fair value at the grant date in accordance with IFRS 2.

Prof. Dr. Peter Gutzmer
(Member of the Board of Managing Directors since October 24, 2014)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 [1)]
Fringe benefits	28	28	28	28
Total	**1,228**	**1,228**	**1,228**	**928**
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 [2)]	0	1,900	0
Total	**2,881**	**1,228**	**4,478**	**1,643**
Pension cost	273	273	273	273
Total remuneration	**3,154**	**1,501**	**4,751**	**1,916**

1) Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
2) Fair value at the grant date in accordance with IFRS 2.

Dr. Ulrich Hauck
(Member of the Board of Managing Directors since April 01, 2015)

in € thousands		Remuneration		
	2015	**2015 (floor)**	**2015 (ceiling)**	**Payment 2015**
Fixed remuneration	450	450	450	450
Sign-on bonus	600	600	600	300 [1]
Fringe benefits	20	20	20	20
Total	**1,070**	**1,070**	**1,070**	**770**
One-year variable remuneration – short-term bonus	563	0	845	447
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	476 [2]	0	1,200	0
Total	2,109	1,070	3,115	1,217
Pension cost	337	337	337	337
Total remuneration	**2,446**	**1,407**	**3,452**	**1,554**

[1] Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
[2] Fair value at the grant date in accordance with IFRS 2.

Oliver Jung
(Member of the Board of Managing Directors since October 24, 2014)

in € thousands		Remuneration		
	2015	**2015 (floor)**	**2015 (ceiling)**	**Payment 2015**
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 [1]
Fringe benefits	28	28	28	28
Total	1,228	1,228	1,228	928
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 [2]	0	1,900	0
Total	**2,881**	**1,228**	**4,478**	**1,643**
Pension cost	288	288	288	288
Total remuneration	**3,169**	**1,516**	**4,766**	**1,931**

[1] Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.
[2] Fair value at the grant date in accordance with IFRS 2.

Kurt Mirlach (Member of the Board of Managing Directors from October 24, 2014 until December 31, 2015)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	450	450	450	450
Sign-on bonus	-	-	-	-
Fringe benefits	22	22	22	22
Total	**472**	**472**	**472**	**472**
One-year variable remuneration – short-term bonus	960	0	1,550	1,003
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	-	-	-	-
Total	**1,432**	**472**	**2,022**	**1,475**
Pension cost	266	266	266	266
Total remuneration	**1,698**	**738**	**2,288**	**1,741**

Robert Schullan (Member of the Board of Managing Directors from October 24, 2014 until April 30, 2015)

in € thousands	Remuneration			
	2015	2015 (floor)	2015 (ceiling)	Payment 2015
Fixed remuneration	142	142	142	142
Sign-on bonus	-	-	-	-
Fringe benefits	9	9	9	9
Total	**151**	**151**	**151**	**151**
One-year variable remuneration – short-term bonus	572	0	1,557	579
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	-	-	-	-
Total	**723**	**151**	**1,708**	**730**
Pension cost	130	130	130	130
Total remuneration	**853**	**281**	**1,838**	**860**

The total remuneration for 2015 is broken down by individual and by its various components in accordance with section 285 No. 9a HGB and section 314 (1) No. 6a HGB below.

Total remuneration (HGB) for 2015 by individual

No. 062

in € thousands	Remuneration components			
	fixed	variable short-term	variable long-term [1]	Total remuneration
Klaus Rosenfeld (CEO)	2,427	953	1,031	4,411
Norbert Indlekofer	1,227	715	753	2,695
Prof. Dr. Peter Pleus	1,241	715	753	2,709
Dr. Stefan Spindler (since May 01, 2015)	1,013	397	423	1,833
Prof. Dr. Peter Gutzmer	1,228	715	753	2,696
Dr. Ulrich Hauck (since April 01, 2015)	1,070	447	476	1,993
Oliver Jung	1,228	715	753	2,696
Former members of the Board of Managing Directors				
Kurt Mirlach (until December 31, 2015)	472	1,003	0	1,475
Robert Schullan (until April 30, 2015)	151	579	0	730
Total	**10,057**	**6,239**	**4,942**	**21,238**

[1] Share-based payment in the form of the PSUP.

The expenses resulting from the PSUP for 2015 are broken down by individual in accordance with section 314 (1) No. 6a Sentence 8 HGB in conjunction with IFRS 2.51a below.

PSUP expenses in 2015

No. 063

in € thousands	Expenses (IFRS)
Klaus Rosenfeld (CEO)	92
Norbert Indlekofer	176
Prof. Dr. Peter Pleus	176
Dr. Stefan Spindler (since May 01, 2015)	38
Prof. Dr. Peter Gutzmer	67
Dr. Ulrich Hauck (since April 01, 2015)	42
Oliver Jung	67
Former members of the Board of Managing Directors	
Kurt Mirlach (until December 31, 2015)	-
Robert Schullan (until April 30, 2015)	-
Total	**658**

4.4 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board includes the disclosures required by German commercial law and is consistent with the recommendations of the GCGC. The remuneration of the Supervisory Board was set in a resolution passed by the general meeting on December 01, 2014.

The members of the Supervisory Board of Schaeffler AG receive fixed remuneration of EUR 50,000 per year. The Chairman of the Supervisory Board receives twice this amount, his Deputies 1.5 times this amount. In addition, membership on committees is compensated as follows:

- Executive committee; committee remuneration of EUR 20,000 for each ordinary member, twice this amount for the chairman.
- Audit committee; committee remuneration for each ordinary member of EUR 20,000, twice this amount for the chairman.

Where a member of the Supervisory Board chairs several committees or chairs both the Supervisory Board and one or more committees, no remuneration is paid for the additional chairmanship. Remuneration is pro-rated for changes in the Supervisory Board or its committees.

Remuneration for committee membership for any one financial year is conditional on the relevant committee actually having met to fulfill its responsibilities during the period.

In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,500 for each meeting of the Supervisory Board or its committees her or she attends in person.

Members of the Supervisory Board are reimbursed for expenses incurred in connection with the performance of their duties and for any value-added tax on their remuneration.

The company has obtained directors' and officers' liability insurance (D&O insurance) for all members of the Supervisory Board; the policy's deductible provision is in accordance with the AktG and the GCGC.

No advances or loans were granted to members of the Supervisory Board in 2015. The following table summarizes the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2015 [1)]

No. 064

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees	Total remuneration
Bänsch, Jürgen (until November 19, 2015) [2)]	53	21	16	90
Bullinger, Prof. Dr. Hans-Jörg	60		7	67
Engelmann, Dr. Holger	60		7	67
Gottschalk, Prof. Dr. Bernd	60		7	67
Lenhard, Norbert [2)]	60	24	16	100
Luther, Dr. Siegfried	60	48	11	119
Mittag, Dr. Reinold [2)]	60	24	18	102
Mölkner, Thomas (until November 19, 2015) [2)]	53		9	62
Münch, Yvonne (since November 19, 2015) [2)]	7		2	9
Resch, Barbara (since November 19, 2015) [2)]	7	1	4	12
Schaeffler, Georg F. W.	119	48	23	190
Schaeffler-Thumann, Maria-Elisabeth	89	24	12	125
Schmidt, Stefanie [2)]	60		7	67
Spindler, Dirk	60		9	69
Stalker, Robin	60	24	16	100
Stolz, Jürgen [2)]	60		9	69
Vicari, Salvatore [2)]	60	24	18	102
Wechsler, Jürgen [2)]	89	24	16	129
Wiesheu, Dr. Otto	60		9	69
Wolf, Prof. KR Ing. Siegfried	60	24	9	93
Worrich, Jürgen [2)]	60	24	18	102
Zhang, Prof. Dr.-Ing. Tong	60		5	65
Total	**1,317**	**310**	**248**	**1,875**

1) All amounts shown include value-added tax on remuneration where applicable. The positions held by the Supervisory Board members are listed in section 5 "Governing bodies of the company".
2) These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

Members of the Supervisory Board have not received any compensation for personally rendered services, especially consulting and agency services.

5. Governing bodies of the company

5.1 Supervisory Board

The Supervisory Board consists of twenty members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2019. The term of office of the employee representatives ends at the conclusion of the annual general meeting 2020.

Georg F. W. Schaeffler
Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Chairman of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Chairman of the mediation, executive, and nomination committees and member of the audit committee

Seats on other supervisory and similar boards:
Member of the supervisory board of Continental AG, Hanover

Maria-Elisabeth Schaeffler-Thumann
Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Deputy Chairperson of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Member of the mediation, executive, and nomination committees

Seats on other supervisory and similar boards:
Member of the supervisory board of Continental AG, Hanover

Jürgen Wechsler*
Regional Director of IG Metall Bavaria

Deputy Chairman of the Supervisory Board of Schaeffler AG and member of the mediation and executive committees

Appointed on November 19, 2015

Seats on other supervisory and similar boards:
Member of the supervisory board of BMW AG, Munich

Deputy chairman of the Supervisory Board of Siemens Healthcare GmbH, Munich (since June 29, 2015)

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* Employee representative on the Supervisory Board

Prof. Dr. Hans-Jörg Bullinger
Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e. V.

Appointed on December 01, 2014

Seats on other supervisory and similar boards:
Chairman of the supervisory board of ARRI AG, Munich

Member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes

Chairman of the supervisory board of TÜV SÜD AG, Munich

Deputy chairman of the supervisory board of WILO SE, Dortmund

Dr. Holger Engelmann
Chairman of the Management Board of Webasto SE

Appointed on December 01, 2014

Member of the nomination committee

Seats on other supervisory and similar boards:
Member of the supervisory board of Webasto Roof Systems China Ltd., Hong Kong, China

Chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

Prof. Dr. Bernd Gottschalk
Managing Partner of AutoValue GmbH

Appointed on December 01, 2014

Member of the nomination committee

Seats on other supervisory and similar boards:
Member of the supervisory board of JOST-Werke Deutschland GmbH, Neu-Isenburg

Member of the advisory board of peiker acustic GmbH & Co. KG, Friedrichsdorf

Member of the supervisory board of Plastic Omnium SA, Levallois-Perret, France

Member of the supervisory board of Voith GmbH, Heidenheim (until September 30, 2015)

Chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmünster

Norbert Lenhard*
Chairman of the central Works Council Schaeffler Technologies AG & Co. KG;
Chairman of the Works Council at Schweinfurt plant

Appointed on November 19, 2015

Member of the mediation and executive committees

Dr. Siegfried Luther
Management Consultant

Appointed on December 01, 2014

Chairman of the audit committee

Seats on other supervisory and similar boards:
Member of the supervisory board of Evonik Industries AG, Essen

Member of the board of directors of Sparkasse Gütersloh, Gütersloh

* Employee representative on the Supervisory Board

Dr. Reinold Mittag*
Trade Union Secretary of IG Metall
Appointed on November 19, 2015
Member of the audit committee

Yvonne Münch*
Manager Plant Purchase and Logistics
Appointed on November 19, 2015

Barbara Resch*
Second Commissioner of IG Metall Schweinfurt
Appointed on November 19, 2015
Member of the executive committee

Stefanie Schmidt*
Chairperson of the Works Council at Wuppertal plant
Appointed on November 19, 2015

Dirk Spindler*
Senior Vice President Research & Developement and Application Engineering of Schaeffler Technologies AG & Co. KG
Appointed on November 19, 2015

Robin Stalker
Executive Board Member for adidas AG, responsible for Finance
Appointed on December 01, 2014
Member of the audit committee

Jürgen Stolz*
Chariman of the Works Council at Bühl plant
Appointed on November 19, 2015

Salvatore Vicari*
Chairman of the Works Council at Homburg/Saar plant
Appointed on November 19, 2015
Member of the audit committee

Dr. Otto Wiesheu
Lawyer
Appointed on December 01, 2014

* Employee representative on the Supervisory Board

Prof. KR Ing. Siegfried Wolf
Chairman of the Board of Directors of Russian Machines LLC

Appointed on December 01, 2014

Member of the executive committee

Seats on other supervisory and similar boards:
Member of the supervisory board of Banque Baring Brothers Sturdza SA, Geneva, Switzerland

Member of the supervisory board of Continental AG, Hanover

Chairman of the supervisory board of GAZ Group, Nizhny Novgorod, Russia

Chairman of the supervisory board of Glavstroy OJSC, Moscow, Russia (until September 15, 2015)

Member of the supervisory board of Miba AG, Laakirchen, Austria (since June 25, 2015)

Chairman of the supervisory board of Österreichische Industrieholding AG, Vienna, Austria (until March 20, 2015)

Chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria

Member of the supervisory board of STRABAG SE, Vienna, Austria (until June 12, 2015)

Member of the supervisory board of Transstroy Corporation, Moscow, Russia (until September 15, 2015)

Jürgen Worrich*
Chairman of the European Schaeffler Works Council; Member of the Works Council at Herzogenaurach plant

Appointed on November 19, 2015

Member of the audit committee

Prof. Dr.-Ing. Tong Zhang
Director Clean Energy Automotive Engineering Center at Tongji University in Shanghai, China

Appointed on December 01, 2014

The following members left the Supervisory Board in 2015:

Jürgen Bänsch*
Chairman of the Central German Works Council, Schaeffler Group; Chairman of the Works Council at Herzogenaurach plant

Member of the Supervisory Board until November 19, 2015

Thomas Mölkner*
Chairman of the Central German Works Council, Schaeffler Group

Member of the Supervisory Board until November 19, 2015

* Employee representative on the Supervisory Board

5.2 Supervisory Board committees

Mediation committee
Georg F. W. Schaeffler (chairman), Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, and Jürgen Wechsler

Executive committee
Georg F. W. Schaeffler (chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

Audit committee
Dr. Siegfried Luther (chairman), Dr. Reinold Mittag, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

Nomination committee
Georg F. W. Schaeffler (chairman), Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk

5.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chairman of the Board of Managing Directors (CEO), the CEOs of the two divisions Automotive and Industrial, and the Managing Directors responsible for the functions (1) Technology, (2) Operations, (3) Finance, and (4) Human Resources. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

Klaus Rosenfeld
Chief Executive Officer

Responsible for Quality; MOVE, Communications, Marketing & Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate

Chief Executive Officer since October 24, 2014; appointed until June 30, 2019

Seats on supervisory and similar boards:
Member of the supervisory board of Continental AG, Hanover

Member of the supervisory board of FAG Bearings India Ltd., Mumbai, India (since February 11, 2015)

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

Responsible for R&D Strategy, Processes & Resources; Corporate Innovation; R&D Expertise & Service; Protection of Industrial Property; Surface Technology; Information Technology; Digitalization Coordination Office

Member of the Board of Managing Directors since October 24, 2014;
appointed until December 31, 2019

Seats on supervisory and similar boards:
Member of the supervisory board of Continental AG, Hanover

Dr. Ulrich Hauck (since April 01, 2015)
Chief Financial Officer

Responsible for Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Divisional Controlling Automotive and Industrial divisions; Corporate Treasury; Corporate Taxes; Corporate Insurance

Member of the Board of Managing Directors since April 01, 2015; appointed until March 31, 2018

Seats on supervisory and similar boards:
Member of the supervisory board of Bayer Business Services GmbH, Leverkusen (until February 28, 2015)

Member of the supervisory board of Bayer-Pensionskasse VVaG, Leverkusen (until February 28, 2015)

Member of the advisory board of Bayer Pension Trust e.V. , Leverkusen (until February 28, 2015)

Member of the board of directors of Euro Services Bayer S.L., Barcelona, Spain (until February 28, 2015)

Member of the supervisory board of mutares AG, Munich

Norbert Indlekofer
CEO Automotive

Responsible for Transmission Systems and Automotive Aftermarket business divisions;
Research & Development Automotive division

Member of the Board of Managing Directors since October 24, 2014;
appointed until December 31, 2016

Seats on supervisory and similar boards:
Member of the supervisory board of Gienanth GmbH, Eisenberg

Oliver Jung
Chief Operating Officer

Responsible for Operations Strategy & Processes; Production Technology; Special Machinery;
Tool & Prototype Management; Industrial Engineering; Bearing & Components Technologies;
Logistics; Purchasing

Member of the Board of Managing Directors since October 24, 2014;
appointed until September 30, 2018

Seats on supervisory and similar boards:
Member of the supervisory board of SupplyOn AG, Munich

Prof. Dr. Peter Pleus
CEO Automotive

Responsible for Engine Systems and Chassis Systems business divisions;
Global Key Account Management Automotive division; Business Development Automotive

Member of the Board of Managing Directors since October 24, 2014;
appointed until December 31, 2016

Seats on supervisory and similar boards:
Member of the supervisory board of IAV GmbH, Berlin

Corinna Schittenhelm (since January 01, 2016)
Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes & Infrastructure;
General Policy & Remuneration Policy; Administration & Payroll; Human Resources Automotive;
Human Resources Industrial; Human Resources Corporate Functions;
Human Resources Development; Environment, Occupational Health & Safety

Member of the Board of Managing Directors since January 01, 2016;
appointed until December 31, 2018

Seats on supervisory and similar boards:
Member of the supervisory board of OSRAM Opto Semiconductors GmbH (until December 31, 2015)

Dr. Stefan Spindler (since May 01, 2015)
CEO Industrial

Responsible for Strategic Planning Sectors & Customers; Global Sales Industrial;
Research & Development and Application Development; Operations and Supply Chain Management;
"CORE" Program

Member of the Board of Managing Directors since May 01, 2015; appointed until April 30, 2018

Seats on supervisory and similar boards:
Deputy Chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf- St. Veit, Austria
(since June 09, 2015)

The following members left the Board of Managing Directors in 2015:

Kurt Mirlach (until December 31, 2015)
Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes & Infrastructure;
General Policy & Remuneration Policy; Administration & Payroll; Human Resources Automotive;
Human Resources Industrial; Human Resources Corporate Functions;
Human Resources Development; Environment, Occupational Health & Safety

Member of the Board of Managing Directors from October 24, 2014 until December 31, 2015

Robert Schullan (until April 30, 2015)
CEO Industrial

Responsible for Business Development Industrial; Industrial Applications business division;
Industrial Aftermarket business division; Bearing Technologies;
Research & Development Industrial

Member of the Board of Managing Directors from October 24, 2014 until April 30, 2015

Seats on supervisory and similar boards:
Member of the supervisory board of HAWE Hydraulik SE, Munich (since January 01, 2015)

Consolidated financial statements

1. Consolidated income statement

No. 065

in € millions	Note	2015	2014	Change in %
Revenue	3.1	13,226	12,124	9.1
Cost of sales		-9,448	-8,708	8.5
Gross profit		**3,778**	**3,416**	**10.6**
Research and development expenses		-720	-622	15.8
Selling expenses		-920	-819	12.3
Administrative expenses		-407	-412	-1.2
Other income	3.2	57	49	16.3
Other expenses	3.3	-386	-89	> 100
Earnings before financial result and income taxes (EBIT)		**1,402**	**1,523**	**-7.9**
Financial income	3.5	327	256	27.7
Financial expenses	3.5	-874	-875	-0.1
Financial result	**3.5**	**-547**	**-619**	**-11.6**
Earnings before income taxes		**855**	**904**	**-5.4**
Income taxes	3.6	-250	-242	3.3
Net income		**605**	**662**	**-8.6**
Attributable to shareholders of the parent company		591	654	-9.6
Attributable to non-controlling interests		14	8	75.0
Earnings per common share (basic/diluted, in €)	3.7	0.88	1.29	-31.8
Earnings per common non-voting share (basic/diluted, in €)	3.7	1.28	1.29	-0.8

2. Consolidated statement of comprehensive income

No. 066

	2015			2014		
in € millions	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Net income	**855**	**-250**	**605**	**904**	**-242**	**662**
Foreign currency translation differences for foreign operations	103	0	103	229	0	229
Net change from hedges of net investments in foreign operations	-96	27	-69	-105	23	-82
Effective portion of changes in fair value of cash flow hedges [1)]	62	-16	46	-97	27	-70
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	**68**	**11**	**79**	**28**	**50**	**78**
Remeasurement of net defined benefit liability	87	-24	63	-444	128	-316
Total other comprehensive income (loss) that will not be reclassified to profit or loss	**87**	**-24**	**63**	**-444**	**128**	**-316**
Total other comprehensive income (loss)	**155**	**-13**	**142**	**-416**	**178**	**-238**
Total comprehensive income (loss) for the period	**1,010**	**-263**	**747**	**488**	**-64**	**424**
Total comprehensive income (loss) attributable to shareholders of the parent company	985	-256	729	469	-60	409
Total comprehensive income (loss) attributable to non-controlling interests	25	-7	18	19	-4	15

1) Including income of EUR 12 m (prior year: income of EUR 94 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. 067

in Mio. EUR	Note	12/31/2015	12/31/2014	Change in %
ASSETS				
Intangible assets	4.1	589	555	6.1
Property, plant and equipment	4.2	4,180	3,748	11.5
Other financial assets	4.6	2,123	1,978	7.3
Other assets	4.6	57	58	-1.7
Income tax receivables	4.3	4	8	-50.0
Deferred tax assets	4.3	485	455	6.6
Total non-current assets		**7,438**	**6,802**	**9.4**
Inventories	4.4	1,812	1,713	5.8
Trade receivables	4.5	2,023	1,900	6.5
Other financial assets	4.6	123	343	-64.1
Other assets	4.6	211	181	16.6
Income tax receivables	4.3	74	42	76.2
Cash and cash equivalents	4.7	799	636	25.6
Total current assets		**5,042**	**4,815**	**4.7**
Bilanzsumme		**12,480**	**11,617**	**7.4**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		666	600	11.0
Capital reserves		2,348	1,600	46.8
Other reserves		-935	-1,276	-26.7
Accumulated other comprehensive income (loss)		-599	-737	-18.7
Equity attributable to shareholders of the parent company		**1,480**	**187**	**> 100**
Non-controlling interests		88	71	23.9
Total shareholders' equity	**4.8**	**1,568**	**258**	**> 100**
Provisions for pensions and similar obligations	4.10	1,942	1,984	-2.1
Provisions	4.11	182	70	> 100
Financial debt	4.9	5,685	6,413	-11.4
Income tax payables	4.3	210	237	-11.4
Other financial liabilities	4.12	12	21	-42.9
Other liabilities	4.12	6	8	-25.0
Deferred tax liabilities	4.3	107	106	0.9
Total non-current liabilities		**8,144**	**8,839**	**-7.9**
Provisions	4.11	431	232	85.8
Financial debt	4.9	3	1	> 100
Trade payables	4.13	1,405	1,261	11.4
Income tax payables	4.3	112	155	-27.7
Other financial liabilities	4.12	512	558	-8.2
Other liabilities	4.12	305	313	-2.6
Total current liabilities		**2,768**	**2,520**	**9.8**
Total shareholders' equity and liabilities		**12,480**	**11,617**	**7.4**

4. Consolidated statement of cash flows

No. 068

in Mio. EUR	2015	2014	Change in %
Operating activities			
EBIT	1,402	1,523	-7.9
Interest paid	-508	-520	-2.3
Interest received	43	8	> 100
Income taxes paid	-358	-277	29.2
Dividends received	0	1	- 100
Depreciation, amortization and impairments	694	649	6.9
(Gains) losses on disposal of assets	-18	1	-
Changes in:			
• Inventories	-75	-108	-30.6
• Trade receivables	-79	-142	-44.4
• Trade payables	38	129	-70.5
• Provisions for pensions and similar obligations	-9	-27	-66.7
• Other assets, liabilities and provisions	242	-337	-
Cash flows from operating activities [1]	**1,372**	**900**	**52.4**
Investing activities			
Proceeds from disposals of property, plant and equipment	26	8	> 100
Capital expenditures on intangible assets	-48	-50	-4.0
Capital expenditures on property, plant and equipment	-977	-807	21.1
Other investing activities	-3	-3	0.0
Cash used in investing activities	**-1,002**	**-852**	**17.6**
Financing activities			
Dividends paid to shareholders and non-controlling interests	-251	-1	> 100
Proceeds from issuing shares [2]	810	0	
Receipts from loans	207	727	-71.5
Repayments of loans	-1,175	-429	> 100
Other financing activities	197	-26	-
Cash provided by (used in) financing activities	**-212**	**271**	**-**
Net increase (decrease) in cash and cash equivalents	**158**	**319**	**-50.5**
Effects of foreign exchange rate changes on cash and cash equivalents	5	17	-70.6
Cash and cash equivalents as at beginning of period	636	300	> 100
Cash and cash equivalents as at end of period	**799**	**636**	**25.6**

[1] Excluding interest payments, cash flows from operating activities for the period from 01/01 to 12/31/2015 amount to EUR 1,880 m (prior year: EUR 1,420 m).
[2] See Note 5.3 to the consolidated financial statements for further detail.

5. Consolidated statement of changes in equity

No. 069

in € millions	Share capital	Capital Reserves	Other Reserves	Accumulated other comprehensive income (loss)				Subtotal	Non-controlling interests	Total
				Translation reserve	Hedging reserve	Fair value reserve	Defined benefit plan remeasurement reserve			
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	0	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**
Balance as at January 01, 2015	**600**	**1,600**	**-1,276**	**-109**	**-75**	**1**	**-554**	**187**	**71**	**258**
Net income			591					591	14	605
Other comprehensive income (loss)				30	46	-1	63	138	4	142
Total comprehensive income (loss) for the period	**0**	**0**	**591**	**30**	**46**	**-1**	**63**	**729**	**18**	**747**
Transactions with shareholders										
Issuance of new shares	66	748						814		814
Capital contribution	0	0	0					0	0	0
Dividends			-250					-250	-1	-251
Total amount of transactions with shareholders	**66**	**748**	**-250**					**564**	**-1**	**563**
Balance as at December 31, 2015	**666**	**2,348**	**-935**	**-79**	**-29**	**0**	**-491**	**1,480**	**88**	**1,568**

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. 070

	Automotive		Industrial		Total	
	01/01-12/31		01/01-12/31		01/01-12/31	
in € millions	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	9,993	8,986	3,233	3,138	13,226	12,124
Cost of sales	-7,189	-6,501	-2,259	-2,207	-9,448	-8,708
Gross profit	2,804	2,485	974	931	3,778	3,416
EBIT	1,124	1,238	278	285	1,402	1,523
• in % of revenue	11.2	13.8	8.6	9.1	10.6	12.6
Depreciation, amortization and impairments	-507	-453	-187	-196	694	649
Inventories [1]	1,107	1,019	705	694	1,812	1,713
Trade receivables [1]	1,556	1,389	467	511	2,023	1,900
Property, plant and equipment [1]	3,164	2,749	1,016	999	4,180	3,748
Additions to intangible assets and property, plant and equipment	916	755	202	188	1,118	943

Prior year information presented based on 2015 segment structure.
[1] Amounts as at December 31.

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

Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed 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, 2015 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 global integrated automotive and industrial supplier.

1.2 Basis of preparation

In accordance with section 315a (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2015 have been prepared 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. 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 also prepared based on these standards.

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.

Since the beginning of 2015, expenses of the purchasing function and quality assurance expenses are reported as cost of sales in their entirety. Comparative figures for 2014 for cost of sales (increase of EUR -54 m), research and development expenses (decrease of EUR 4 m), selling expenses (decrease of EUR 8 m), and administrative expenses (decrease of EUR 42 m) were adjusted retrospectively. The Schaeffler Group considers the amended presentation to provide more accurate information.

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 significant issues are subject to estimation uncertainty with respect to the application of accounting policies and management judgment:

- 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,
- assessment of the recoverability of deferred tax assets, and
- share-based payment.

Except for the provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014 and the measurement of defined benefit pension obligations, changes in assumptions made in the past and the resolution of previously existing uncertainties related to the above items did not have a significant impact in 2015. 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).

1.3 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 interests' 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 eliminated in full 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, 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 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 the weighted average exchange rate for the period 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 is 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.

Earnings per share

Earnings per share are calculated by dividing net income attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

As required by IAS 33, newly issued shares were reflected in the calculation of the average number of shares outstanding on a pro rata temporis basis from the date they were entered in the Commercial Register. However, as these new shares are entitled to profits for the full year, consolidated net income attributable to the new shares was included in full. In addition, the average number of shares outstanding and, hence, earnings per share for all periods presented were adjusted retrospectively for the share split and the conversion of common shares to common non-voting shares.

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. 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 trends (currency, interest, and commodity price trends), external sales forecasts and internal assessments of demand and projects, sales prices, and the volume of additions to intangible assets and property, plant and equipment. Please refer to the report on expected developments in the management report for further detail. Past trends and historic experience are also used in developing the forecast. 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 at production cost. Intangible assets with a definite useful life are amortized on a straight-line basis over their expected useful lives of three years for software and six years for capitalized development costs. Other intangible assets are tested for impairment when there is an objective indication that the asset may be impaired.

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.

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.

The Schaeffler Group initially 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

A financial instrument is defined as 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 accounted for using settlement date accounting.

Primary financial instruments

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 into the following categories:

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, miscellaneous 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 receivables and miscellaneous 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 risk exposures inherent in its assets and liabilities and in future cash flows. In addition, certain of its non-derivative host instruments contain embedded derivatives (such as prepayment options).

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.

At fair value through profit or loss: Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss. Attributable transaction costs are expensed as incurred.

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.

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.

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 using the asset and liability method.

Except where 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 reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Potential risks arising from tax audits are covered by a provision.

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, net of the related plan assets measured at fair value where applicable. 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.

Provisions are 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.

Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using generally accepted financial valuation models. The fair value is recognized as personnel expense over the relevant vesting period and presented under the appropriate functional area.

1.4 New accounting pronouncements

In 2015, 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:

New accounting pronouncements – initially applied in 2015 No. 071

Standard	Effective date	Subject of Standard/Interpretation or amendment
Annual Improvements to IFRS 2011-2013	01/01/2015	Various improvements to IFRS 1, IFRS 3, IFRS 13, and IAS 40

The amendments contained in Annual Improvements 2011-2013 do not affect the Schaeffler Group's financial reports.

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 2015, and none were adopted early.

New accounting pronouncements – endorsed by the EU but not yet effective No. 072

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

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.

New accounting pronouncements – not yet endorsed by the EU No. 073

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	-	Clarification of accounting for gains and losses on transactions between an investor and its associate or joint venture	none
Amendments to IAS 7	Statement of Cash Flows	01/01/2017	Improved disclosures about an entity's debt	Scope of disclosures related to statement of cash flows
Amendments to IAS 12	Recognition of Deferred Tax Assets	01/01/2017	Clarification that decreases below cost in the carrying amount of debt instruments measured at fair value resulting from a change in market interest rates give rise to deductible temporary differences	none
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]
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Principles of recognition of revenue from contracts with customers	Revenue recognition [1]
IFRS 16	Leases	01/01/2019	Capitalization of all leasing arrangements with few exceptions	Under examination [1]

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

2. Principles of consolidation

2.1 Scope of consolidation

In 2015, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 153 (prior year: 155) subsidiaries; 51 (prior year: 53) entities are domiciled in Germany and 102 (prior year: 102) in other countries.

The scope of consolidation of Schaeffler AG did not change significantly compared to December 31, 2014 with respect to the consolidated financial statements of the Schaeffler Group.

In the consolidated financial statements as at December 31, 2015, five (prior year: five) investments (including two joint ventures; prior year: two) are accounted for at equity.

Please refer to Note 5.10 for further detail on the Schaeffler Group's companies.

3. Notes to the consolidated income statement

3.1 Revenue

Revenue No. 074

in € millions	2015	2014
Revenue from the sale of goods	13,044	11,962
Other revenue	182	162
Total	**13,226**	**12,124**

Other revenue primarily includes EUR 92 m (prior year: EUR 88 m) in revenue from services as well as EUR 86 m (prior year: EUR 72 m) from the sale of tools and machines constructed by the company.

3.2 Other income

Other income No. 075

in € millions	2015	2014
Gains on disposal of assets	23	1
Miscellaneous income	34	48
Total	**57**	**49**

3.3 Other expenses

Other expenses No. 076

in € millions	**2015**	**2014**
Exchange losses	40	0
Miscellaneous expenses	346	89
Total	**386**	**89**

Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2015, netting foreign exchange gains and losses resulted in a net exchange loss (prior year: gain).

The increase in **miscellaneous other expenses** compared to the prior year resulted primarily from a provision of EUR 238 m recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March of 2014 and expenses related to the realignment of the Industrial division (“CORE” program) of EUR 36 m.

3.4 Personnel expense and headcount

Average number of employees by region No. 077

	2015	2014
Europe	58,496	56,755
Americas	12,662	12,200
Greater China	10,037	9,121
Asia/Pacific	2,735	2,692
Total	**83,930**	**80,768**

The number of employees at December 31, 2015 was 84,198, 2.3 % higher than the prior year level of 82,294.

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

Personnel expense No. 078

in € millions	2015	2014
Wages and salaries	3,253	2,934
Social security contributions	621	564
Other personnel expense	116	81
Total	**3,990**	**3,579**

The increase in personnel expense in 2015 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

Schaeffler Group financial result No. 079

in € millions	2015 Financial expenses	2015 Financial income	2015 Financial result
Interest expense on financial debt	-513	0	-513
Interest income on shareholder loans	0	72	72
Foreign exchange gains and losses	-224	0	-224
Fair value changes and compensation payments on derivatives	6	228	234
Fair value changes on embedded derivatives	-96	17	-79
Interest income and expense on pensions and partial retirement obligations	-42	0	-42
Other	-5	10	5
Total	**-874**	**327**	**-547**

in € millions	2014 Financial expenses	2014 Financial income	2014 Financial result
Interest expense on financial debt	-488	0	-488
Interest income on shareholder loans	0	4	4
Foreign exchange gains and losses	-244	0	-244
Fair value changes and compensation payments on derivatives	-5	231	226
Fair value changes on embedded derivatives	-66	11	-55
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-21	10	-11
Total	**-875**	**256**	**-619**

Interest expense on financial debt of EUR 513 m for 2015 (prior year: EUR 488 m) includes interest of EUR 296 m (prior year: EUR 320 m) paid and accrued on the group's external financing arrangements, prepayment penalties of EUR 173 m (prior year: EUR 114 m) for the redemption of bonds, and EUR 44 m (prior year: EUR 44 m) in amortization of transaction costs, including those incurred in connection with past refinancing transactions.

Interest income on loans to shareholders amounted to EUR 72 m (prior year: EUR 4 m) and resulted from the loans granted in December 2014 and primarily receivable from Schaeffler Verwaltung Zwei GmbH in 2015.

Foreign exchange losses on financial assets and liabilities amounted to EUR 224 m (prior year: EUR 244 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 234 m (prior year: ERU 226 m) under **fair value changes and compensation payments on derivatives**.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 79 m (prior year: EUR 55 m).

Pensions and partial retirement obligations gave rise to net interest expense of EUR 42 m (prior year: EUR 51 m). See Note 4.10 to the consolidated financial statements for additional details on pensions.

3.6 Income taxes

Income taxes No. 080

in € millions	2015	2014
Current income taxes	287	332
Deferred income taxes	-37	-90
Income taxes	**250**	**242**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2015.

The average domestic tax rate was 28.4 % in 2015 (prior year: 28.3 %). 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 12.5 % (prior year: 12.4 %).

The current income tax benefit related to prior years amounted to EUR 24 m (prior year: EUR 32 m) in 2015. Schaeffler incurred EUR 17 m in deferred tax expense related to prior years (prior year: EUR 11 m) in 2015.

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 2015 is based on the Schaeffler Group's 28.4 % (prior year: 28.3 %) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation No. 081

in € millions	2015	2014
Net income before tax	855	904
Expected tax expense	**243**	**256**
Addition/reduction due to deviating local tax bases	7	8
Foreign/domestic tax rate differences	-14	-4
Change in tax rate and law	-1	0
Non-recognition of deferred tax assets	-1	-6
Tax credits and other tax benefits	-6	-12
Non-deductible expenses	26	29
Taxes for previous years	-7	-21
Other	3	-8
Reported tax expense	**250**	**242**

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

Non-deductible expenses include non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

3.7 Earnings per share

Earnings per share No. 082

in € millions	2015	2014
Net income	605	662
Net income attributable to shareholders of the parent company	591	654
Earnings attributable to common shares (basic/diluted)	442	545
Earnings attributable to common non-voting shares (basic/diluted)	149	109
Average number of common shares issued in millions	500	421
Average number of common non-voting shares issued in millions	116	84
Earnings per common share (basic/diluted, in €)	0.88	1.29
Earnings per common non-voting share (basic/diluted, in €)	1.28	1.29

There were no dilutive items at December 31, 2015 or in the prior year. Diluted earnings per share equal basic earnings per share.

Schaeffler AG's share capital amounted to EUR 666 m at December 31, 2015 (prior year: EUR 600 m) and was divided into 500 million common shares (prior year: 60 million) and 166 million common non-voting shares (prior year: 0 million). The change in the components of share capital is the result of the following resolutions amending the company's articles of incorporation passed by the extraordinary shareholder meeting of Schaeffler AG on September 08, 2015:

- Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). Thus, share capital was re-divided into 600 million registered no-par-value shares.
- The company's shares, which previously represented registered shares, were converted to bearer shares.
- The 10 million (100 million following the share split) common shares held by Schaeffler Verwaltungs GmbH were converted to common non-voting no-par-value bearer shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.
- Schaeffler AG increased its share capital by EUR 66 m from EUR 600 m to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares, each representing an interest in share capital of EUR 1.00, in return for cash. The common non-voting shares carry dividend rights from January 01, 2015. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.

The resolutions passed by the extraordinary shareholder meeting on September 08, 2015 became legally effective when they were entered into the Commercial Register on October 05, 2015.

The 66 million new common non-voting bearer shares were included in the calculation of earnings per share starting on the date they were entered in the Commercial Register. In addition, the average number of shares outstanding and, hence, earnings per share for all periods presented were adjusted retrospectively for the share split and the conversion of common shares to common non-voting shares in accordance with IAS 33. The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 421 million) and 116 million (prior year: 84 million), respectively.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets No. 083

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2014	**483**	**1,008**	**244**	**1,735**
Additions	0	19	31	50
Disposals	0	-3	0	-3
Transfers	0	0	0	0
Foreign currency translation	0	5	0	5
Balance as at December 31, 2014	**483**	**1,029**	**275**	**1,787**
Balance as at January 01, 2015	**483**	**1,029**	**275**	**1,787**
Additions	0	47	23	70
Disposals	0	-9	-12	-21
Transfers	0	2	6	8
Foreign currency translation	0	3	1	4
Balance as at December 31, 2015	**483**	**1,072**	**293**	**1,848**
Accumulated amortization and impairment losses				
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**
Balance as at January 01, 2015	**0**	**1,001**	**231**	**1,232**
Amortization	0	16	15	31
Disposals	0	-7	0	-7
Foreign currency translation	0	3	0	3
Balance as at December 31, 2015	**0**	**1,013**	**246**	**1,259**
Net carrying amounts				
As at January 01, 2014	**483**	**23**	**32**	**538**
As at December 31, 2014	**483**	**28**	**44**	**555**
As at January 01, 2015	**483**	**28**	**44**	**555**
As at December 31, 2015	**483**	**59**	**47**	**589**

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 1.3.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2018 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 13.3 % (prior year: 13.7 %) as the weighted average cost of capital for the Automotive segment and 13.5 % (prior year: 13.8 %) for the Industrial segment. This corresponds to a post-tax interest rate of 9.4 % for the Automotive segment (prior year: 9.7 %) and 9.4 % for the Industrial segment (prior year: 9.7 %).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2015 and the prior year, they were not impaired.

Internally generated intangible assets consist largely of development costs of EUR 37 m (prior year: EUR 29 m), including EUR 5 m (prior year: EUR 26 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 31 m (prior year: EUR 33 m) and was recognized in the following line items in the consolidated income statement: cost of sales EUR 5 m (prior year: EUR 9 m), research and development expenses EUR 4 m (prior year: EUR 5 m), selling expenses EUR 2 m (prior year: EUR 2 m), and administrative expenses EUR 20 m (prior year: EUR 17 m).

4.2 Property, plant and equipment

Property, plant and equipment No. 084

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2014	**2,209**	**6,650**	**891**	**389**	**10,139**
Additions	21	351	82	439	893
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**
Balance as at January 01, 2015	**2,336**	**7,254**	**970**	**543**	**11,103**
Additions	43	391	83	531	1,048
Disposals	-15	-185	-44	-2	-246
Transfers	56	322	32	-418	-8
Foreign currency translation	28	54	9	9	100
Balance as at December 31, 2015	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2014	**1,115**	**4,932**	**718**	**5**	**6,770**
Depreciation	75	469	70	0	614
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**
Balance as at January 01, 2015	**1,209**	**5,373**	**768**	**5**	**7,355**
Depreciation	79	510	74	0	663
Impairments	0	0	0	0	0
Disposals	-9	-178	-43	-1	-231
Transfers	0	0	0	0	0
Foreign currency translation	11	14	6	-1	30
Balance as at December 31, 2015	**1,290**	**5,719**	**805**	**3**	**7,817**
Net carrying amounts					
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**
As at January 01, 2015	**1,127**	**1,881**	**202**	**538**	**3,748**
As at December 31, 2015	**1,158**	**2,117**	**245**	**660**	**4,180**

At December 31, 2015, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 352 m (prior year: EUR 262 m).

4.3 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities No. 085

in € millions	12/31/2015 Deferred tax assets	12/31/2015 Deferred tax liabilities	12/31/2014 Deferred tax assets	12/31/2014 Deferred tax liabilities
Intangible assets	4	-22	3	-18
Property, plant and equipment	94	-156	88	-147
Financial assets	1	-15	1	-32
Inventories	98	-6	78	-5
Trade receivables and other assets	51	-146	42	-137
Provisions for pensions and similar obligations	328	-30	378	-60
Other provisions and other liabilities	219	-87	219	-108
Interest- and loss carryforwards	45	0	53	0
Other	0	0	1	-7
Deferred taxes (gross)	**840**	**-462**	**863**	**-514**
Netting	-355	355	-408	408
Deferred taxes, net	**485**	**-107**	**455**	**-106**

The group had gross carryforwards under the interest deduction cap of EUR 103 m (prior year: EUR 135 m) at the end of the reporting period. The decrease in interest carryforwards was primarily the result of an adjustment related to prior years.

The company has recognized deferred tax assets on all interest carryforwards.

At December 31, 2015, the Schaeffler Group had gross loss carryforwards of EUR 115 m (prior year: EUR 120 m) for corporation tax and EUR 6 m (prior year: EUR 38 m) for trade tax, including EUR 66 m (prior year: EUR 79 m) in corporation tax losses and EUR 6 m (prior year: EUR 12 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 tax assets were recognized on EUR 8 m (prior year: EUR 6 m) in temporary differences, as it is not considered probable that they will be utilized in the future.

No deferred taxes have been recognized on EUR 1,717 m (prior year: EUR 1,348 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 18 m (prior year: EUR 29 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2015, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 259 m (prior year: EUR 272 m) and mainly related to hedges of net investments in foreign operations, changes in the fair value of derivatives designated as hedging instruments, as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

At December 31, 2015, income tax receivables amounted to EUR 78 m (prior year: EUR 50 m), including non-current balances of EUR 4 m (prior year: EUR 8 m).

At December 31, 2015, income tax payables amounted to EUR 322 m (prior year: EUR 392 m), including non-current balances of EUR 210 m (prior year: EUR 237 m). The decrease in income tax payables was primarily the result of additional income tax installments Schaeffler paid on a voluntary basis for prior assessment periods.

4.4 Inventories

Inventories No. 086

in € millions	12/31/2015	12/31/2014
Raw materials and supplies	343	317
Work in progress	452	431
Finished goods and merchandise	1,015	960
Advance payments	2	5
Total	1,812	1,713

EUR 9,319 m (prior year: EUR 8,523 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2015.

Write-downs of inventories recognized in 2015 amounted to EUR 234 m (prior year: EUR 209 m).

4.5 Trade receivables

Trade receivables No. 087

in € millions	12/31/2015	12/31/2014
Trade receivables (gross)	**2,051**	**1,924**
Impairment allowances	-28	-24
Trade receivables (net)	**2,023**	**1,900**

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

Impairment allowances on trade receivables No. 088

in € millions	2015	2014
Impairment allowances as at January 01	**-24**	**-23**
Additions	-9	-6
Allowances used to cover write-offs	2	0
Reversals	3	5
Impairment allowances as at December 31	**-28**	**-24**

Trade receivables past due were as follows:

Trade receivables past due No. 089

in € millions		12/31/2015	12/31/2014
Carrying amount		**2,023**	**1,900**
Not past due		**1,884**	**1,767**
	up to 60 days	117	122
	61 - 120 days	12	7
Past due	121 - 180 days	3	1
	181 - 360 days	5	2
	> 360 days	2	1

At December 31, 2015, trade receivables of EUR 999 m (prior year: EUR 940 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

Other financial assets (current/non-current) No. 090

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial assets						
Loans receivable and financial receivables	1,775	0	1,775	1,701	271	1,972
Derivative financial assets	309	53	362	244	25	269
Miscellaneous financial assets	39	70	109	33	47	80
Total	**2,123**	**123**	**2,246**	**1,978**	**343**	**2,321**

Non-current **loans receivable and financial receivables** consisted primarily of EUR 1,773 m in loans receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH. In the prior year, these loans totaled EUR 1,700 m and were receivable from Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG. The loans resulted from the capital increase by way of a contribution in kind completed as part of the realignment of the Schaeffler Group's group structure in 2014. Both loans mature in December 2024 and bore interest at 4.0 % p.a. in 2015.

In 2015, EUR 197 m of the loans was prepaid voluntarily and a current receivable related to the cash pool function was converted to a long-term loan to Schaeffler Verwaltung Zwei GmbH of EUR 270 m, giving rise to the change in 2015.

It was agreed that shares in Continental AG with a market value (reference XETRA, August 31, 2015) equal to twice the loan principal would be pledged as collateral for the loan within 30 working days after closing of the loan agreement. The Continental AG shares serving as collateral were held by Schaeffler Verwaltung Zwei GmbH at December 31, 2015.

Please refer to Note 5.5 for further detail.

At December 31, 2015, 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 other financial assets** consisted largely of accrued interest.

At December 31, 2015, other financial assets of EUR 2,081 m were pledged as collateral under loan- and bond agreements (prior year: EUR 2,099 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.

Other assets (current/non-current) No. 091

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other assets						
Pension asset	34	0	34	36	0	36
Tax receivables	1	175	176	1	145	146
Miscellaneous assets	22	36	58	21	36	57
Total	**57**	**211**	**268**	**58**	**181**	**239**

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

The majority of **miscellaneous other assets** represented the current and non-current portions of prepaid assets and deferred charges.

At December 31, 2015, other assets of EUR 1 m were pledged as collateral under loan and bond agreements (prior year: EUR 3 m).

4.7 Cash and cash equivalents

At December 31, 2015, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 198 m (prior year: EUR 172 m) held by subsidiaries in Argentina, Brazil, Chile, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Taiwan, Thailand, Venezuela, and Vietnam and other countries. These subsidiaries are subject to exchange restrictions 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 449 m (prior year: EUR 296 m) were pledged as collateral under loan- and bond agreements.

4.8 Shareholders' equity

Shareholders' equity No. 092

in € millions	12/31/2015	12/31/2014
Share capital	666	600
Capital reserves	2,348	1,600
Other reserves	-935	-1,276
Accumulated other comprehensive income (loss)	-599	-737
Equity attributable to shareholders of the parent company	**1,480**	**187**
Non-controlling interests	88	71
Total shareholders' equity	**1,568**	**258**

The extraordinary shareholder meeting of Schaeffler AG on September 08, 2015 passed resolutions to amend the company's articles of incorporation as follows:

- Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). Thus, share capital was re-divided into 600 million registered no-par-value shares.
- The company's shares, which previously represented registered shares, were converted to bearer shares.
- The 10 million (100 million following the share split) common shares held by Schaeffler Verwaltungs GmbH were converted to common non-voting no-par-value bearer shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.
- Schaeffler AG increased its share capital by EUR 66 m from EUR 600 m to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares, each representing an interest in share capital of EUR 1.00, in return for cash. The common non-voting shares carry dividend rights from January 01, 2015. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share. The subscription rights of Schaeffler Verwaltungs GmbH and Schaeffler Verwaltung Zwei GmbH were excluded.

The resolutions became legally effective when they were entered into the Commercial Register on October 05, 2015.

As a result, Schaeffler AG's **share capital** amounted to EUR 666 m at December 31, 2015 and was divided into 500 million common shares and 166 million common non-voting shares. The common shares are held by Schaeffler Verwaltung Zwei GmbH. 94,350,774 of the common non-voting shares are held by Schaeffler Verwaltungs GmbH and 71,649,226 are widely held. 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, 2015.

At December 31, 2015, **capital reserves** amounted to EUR 2,348 m. The increase of EUR 748 m was the result of the capital increase in October 2015, which resulted in additional paid-in capital of EUR 759 m pre-tax, partially offset by EUR 11 m in transaction costs charged to shareholders equity (net of tax of EUR 4 m).

The change in **other reserves** in 2015 was attributable to consolidated net income and the dividends.

Distributions to shareholders are limited to Schaeffler AG's retained earnings, as determined in accordance with German commercial law. For 2015, a dividend of EUR 228 m and a special dividend of EUR 100 m will be proposed to the Schaeffler AG annual general meeting. EUR 83 m of the total dividend relate to the common non-voting shares. This represents a total dividend of EUR 0.50 per common non-voting share and EUR 0.49 per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

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, 2015, **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.

4.9 Current/Non-current financial debt

Financial debt (current/non-current) No. 093

	12/31/2015			12/31/2014		
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	635	3	632	1,775	1	1,774
Bonds	5,048	0	5,048	4,634	0	4,634
Other financial debt	5	0	5	5	0	5
Financial debt	**5,688**	**3**	**5,685**	**6,414**	**1**	**6,413**

The decrease in financial debt compared to December 31, 2014 resulted primarily from voluntary partial repayments, partially offset by the impact of translating the financial debt denominated in U.S. Dollar to Euro.

In April 2015, Schaeffler Finance B.V. placed three new bond issues with a total principal of approximately EUR 1.5 bn that are listed on the Euro MTF market of the Luxembourg Stock Exchange. The proceeds of the new bond issues were largely used to redeem the two EUR 2017 and USD 2017 series of bonds. In addition, the proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty for the bonds redeemed.

On June 30, 2015, Schaeffler AG voluntarily partially prepaid a total of approximately EUR 210 m of its institutional loan tranches, paying off EUR 75 m of its Senior Term Loan B EUR and USD 150 m of its Senior Term Loan B USD.

Following the listing, Schaeffler AG used the proceeds of the listing to voluntarily partially prepay a further approximately EUR 821 m of its institutional loan tranches on October 16, 2015, paying off EUR 330 m of its Senior Term Loan B EUR and USD 560 m of its Senior Term Loan B USD.

On November 30, 2015, Schaeffler AG voluntarily partially prepaid a total of approximately EUR 236 m of its institutional loan tranches, paying off EUR 95 m of its Senior Term Loan B EUR and USD 150 m of its Senior Term Loan B USD.

At December 31, 2015, the group’s debt consisted of two loan tranches with a total principal equivalent to approximately EUR 654 m obtained from institutional investors (Facilities Agreement), nine bond series totaling the equivalent of approximately EUR 5,075 m and a revolving line of credit with a principal of EUR 1,000 m.

The Facilities Agreement consists of the following loan tranches at December 31, 2015:

Facility agreement loan tranches No. 094

Tranche	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Coupon 12/31/2015	Coupon 12/31/2014	Maturity
Senior Term Loan B	EUR	250	750	251	757	Euribor + 3.50 % [1]	Euribor + 3.50 % [1]	05/15/2020
Senior Term Loan B	USD	440	1,300	392	1,031	Libor + 3.50 % [2]	Libor + 3.50 % [2]	05/15/2020
Revolving Credit Facility [3]	EUR	1,000	1,000	-11	-14	Euribor + 2.6875 % [4]	Euribor + 2.875 %	10/27/2019
Total				**632**	**1,774**			

[1] Euribor floor of 0.75 %.
[2] Libor floor of 0.75 %.
[3] EUR 24 m (December 31, 2014: EUR 34 m) were drawn down as at December 31, 2015, primarily in the form of letters of credit.
[4] Since October 16, 2015.

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

Schaeffler Group bonds No. 095

ISIN	Currency	Face value in millions 12/31/2015	Face value in millions 12/31/2014	Carrying amount in € millions 12/31/2015	Carrying amount in € millions 12/31/2014	Cupon	Maturity
XS0923613060	EUR	600	600	597	596	4.25 %	05/15/2018
XS1067864881 [1]	EUR	500	500	497	496	3.25 %	05/15/2019
XS1067862919	EUR	500	500	497	496	2.75 %	05/15/2019
XS1212469966	EUR	400	0	396	0	2.50 %	05/15/2020
US806261AJ29	USD	700	700	637	571	4.25 %	05/15/2021
US806261AE32	USD	850	850	777	696	4.75 %	05/15/2021
XS1067864022	EUR	500	500	499	499	3.50 %	05/15/2022
US806261AM57	USD	600	0	553	0	4.75 %	05/15/2023
XS1212470972	EUR	600	0	595	0	3.25 %	05/15/2025
XS0741938624 [2]	EUR	0	800	0	791	7.75 %	02/15/2017
US806261AC75 [2]	USD	0	600	0	489	7.75 %	02/15/2017
Total				**5,048**	**4,634**		

[1] Bond is unsecured.
[2] Bonds were redeemed early on April 27, 2015.

The differences between face value and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying value of the revolving credit facility consisted entirely of unamortized transaction costs.

An additional EUR 39 m (prior year: EUR 55 m) in interest accrued on the bonds up to December 31, 2015 are 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 a senior debt leverage cover and a 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 are 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. The 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 why 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 obligations attributable to Germany.

Germany

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

For the significant pension plans, pension benefits in the form of pension units largely result from Schaeffler's Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension unit on eligible income and also contain a minimum guarantee. When the Schaeffler Company Pension Scheme was introduced in 2006, the other pension schemes in Germany were closed to new entrants. Benefits are always paid on an annuity basis. The pension obligations arising from these pension commitments are financed by provisions. Pension benefits are paid out of cash flows from operating activities.

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 2015, approximately 73 % (prior year: 72 %) of pension obligations in the U.S. and approximately 113 % (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, 2015:

Amounts recognized in the statement of financial position for pensions and similar obligations No. 096

	12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-1,778	-59	-1	-104	-1,942
Pension asset (plan assets net of related liabilities)	7	0	26	1	34
Net defined benefit liability	**-1,771**	**-59**	**25**	**-103**	**-1,908**

	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**

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

Analysis of net defined benefit liability

No. 097

	12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligation (active members)	-1,005	-84	0	-218	-1,307
Present value of defined benefit obligation (deferred members)	-108	-27	-134	-4	-273
Present value of defined benefit obligation (pensioners)	-806	-112	-70	-26	-1,014
Present value of defined benefit obligations (total)	**-1,919**	**-223**	**-204**	**-248**	**-2,594**
Fair value of plan assets	148	164	229	145	686
Net defined benefit liability	**-1,771**	**-59**	**25**	**-103**	**-1,908**

	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**

Movements in the net defined pension benefit liability in 2015 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 No. 098

	2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/asset (+) as at January 01	**-1,793**	**-63**	**3**	**-95**	**-1,948**
Benefits paid	59	0	0	6	65
Service cost	-56	-1	0	-20	-77
Net interest on net defined benefit liability	-38	-2	1	-2	-41
Employer contributions	-4	9	0	10	15
Transfers in/out	-17	-1	17	0	-1
Remeasurement of net defined benefit liability	76	5	5	1	87
Changes in foreign exchange rates	2	-6	-1	-3	-8
Net defined benefit liability (-)/asset (+) as at December 31	**-1,771**	**-59**	**25**	**-103**	**-1,908**

	2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
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**

The increase in service cost to EUR 77 m (prior year: EUR 47 m) in 2015 was mainly driven by the significant decrease in the discount rate for Germany as at December 31, 2014 to 2.1 % from 3.5 % as at the end of 2013. The reason is as follows: The decrease in the discount rate increases the settlement amount of the defined benefit plans, resulting in higher service cost than in the prior year.

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:

Reconciliation of present value of defined benefit obligation January 01/December 31 No. 099

					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations as at January 01	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Benefits paid	63	10	18	16	107
Current service cost	-56	-2	0	-17	-75
Past service cost	0	0	0	-5	-5
Interest cost	-41	-9	-8	-8	-66
Employee contributions	-10	-1	0	-1	-12
Transfers in/out	28	0	-28	0	0
Settlements paid	0	9	0	55	64
Gains (+) / losses (-) on settlements	0	1	0	2	3
Gains (+) / losses (-) - changes in financial assumptions	72	8	7	5	92
Gains (+) / losses (-) - changes in demographic assumptions	0	4	7	0	11
Gains (+) / losses (-) - experience adjustments	-1	4	-1	-5	-3
Changes in foreign exchange rates	-2	-25	-11	-4	-42
Present value of defined benefit obligations as at December 31	**-1,919**	**-223**	**-204**	**-248**	**-2,594**

					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**

Settlements paid in 2015 relate primarily to changes made to the legal structure of the pension plans in the Netherlands. As a result of these changes, these pension plans will be accounted for as defined contribution plans in the future. As the benefit obligation was largely funded at the time of the change, there was no material settlement gain or loss.

Movements in and types of plan assets

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

Reconciliation of fair value of plan assets January 01/December 31 No. 100

	2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**179**	**159**	**191**	**191**	**720**
Benefits paid	-4	-10	-18	-10	-42
Interest income on plan assets	3	7	9	6	25
Employee contributions	10	1	0	1	12
Employer contributions	-4	9	0	10	15
Transfers in/out	-45	-1	45	0	-1
Settlements paid	0	-9	0	-55	-64
Return on plan assets excluding interest income	5	-11	-8	1	-13
Changes in foreign exchange rates	4	19	10	1	34
Fair value of plan assets as at December 31	**148**	**164**	**229**	**145**	**686**

	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**

The Schaeffler Group expects to make contributions to plan assets of EUR 25 m in 2016, including EUR 1 m in the U.S. and EUR 24 m in other countries.

Negative employer contributions represent refunds of additional contributions made in the past to cover temporary shortfalls.

Plan assets consisted of the following:

Classes of plan assets

No. 101

	12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Equity instruments	79	66	62	18	225
Debt instruments	24	97	49	106	276
Real estate	0	0	26	14	40
Cash	20	1	2	1	24
(Reimbursement) insurance policies	25	0	0	6	31
Mixed funds	0	0	90	0	90
Total	**148**	**164**	**229**	**145**	**686**

	12/31/2014				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
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**

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 for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, 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:

Comprehensive income related to defined benefit pension plans

No. 102

	2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	56	2	0	17	75
Past service cost	0	0	0	5	5
• plan amendments	0	0	0	5	5
Gains (-)/losses (+) on settlements	0	-1	0	-2	-3
Service cost	**56**	**1**	**0**	**20**	**77**
Interest cost	41	9	8	8	66
Interest income	-3	-7	-9	-6	-25
Net interest on net defined benefit liability/asset	**38**	**2**	**-1**	**2**	**41**
Gains (-)/losses (+) - changes in financial assumptions	-72	-8	-7	-5	-92
Gains (-)/losses (+) - changes in demographic assumptions	0	-4	-7	0	-11
Gains (-)/losses (+) - experience adjustments	1	-4	1	5	3
Return on plan assets excluding interest income	-5	11	8	-1	13
Remeasurements of net defined benefit liability/asset	**-76**	**-5**	**-5**	**-1**	**-87**
Total comprehensive income on defined benefit obligations	**18**	**-2**	**-6**	**21**	**31**

	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**

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

Net pension expense in the income statement No. 103

2015					
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	31	-1	0	16	46
Research and development expenses	10	0	0	1	11
Selling expenses	4	0	0	2	6
Administrative expenses	11	2	0	1	14
Included in EBIT	**56**	**1**	**0**	**20**	**77**
Interest expense	41	9	8	8	66
Interest income on plan assets	-3	-7	-9	-6	-25
Included in financial result	**38**	**2**	**-1**	**2**	**41**
Total	**94**	**3**	**-1**	**22**	**118**

2014					
in € millions	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**

Duration

The weighted average duration of defined benefit obligations is 18.1 years (prior year: 18.7 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 18.6 years (prior year: 19.2 years), 12.1 years (prior year: 13.1 years), and 24.9 years (prior year: 25.5 years), respectively.

Actuarial assumptions

At each reporting date, defined benefit obligations are measured based on certain actuarial assumptions.

The assumptions used, in particular discount rates, future salary increases, and future pension increases, are determined separately for each country.

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

Actuarial assumptions No. 104

	2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	2.3 %	4.2 %	4.1 %	2.6 %	2.6 %
Future salary increases	3.3 %	n.a. [1]	n.a. [1]	3,2 %	3.3 %
Future pension increases	1.8 %	2.5 %	3.2 %	0.3 %	1.9 %

	2014				
in € millions	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 %

[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 specifically include appropriate assumptions to take into account future increases in life expectancy.

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.

Sensitivity analysis of present value of defined benefit obligation No. 105

2015						
in € millions		Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0 %	-296	-25	-42	-29	-392
	Minus 1.0 %	408	30	58	35	531
Future salary increases	Plus 1.0 %	41	n.a. [1]	n.a. [1]	19	60
	Minus 1.0 %	-36	n.a. [1]	n.a. [1]	-17	-53
Future pension increases	Plus 1.0 %	199	0	25	5	229
	Minus 1.0 %	-166	0	-21	-2	-189

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

[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 90 m (prior year: EUR 94 m) in Germany, EUR 6 m (prior year: EUR 7 m) in the U.S., and EUR 7 m (prior year: EUR 7 m) in the United Kingdom.

As in the prior year, the above sensitivities were calculated using the same method as for the present value of the pension obligations as at the balance sheet date. The sensitivities presented above do not take into account interaction between assumptions; rather, the analysis assumes that each assumption changes separately. In practice, this would be unusual, as assumptions are frequently correlated.

Risk and risk management

The existing defined benefit plans expose the Schaeffler Group to the usual actuarial risks.

The existing plan assets are managed independently on a decentralized basis in the various countries.

Defined contribution pension plans

In 2015, Schaeffler incurred EUR 18 m (prior year: EUR 10 m) in expenses related to defined contribution plans. At EUR 12 m (prior year: EUR 6 m), the majority of this amount relates to plans in the U.S.

4.11 Provisions

Provisions No. 106

in € millions	Employee benefits	Restruc-turing	War-ranties	Other taxes	Other	Total
Balance as at January 01, 2015	**96**	**0**	**64**	**30**	**112**	**302**
Additions	37	42	52	5	299	435
Utilization	-30	0	-28	-11	-39	-108
Reversals	0	0	-7	-2	-10	-19
Interest expense	0	0	0	0	0	0
Foreign currency translation	0	0	2	0	1	3
Balance as at December 31, 2015	**103**	**42**	**83**	**22**	**363**	**613**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (current/non-current) No. 107

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	43	60	103	55	41	96
Restructuring	28	14	42	0	0	0
Warranties	0	83	83	0	64	64
Other taxes	0	22	22	0	30	30
Other	111	252	363	15	97	112
Total	**182**	**431**	**613**	**70**	**232**	**302**

Provisions for employee benefits consisted primarily of EUR 54 m (prior year: EUR 50 m) in provisions for long-time service awards and partial retirement programs and EUR 23 m (prior year: EUR 25 m) in provisions for personnel-related structural measures at the Schweinfurt and Wuppertal locations.

Restructuring provisions primarily included provisions of EUR 36 m related to the realignment of the Industrial division ("CORE" program). Estimating future restructuring costs is subject to significant uncertainty, particularly because it requires making assumptions about future costs on the basis of historical experience and the expected duration of restructuring measures.

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

The increase in **other provisions** is primarily attributable to a provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. Non-current provisions include EUR 95 m of this provision and EUR 143 m is included in current provisions. Estimating future costs of litigation and other judicial proceedings as a rule raises complex issues and is subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each suit is brought, and differences in applicable law. The outcomes of currently pending and future proceedings cannot be predicted. As a result of a judgment in court proceedings or the conclusion of a settlement, the Schaeffler Group may incur charges which exceed presently recognized provisions.

4.12 Other financial liabilities and other liabilities

Other financial liabilities (current/non-current) No. 108

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other financial liabilities						
Amounts payable to staff	0	227	227	0	240	240
Derivative financial liabilities	3	46	49	10	77	87
Miscellaneous financial liabilities	9	239	248	11	241	252
Total	**12**	**512**	**524**	**21**	**558**	**579**

Amounts payable to staff primarily included profit sharing accruals.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The decrease was primarily caused by the increase in the fair value of the forward exchange contracts and the cross-currency swaps, which were included in this balance in the prior year but had a positive fair value at the reporting date.

Miscellaneous other 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.

Other liabilities (current/non-current) No. 109

	12/31/2015			12/31/2014		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Other liabilities						
Social security contributions payable	2	38	40	3	40	43
Advance payments received	0	29	29	0	31	31
Other tax payables	0	102	102	0	84	84
Miscellaneous liabilities	4	136	140	5	158	163
Total	**6**	**305**	**311**	**8**	**313**	**321**

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

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

Miscellaneous other 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. Investments in associated companies are also shown, although they do not fall under any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

Financial instruments by class and category in accordance with IFRS 7.8 No. 110

		12/31/2015		12/31/2014	
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	2,023	2,023	1,900	1,900
Other financial assets					
• Investments in associates [1]	n.a.	3	-	4	-
• Other investments [2]	AfS	17	-	14	-
• Marketable securities	AfS	14	14	12	12
• Derivatives designated as hedging instruments	n.a.	127	127	24	24
• Derivatives not designated as hedging instruments	HfT	235	235	245	245
• Miscellaneous financial assets	LaR	1,850	1,856	2,022	2,036
Cash and cash equivalents	LaR	799	799	636	636
Financial liabilities, by class					
Financial debt	FLAC	5,688	5,793	6,414	6,846
Trade payables	FLAC	1,405	1,405	1,261	1,261
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	16	16	64	64
• Derivatives not designated as hedging instruments	HfT	33	33	23	23
• Miscellaneous financial liabilities	FLAC	475	475	492	492
Summary by category					
Available-for-sale financial assets (AfS)		31	-	26	-
Financial assets held for trading (HfT)		235	-	245	-
Loans and receivables (LaR)		4,672	-	4,558	-
Financial liabilities at amortized cost (FLAC)		7,568	-	8,167	-
Financial liabilities held for trading (HfT)		33	-	23	-

[1] At equity-accounted investees.
[2] Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous other financial assets and cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments. However, this does not apply to loans receivable of EUR 1,773 m (prior year: EUR 1,700 m) included in miscellaneous other financial assets, which mature in December 2024.

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 2015, and no (partial) disposals are planned in 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.

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.

The fair values of 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 were determined using the following valuation methods and inputs:

- Level 1: The fair value of marketable securities is determined using the exchange-quoted price at the end of the reporting period. The fair value of bonds payable included in financial debt is determined using the exchange-quoted price.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities and credit default swap rates (CDS rates).
  The fair value of miscellaneous other financial assets and of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: 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.

Financial assets and liabilities by fair value hierarchy level No. 111

in € millions	Level 1	Level 2	Total
December 31, 2015			
Marketable securities	14	-	14
Derivatives designated as hedging instruments	-	127	127
Derivatives not designated as hedging instruments	-	235	235
Other financial assets	-	1,779	1,779
Total financial assets	**14**	**2,141**	**2,155**
Financial debt	5,069	724	5,793
Derivatives designated as hedging instruments	0	16	16
Derivatives not designated as hedging instruments	0	33	33
Total financial liabilities	**5,069**	**773**	**5,842**
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	0	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**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. The company transferred certain financial instruments between levels during the period. The publicly listed bonds previously shown in Level 2 were included in Level 1 as at December 31, 2015. Their fair value was previously determined using the exchange-quoted price of the bonds adjusted for the embedded derivatives. Effective December 31, 2015, fair value is based on the exchange-quoted price without adjustment, since the price of the bonds quoted in an active market is considered more reliable evidence of fair value.

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 No. 112

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation	2015	2014
Available-for-sale financial assets	-	2	-	-	2	1
Financial assets and liabilities held for trading	97	-13	-	-	84	172
Loans and receivables	81	-	-3	38	116	34
Financial liabilities at amortized cost	-517	-	-	-238	-755	-749
Total	**-339**	**-11**	**-3**	**-200**	**-553**	**-542**

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 84 m (prior year: EUR 172 m) relates entirely to derivatives. EUR 168 m (prior year: EUR 190 m) of this net gain is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 79 m (prior year: EUR 55 m).

The impairment loss on financial assets classified as loans and receivables consisted of an impairment reversal of EUR 3 m (prior year: EUR 5 m) and an impairment loss of EUR 6 m (prior year: EUR 6 m) and related entirely to the trade receivables class in 2015.

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

Schaeffler's Board of Managing Directors has the 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 Schaeffler Group's Chief Financial Officer on its activities in this area.

Group-wide risk management policies are in place to identify and analyze Schaeffler's risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group'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 of up to 12 months. Both liquidity status and liquidity forecast are reported regularly to the Chief Financial Officer.

The Schaeffler Group uses equity, cash pooling arrangements, intercompany loans and existing lines of credit based on the relevant legal and tax regulations to ensure it can meet the financing requirements of its operations and financial obligations. To this end, the Schaeffler Group has access to a revolving credit facility of EUR 1 bn bearing interest at Euribor plus 2.6875 % as well as other bilateral lines of credit.

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

Cash flows related to non-derivative and derivative financial liabilities No. 113

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2015					
Non-derivative financial liabilities	**7,568**	**8,895**	**2,117**	**3,480**	**3,298**
• Financial debt	5,688	7,014	236	3,480	3,298
• Trade payables	1,405	1,405	1,405	0	0
• Other non-derivative financial liabilities	475	476	476	0	0
Derivative financial liabilities	**49**	**49**	**46**	**3**	**0**
Total	**7,617**	**8,944**	**2,163**	**3,483**	**3,298**
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**

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 other financial assets.

Counterparty risk arising on trade receivables is managed by constantly monitoring 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 fail to meet their payment obligations in full. To mitigate this risk, such contracts are only entered into with selected banks.

The counterparty risk inherent in Schaeffler's long-term loans receivable from related companies of EUR 1.773 m (prior year: EUR 1,700 m) is limited as Schaeffler Verwaltung Zwei GmbH has pledged shares in Continental AG with a market value (reference XETRA, December 12, 2014 and August 31, 2015) 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 other financial assets, will be unable to meet their future contractual obligation.

Trade receivables in the Automotive division are subject to a concentration of risk on several OEMs (see Note 5.4). Receivables from ten OEMs make up 42.0 % of trade receivables.

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:

Variable and fixed interest financial debt No. 114

in € millions	12/31/2015	12/31/2014
Variable interest instruments	**635**	**1,775**
• Financial debt	635	1,775
Fixed interest instruments	**5,053**	**4,639**
• Financial debt	5,053	4,639

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 in the form of 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, 2015 would affect (increase/decrease) net income and shareholder's equity as follows:

Sensitivity analysis: Shift in yield curve No. 115

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2015				
Variable interest instruments	-3	0	0	0
Interest rate derivatives designated as hedging instruments	0	0	-4	4
Interest rate derivatives not designated as hedging instruments	-10	51	0	0
Total	**-13**	**51**	**-4**	**4**
As at December 31, 2014				
Variable interest instruments	-7	0	0	0
Interest rate derivatives designated as hedging instruments	0	0	2	-2
Interest rate derivatives not designated as hedging instruments	-3	2	0	0
Total	**-10**	**2**	**2**	**-2**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

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 involves the flow of goods and cash in a wide range of currencies. This gives rise to 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:

Currency risk from operations No. 116

in € millions	USD	CNY	RON	HUF
December 31, 2015				
Estimated currency risk from operations	740	491	-211	-123
Forward exchange contracts	-622	-336	156	92
Remaining currency risk from operations	**118**	**155**	**-55**	**-31**
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**

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 hedged items, both recognized and 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 36 m (prior year: EUR -321 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, 2015, 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 measuring instruments at fair value:

Sensitivity analysis: Changes in foreign exchange rates – operations No. 117

	12/31/2015		12/31/2014	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	16	-67	15	-45
CNY	14	-25	10	0
HUF	1	9	1	5
RON	1	13	-2	9

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31, 2015 would have had the same but opposite effect, again holding all other variables constant.

Currency risk from financing
Loans and deposits between Schaeffler Group companies denominated in a currency other than the functional currency of the entities are fully hedged on a net basis using forward exchange contracts.

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 1,800 m (prior year: USD 2,510 m). Changes in the fair value of those cross-currency swaps not subject to hedge accounting (notional amount of USD 800 m; prior year: USD 1,510 m) were recognized directly in profit or loss in 2015. The Schaeffler Group also uses additional 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, 2015. 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.

Sensitivity analysis: Changes in foreign exchange rates – financing activities No. 118

	12/31/2015		12/31/2014	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-165	-72	-207	-77
Foreign exchange gains and losses on derivatives	170	16	211	14
Total	**5**	**-56**	**4**	**-63**

Foreign exchange gains and losses on financial debt affecting shareholders' equity relate to a hedge of a net investment in a foreign operation.

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 the Schaeffler Group's risk management system. Nominal values and fair values of derivative financial instruments as at the reporting date were as follows:

Summary of derivative financial instruments No. 119

	12/31/2015		12/31/2014	
in € millions	Nominal value	Fair value	Nominal value	Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	2,050	53	975	27
thereof: hedge accounting	599	18	159	9
Cross currency swaps	1,653	214	1,376	79
thereof: hedge accounting	919	108	305	15
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,187	49	1,238	77
thereof: hedge accounting	797	16	566	55
Cross currency swaps	0	0	537	10
thereof: hedge accounting	0	0	461	10

The Schaeffler Group applies hedge accounting to certain hedging relationships using the cash flow and net investment hedge accounting models. The Group does not apply 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 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:

Reconciliation of hedging reserve related to currency risk – operations No. 120

in € millions	2015	2014
Balance as at January 01	**-45**	**37**
Additions	3	-45
Reclassified to income statement		
to financial income	0	-37
to financial expense	45	0
Balance as at December 31	**3**	**-45**

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 1,000 m). As a result, accumulated gains of EUR 14 m (prior year: losses of EUR 9 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, 2015. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2016 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:

Reconciliation of hedging reserve related to currency risk – financing activities No. 121

in € millions	2015	2014
Balance as at January 01	**-56**	**-47**
Additions	75	81
Reclassified to income statement		
to financial income	-61	-90
to financial expense	0	0
Balance as at December 31	**-42**	**-56**

Net investment hedge

The Schaeffler Group hedges the currency risk of part of its net investments in its U.S. subsidiaries using a portion of its financial debt denominated in U.S. Dollars (principal of USD 790 m; prior year: USD 940 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 95 m (prior year: EUR 105 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income in 2015. 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:

Offsetting financial assets and financial liabilities No. 122

in € millions	12/31/2015	12/31/2014
Financial assets		
Gross amount of financial assets	362	269
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	362	269
Amounts subject to master netting arrangements		
Derivatives	-47	-59
Net amount of financial assets	315	210
Financial liabilities		
Gross amount of financial liabilities	49	87
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	49	87
Amounts subject to master netting arrangements		
Derivatives	-47	-59
Net amount of financial liabilities	2	28

4.14 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of the year in which the tranche is granted. Thus, the performance period of the 2015 tranche starts retroactively on January 01, 2015. Due to the listing, the grant date is October 09, 2015.

Vesting of PSUs is linked to the following three conditions:

- 50 % of PSUs are granted subject to a service condition (base number). The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.
- 25 % of the PSUs are granted subject to a long-term performance target based on free cash flow (FCF), which involves a comparison of accumulated FCF for the performance period to the target FCF.
- 25 % of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine vesting, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met and can vary between 0 % and 100 %. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

In 2015, Schaeffler AG granted a total of 474,016 PSUs (prior year: none) under the PSUP; 237,004 PSUs are subject to a service condition (base number) and 118,506 each are subject to the FCF-based performance target and the TSR-based performance target, respectively. All PSUs granted in 2015 were still outstanding as at December 31, 2015. As at December 31, 2015, the PSUs granted as part of the 2015 tranche have a remaining performance period of three years.

Each PSU in the base number or with an FCF-based performance target had a fair value of EUR 14.21 as at December 31, 2015. This amount was determined based on the price of the Schaeffler AG common non-voting share taking into account the present value of dividends, which beneficiaries are not entitled to during the vesting period, as well as the cap.

The fair value per PSU with a TSR-based performance target as at December 31, 2015 was EUR 10.09 and was determined using a binomial model. The valuation model used takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target range for the TRS-based performance target, dividends expected to be paid on Schaeffler AG common non-voting shares, as well as the volatility of Schaeffler AG common non-voting shares and the benchmark index MDAX). The valuation as at December 31, 2015 reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.11 %,
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.15 %,
- expected volatility of Schaeffler AG common non-voting shares of 33.02 %,
- expected volatility of the benchmark index of 19.53 %,
- expected correlation between the benchmark index and Schaeffler AG common non-voting shares of 0.43.

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (MDAX) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (MDAX) in the XETRA trading system of the German Stock Exchange.

Obligations under the PSUP as at December 31, 2015 amounted to EUR 0.7 m (prior year: none) and were included in non-current provisions. Expenses arising from the PSUP for 2015 totaled EUR 0.7 m (prior year: none).

4.15 Capital management

The Schaeffler Group has a long-term strategy of pursuing profitable growth. Actively managing capital provides the necessary financial resources, ensures the availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. To this end, the Schaeffler Group has laid the groundwork for obtaining debt and equity funding 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 financing terms.

Under its existing debt 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 2015 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 calculates further financial indicators. One such further indicator is the ratio of net debt to EBITDA (earnings before financial result, income taxes, depreciation, amortization, and impairment losses), which is determined as follows:

Net financial debt to EBITDA ratio No. 123

in € millions	12/31/2015	12/31/2014
Current financial debt	3	1
Non-current financial debt	5,685	6,413
Total financial debt	**5,688**	**6,414**
Cash and cash equivalents	799	636
Total net financial debt	**4,889**	**5,778**
Earnings before financial result, income taxes, depreciation and amortization (EBITDA) [1]	**2,096**	**2,172**
Net financial debt to EBITDA ratio [2]	**2.3**	**2.7**

[1] EBITDA incl. EUR 274 m (prior year: EUR 38 m) in special items for legal cases and restructuring.
[2] Debt to EBITDA ratio incl. special items (footnote 1) see section 2.3 of group management report.

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

Leases No. 124

in € millions	12/31/2015	12/31/2014
Less than one year	56	54
Between one and five years	64	59
More than five years	6	7
Total	**126**	**120**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2015, the Schaeffler Group recognized EUR 84 m in expenses related to operating rental and lease agreements in profit or loss (prior year: EUR 75 m).

5.2 Contingent liabilities

At December 31, 2015, the Schaeffler Group had contingent liabilities of EUR 23 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 for recognition of a provision.

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 Group companies are among the entities subject to these investigations.
In addition, there is a risk that third parties may claim damages resulting from antitrust proceedings that are either ongoing or have been finalized. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations and potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but 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 204 m in receipts from loans were related to the refinancing arrangement completed in the second quarter of 2015 and were used to finance transaction costs and prepayment penalties for the redeemed bonds. The cash outflows for the prepayment penalty and transaction costs are included in cash flows from operating activities. All other transactions under the refinancing arrangements were non-cash in nature (see Note 4.9 for further detail).

Proceeds from issuing shares represent gross proceeds of EUR 825 m partially offset by transaction costs of EUR 15 m.

In connection with the voluntary partial prepayment of its institutional loan tranches, Schaeffler AG also terminated a portion of the cross-currency swaps designed to hedge the USD tranche against currency fluctuations before maturity. Termination involved an exchange of principal and resulted in cash inflows of EUR 92 m due to exchange rate changes. These cash inflows from the hedging instrument as well as the cash inflows from the hedged item are presented under repayments of loans.

Recognition of a provision of EUR 238 m for potential third party claims in connection with the EU antitrust proceedings finalized in March of 2014 has impacted EBIT and other provisions, and did not affect cash flows from operating activities in 2015.

5.4 Segment reporting

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler Group 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 this 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 once every year and adjusted where necessary. To ensure that segment information is comparable, prior year information is also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

Reconciliation of segment information

No. 125

Reconciliation to earnings before income taxes in € millions	2015	2014
EBIT Automotive [1]	1,124	1,238
EBIT Industrial [1]	278	285
EBIT	1,402	1,523
Financial result	-547	-619
Earnings before income taxes	**855**	**904**

[1] Prior year information presented based on 2015 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, Greater China, and Asia/Pacific.

In 2015, the Schaeffler Group generated revenue of EUR 1,535 m (prior year: EUR 1,573 m) from one key customer, representing approximately 11.6 % (prior year: 13.0 %) of total group revenue and approximately 15.3 % (prior year: 17.5 %) of Automotive segment revenue.

The Schaeffler Group's operations are geographically divided into the regions Europe, Americas, Greater China, and Asia/Pacific. Revenue and non-current assets of the four regions were as follows in 2015:

Information about geographical areas No. 126

	Revenue [1]		Non-current assets [2]	
in € millions	**2015**	**2014**	**12/31/2015**	**12/31/2014**
Europe	7,054	6,908	2,843	2,688
Americas	2,905	2,473	706	613
Asia/Pacific	1,365	1,203	341	293
Greater China	1,902	1,540	879	709
Total	**13,226**	**12,124**	**4,769**	**4,303**

[1] Revenue by market (customer locations). Prior year information presented based on 2015 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, the U.S., and China had revenue of EUR 2,948 m (prior year: EUR 2,977 m), EUR 1,873 m (prior year: EUR 1,432 m), and EUR 1,814 m (prior year: EUR 1,467 m) as well as non-current assets of EUR 1,634 m (prior year: EUR 1,573 m), EUR 399 m (prior year: EUR 316 m), and EUR 878 m (prior year: EUR 708 m), respectively.

5.5 Related parties

Related persons
All common 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 family related parties of Schaeffler AG. In addition, the managing directors of the legal predecessor of Schaeffler AG, INA Beteiligungsgesellschaft mit beschränkter Haftung (IBH), and the close members of their family were related parties of Schaeffler AG in the prior year. As Schaeffler AG's Board of Managing Directors was not appointed until October 24, 2014, the following information for 2015 is not fully comparable to the prior year figures.

The remuneration of the Board of Managing Directors of Schaeffler AG for the year totaled EUR 21 m (prior year: EUR 2 m), including EUR 16 m (prior year: EUR 1 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 1 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 0.3 m (prior year: nil), and share-based payments totaled EUR 0.7 m (prior year: nil).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 21 m (prior year: EUR 2 m) in 2015.

In addition, the following share-based remuneration was granted to members of the Board of Managing Directors in 2015 under the Performance Share Unit Plan (PSUP) implemented in 2015: 237,004 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.58), 118,506 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.58), and 118,506 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.96). Please refer to the remuneration report for a detailed discussion of the PSUP.

Certain members of the Board of Managing Directors have received advances on their variable short-term remuneration in connection with the change in the remuneration system or adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.9 m (prior year: EUR 0.2 m).

The company did not pay any other benefits to its key management personnel.

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 314 (1) (6) HGB.

Former members of the Board of Managing Directors (and their surviving dependents) of Schaeffler AG and its legal predecessors received remuneration of EUR 0.3 m in 2015 (prior year: EUR 1 m).

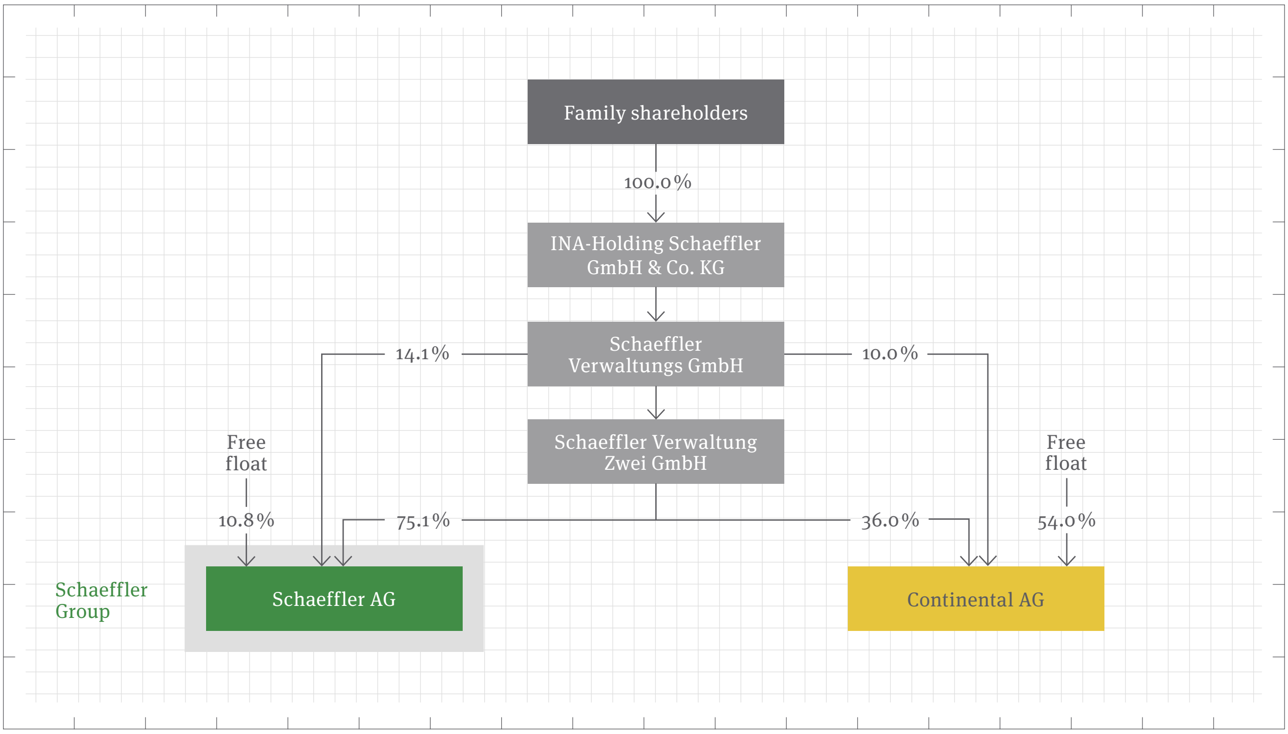
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependents) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 8 m at December 31, 2015 (prior year: EUR 1 m).

Members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG as well as close members of their family have acquired bonds issued in 2015 by Schaeffler Finance B.V. totaling EUR 1 m (prior year: EUR 2 m including managing directors of the company's legal predecessor IBH). Additionally, bonds issued in prior years with a value of EUR 1 m (prior year: EUR 1 m including managing directors of the company's legal predecessor IBH) held by key management personnel and close members of their family were redeemed in 2015. At December 31, 2015, members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG 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 including managing directors of the company's legal predecessor IBH). Key management personnel and close members of their family received interest of EUR 0.2 m (prior year: EUR 0.3 m including managing directors of the company's legal predecessor IBH) on these bonds.

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.

Simplified ownership structure as at December 31, 2015 No. 127



As transactions with significant subsidiaries of Schaeffler AG have been eliminated upon consolidation, they need not be discussed here. Transactions with associated companies and joint ventures were insignificant in 2015.

In 2015 and 2014, Schaeffler Group companies had various business relationships with the group's related entities.

On April 14, 2015, the Schaeffler AG annual general meeting declared a dividend of EUR 250 m payable to Schaeffler Verwaltung Zwei GmbH in respect of 2014.

The company had a loan receivable from Schaeffler Verwaltung Zwei GmbH of EUR 1,071 m and from Schaeffler Beteiligungsholding GmbH & Co. KG of EUR 629 m as a result of the capital increase by way of a contribution in kind completed as part of the realignment of the Schaeffler Group's structure in December 2014. Schaeffler Verwaltung Zwei GmbH assumed the obligations under the loan receivable by Schaeffler AG from Schaeffler Beteiligungsholding GmbH & Co. KG by way of an assumption of debt in discharge of the previous debtor effective September 01, 2015. The loan remained secured by the shares in Continental AG held by Schaeffler Beteiligungsholding GmbH & Co. KG. Schaeffler Beteiligungsholding GmbH & Co. KG was absorbed by Schaeffler Verwaltung Zwei GmbH effective December 31, 2015. The loans mature in December 2024 and bore interest at 4.0 % p.a. in 2015.

The EUR 236 m short-term receivable from Schaeffler Verwaltung Zwei GmbH, which arose in connection with Schaeffler AG taking on the cash pooling function, was converted to a long-term loan of EUR 270 m as at August 31, 2015. The loan matures in December 2024 and bore interest at 4.0 % p.a. in 2015. The terms of this loan relating to the payment of interest stipulate that Schaeffler Verwaltung Zwei GmbH has 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 %.

It was agreed that shares in Continental AG with a market value (reference XETRA, August 31, 2015) equal to twice the loan principal would be pledged as collateral for the loan within 30 working days after closing of the loan agreement. The Continental AG shares serving as collateral are held by Schaeffler Verwaltung Zwei GmbH (until December 31, 2015: Schaeffler Beteiligungsholding GmbH & Co. KG).

Two partial repayments of EUR 85 m and EUR 112 m, respectively, have reduced the total principal of the loans receivable from Schaeffler Verwaltung Zwei GmbH to EUR 1,773 m (prior year: EUR 1,071 m). Interest income earned on these loans in 2015 amounted to EUR 72 m (prior year: EUR 4 m).

Business relationships with Continental Group companies existed in the form of supply of vehicle components and tools, 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.

Receivables and payables from transactions with related entities No. 128

	Receivables		Payables	
in € millions	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Related entities	1,787	1,985	8	21

Expenses and income from transactions with related entities No. 129

	Expenses		Income	
in € millions	2015	2014	2015	2014
Related entities	78	136	176	107

5.6 Auditors' fees

Fees paid to the group auditors and their related companies for services rendered in 2015 and required by section 314 (1)(9) HGB to be disclosed total EUR 5.6 m (prior year: EUR 3.6 m) and consist of EUR 2.5 m (prior year: EUR 2.2 m) for financial statement audit services, EUR 1.1 m (prior year: EUR 0.3 m) for other attestation services, EUR 0.8 m (prior year: EUR 0.8 m) for tax advisory services, and EUR 1.2 m (prior year: EUR 0.3 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 of section 264 (3) HGB or 264b HGB to be eligible for these exemptions for 2015 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
- INA Automotive GmbH, Herzogenaurach
- 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
- 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 AG & Co. KG, Herzogenaurach
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach
- Schaeffler Motorenelemente AG & Co. KG, Herzogenaurach
- Schaeffler Technologies AG & Co. KG, Herzogenaurach
- WPB Water Pump Bearing GmbH & Co. KG, Herzogenaurach

5.8 Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code required by section 161 AktG in December 2015 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 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, 2015.

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

The parent company is Schaeffler AG, which is based in Herzogenaurach.

List of shareholdings

No. 130

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (51)			
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
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
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 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 AG & Co. KG	Herzogenaurach	DE	100.00
Schaeffler Motorenelemente AG & Co. KG	Herzogenaurach	DE	100.00
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
Schaeffler Belrus OOO	Minsk	BY	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
Schaeffler Trading (UK) Limited	Sutton Coldfield	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Halandri	GR	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
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Hosur	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	Kongsberg	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
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
FAG Aerospace (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	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 1)	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG 1)	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) Joint ventures accounted for using the equity method.

C. Unconsolidated entities (1)

NACO Technologies SIA 2)	Riga	LV	100.00

2) The company is insignificant to the Schaeffler Group's results of operations, financial position, and net assets as at the reporting date.

5.11 Members of the Supervisory Board and of the Board of Managing Directors

Members of the Supervisory Board
Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson), Jürgen Wechsler* (Deputy Chairman), Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Norbert Lenhard*, Dr. Siegfried Luther, Dr. Reinold Mittag*, Yvonne Münch* (since November 19, 2015), Barbara Resch* (since November 19, 2015), Stefanie Schmidt*, Dirk Spindler*, Robin Stalker, Jürgen Stolz*, Salvatore Vicari*, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich*, Prof. Dr.-Ing. Tong Zhang

The following members left the Supervisory Board during the year:
Jürgen Bänsch (until November 19, 2015), Thomas Mölkner (until November 19, 2015)

Supervisory Board committees
Mediation committee: Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, and Jürgen Wechsler

Executive committee: Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

Audit committee: Dr. Siegfried Luther (Chairman), Dr. Reinold Mittag, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

Nomination committee: Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk

Members of the Board of Managing Directors
Klaus Rosenfeld (Chief Executive Officer),

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

Dr. Ulrich Hauck (Chief Financial Officer; since April 01, 2015),

Norbert Indlekofer (CEO Automotive),

Oliver Jung (Chief Operating Officer),

Prof. Dr. Peter Pleus (CEO Automotive),

Corinna Schittenhelm (Chief Human Resources Officer; since January 01, 2016),

Dr. Stefan Spindler (CEO Industrial; since May 01, 2015)

The following members left the Board of Managing Directors during the year:
Kurt Mirlach (until December 31, 2015), Robert Schullan (until April 30, 2015)

* Employee representative

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 22, 2016 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, February 22, 2016

Schaeffler Aktiengesellschaft

The Board of Managing Directors

Independent Auditors’ Report

This Auditors’ Report, prepared in accordance with § 322 HGB (“Handelsgesetzbuch”: “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 its report on the position of the Company and the Group for the business year from January 1, 2015 to December 31, 2015. The above-mentioned Auditors’ Report and Consolidated Financial Statements are both translations of the respective German-language documents.

We have audited the consolidated financial statements prepared by the Schaeffler AG, 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, 2015 to December 31, 2015. 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, February 23, 2016

KPMG AG

Wirtschaftsprüfungsgesellschaft

Alt-Scherer	Koeplin
Wirtschaftsprüferin	Wirtschaftsprüfer

Responsibility statement by the company’s legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Herzogenaurach, February 22, 2016

Schaeffler Aktiengesellschaft

The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dr. Ulrich Hauck

Norbert Indlekofer

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Dr. Stefan Spindler

Additional information

Financial glossary

A

AfS: Abbreviation of “Available for sale”.

C

Capex: Capital expenditures on property, plant and equipment and intangible assets.

Capital employed: Working capital plus property, plant and equipment and intangible assets.

Cash flow: Net inflow of funds generated by an entity’s business activities. Used to assess an entity’s financial strength.

Common share: Share conveying all rights laid down in the German Stock Companies Act, e.g. the right to vote at shareholder meetings, the right to dividends, etc.

Common non-voting share: Non-voting no-par-value bearer shares carrying a preferential right to profits in the form of a preferred dividend.

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, 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

Earnings per share: Earnings per share are calculated by dividing net income attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

EBIT: Abbreviation of "earnings before interest and taxes": Earnings before financial result and income taxes.

EBITDA: Abbreviation of "earnings before interest, taxes, depreciation and amortization": Earnings before financial result, 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.

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: Sum 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.

iTraxx: Indicator of credit risk and the cost of credit in the European high yield market.

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.

ROCE (return on capital employed): Ratio of EBIT to average capital employed. Average capital employed is calculated as the sum of property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters.

S

Schaeffler Value Added (SVA): Key performance indicator used in value-based management; compares earnings before financial result and income taxes to the cost of capital.

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".

W

Working capital: Inventories plus trade receivables less trade payables (excluding accrued payables).

General glossary

A

Active roll control system: The active roll control system is a new mechatronic development used in passenger cars to minimize or completely eliminate the vehicle's rolling motion when taking corners and on poor roads. This significantly improves safety and comfort while also increasing the vehicle's agility.

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

Compliance: Ensuring that all rules and regulations applicable to a process are adhered to.

Corruption Perception Index: An index developed by Transparency International that ranks countries by the degree of corruption which involves public officials, civil servants or politicians.

D

Degree of localization: The degree of localization describes the relation of a region's total sales to sales volume manufactured in that region.

Digital Agenda: Supports the Roadmap 2020 in helping to shape technology issues of the future.

Dual-mass flywheel: Component of the drive train of modern vehicles (passenger cars, buses, commercial vehicles) that helps reduce torsional vibration.

E

EMAS: EU environmental audit regulation under which Schaeffler Group locations have been validated.

EnES: Energy, environment, and safety.

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.

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.

Invention reports: Invention reports represent the starting point for potential patent registrations. Ideas and inventions of Schaeffler Group employees are reported to the Schaeffler Group's centralized patent department and analyzed for potential use in a patent registration.

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

M

MOVE: Internal program used by Schaeffler to review processes and activities regarding 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.

R

R&D Innovation Radar: Shows the top projects in the fields of engine, transmission, chassis and eMobility designed to secure the Schaeffler Group's profitable growth over the next ten years.

Roadmap 2020: Strategic initiative for operationalizing the strategic concept "Mobility for tomorrow".

S

Schaeffler Academy: Schaeffler Academy combines all personnel development activities at Schaeffler worldwide. It supports strategic corporate objectives, promotes a culture of lifelong learning and enables employees to achieve their personal and professional goals.

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

T

Thermal management module: The Schaeffler thermal management module is a temperature control unit for the entire drive train. It is integrated in a compact component manufactured from high-strength plastic and combines numerous functions. The thermal management module enables Schaeffler to help unlock greater potential through the optimization of internal combustion engines. This innovative module is key to reducing fuel consumption and CO_2 emissions by up to 4 %.

Torque converter: A torque converter is a hydraulic component that facilitates the transmission of force between components rotating at different speeds.

Transparency International: Transparency International is a politically independent organization dealing with the worldwide problem of corruption.

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 figures

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Contact details / imprint

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.

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Photographers:
Andreas Pohlmann, Munich
Torsten Pross, Jürgen Jeibmann Photographik, Leipzig

Published by:
Schaeffler AG
Industriestr. 1-3
91074 Herzogenaurach

Responsible for content:
Corporate Accounting
Schaeffler AG, Herzogenaurach

Design and layout:
Publicis Pixelpark, Erlangen

Design and layout of image section:
trio group, Mannheim

Printed by:
Kösel GmbH & Co. KG, Altusried-Krugzell

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Summary – 1st quarter 2014 to 4th quarter 2015

	2014				2015			
Income statement (in € millions)	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Revenue	2,976	3,014	3,034	3,100	3,345	3,387	3,250	3,244
EBIT	418	383	429	293	434	384	433	151
• in % of revenue	14.0	12.7	14.1	9.5	13.0	11.3	13.3	4.7
EBIT before special items [1]	406	383	429	343	441	384	433	418
• in % of revenue	13.6	12.7	14.1	11.1	13.2	11.3	13.3	12.9
Net income [2]	220	-10	229	215	167	142	212	70
Earnings per common non-voting share (basic/diluted, in €)	0.44	-0.02	0.46	0.41	0.42	0.36	0.53	0.11
Statement of financial position (in € millions)								
Total assets	8,704	9,095	9,675	11,617	12,844	12,221	12,450	12,480
Shareholders' equity [3]	-1,808	-1,815	-1,666	258	418	532	631	1,568
• in % of total assets	-20.8	-20.0	-17.2	2.2	3.3	4.4	5.1	12.6
Net financial debt	5,529	5,755	5,768	5,778	6,190	6,245	5,950	4,889
• Net financial debt to EBITDA ratio before special items [1] [4]	2.6	2.7	2.6	2.6	2.7	2.7	2.6	2.1
Statement of cash flows (in € millions)								
EBITDA	572	541	590	469	604	557	604	331
• in % of revenue	19.2	17.9	19.4	15.1	18.1	16.4	18.6	10.2
EBITDA before special items [1]	560	541	590	519	611	557	604	598
• in % of revenue	18.8	17.9	19.4	16.7	18.3	16.4	18.6	18.4
Cash flows from operating activities [5]	134	-163	439	490	184	238	490	460
Capital expenditures (capex) [6]	155	143	202	357	244	257	242	282
• in % of revenue (capex ratio)	5.2	4.7	6.7	11.5	7.3	7.6	7.4	8.7
Free cash flow [5]	-19	-306	238	135	-60	-12	264	178
Added value								
ROCE (return on capital employed, in %)	16.4	16.4	17.7	22.5	22.0	21.4	21.1	18.8
ROCE before special items (in %) [1]	22.8	22.8	23.3	23.1	22.8	22.2	21.9	22.5
Schaeffler Value Added	254	216	255	122	246	198	248	-35
Schaeffler Value Added before special items [1]	242	216	255	172	253	198	248	232
Employees								
Headcount (at end of reporting period)	79,369	80,054	81,353	82,294	83,331	83,774	84,414	84,198
Automotive (in € millions) [7]								
Revenue	2,212	2,227	2,231	2,316	2,510	2,554	2,447	2,482
EBIT	326	301	319	292	342	305	352	125
• in % of revenue	14.7	13.5	14.3	12.6	13.6	11.9	14.4	5.0
EBIT before special items [1]	314	301	319	326	349	305	352	356
• in % of revenue	14.2	13.5	14.3	14.1	13.9	11.9	14.4	14.3
Industrial (in € millions) [7]								
Revenue	764	787	803	784	835	833	803	762
EBIT	92	82	110	1	92	79	81	26
• in % of revenue	12.0	10.4	13.7	0.1	11.0	9.5	10.1	3.4
EBIT before special items [1]	92	82	110	17	92	79	81	62
• in % of revenue	12.0	10.4	13.7	2.2	11.0	9.5	10.1	8.1

[1] EBIT, debt to EBITDA ratio, EBITDA, ROCE, and Schaeffler Value Added before special items for legal cases and restructuring.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] EBITDA based on the last twelve months.
[5] Including an outflow of EUR 371 m for the EU antitrust penalty in the 2nd quarter of 2014.
[6] Capital expenditures on intangible assets and property, plant and equipment.
[7] Prior year information presented based on 2015 segment structure.

Multi-year comparison

Income statement (in € millions)	**2011**	**2012**	**2013**	**2014**	**2015**
Revenue	10,694	11,125	11,205	12,124	13,226
EBIT	1,736	1,469	1,008	1,523	1,402
• in % of revenue	16.2	13.2	9.0	12.6	10.6
EBIT before special items [1]	-	-	1,436	1,561	1,676
• in % of revenue	-	-	12.8	12.9	12.7
Net income [2]	610	380	127	654	591
Earnings per common non-voting share (basic/diluted, in €)	-	-	-	1.29	1.28
Statement of financial position (in € millions)					
Total assets	8,192	8,463	8,387	11,617	12,480
Shareholders' equity [3]	-2,862	-2,598	-1,966	258	1,568
• in % of total assets	-34.9	-30.7	-23.4	2.2	12.6
Net financial debt	6,671	6,541	5,447	5,778	4,889
• Net financial debt to EBITDA ratio before special items [1]	2.9	3.1	2.6	2.6	2.1
Statement of cash flows (in € millions)					
EBITDA	2,290	2,087	1,660	2,172	2,096
• in % of revenue	21.4	18.8	14.8	17.9	15.8
EBITDA before special items [1]	-	-	2,088	2,210	2,370
• in % of revenue	-	-	18.6	18.2	17.9
Cash flows from operating activities [4]	1,069	1,133	1,027	900	1,372
Capital expenditures (capex) [5]	773	860	572	857	1,025
• in % of revenue (capex ratio)	7.2	7.7	5.1	7.1	7.7
Free cash flow [4]	304	301	473	48	370
Added value					
ROCE (return on capital employed, in %)	27.9	22.1	15.5	22.5	18.8
ROCE before special items (in %) [1]	-	-	22.1	23.1	22.5
Schaeffler Value Added	1,114	803	359	847	657
Schaeffler Value Added before special items [1]	-	-	787	885	931
Employees					
Headcount (at end of reporting period)	73,786	75,810	78,258	82,294	84,198

[1] EBIT, debt to EBITDA ratio, EBITDA, ROCE, and Schaeffler Value Added before special items for legal cases and restructuring.
[2] Attributable to shareholders of the parent company.
[3] Including non-controlling interests.
[4] Including an outflow of EUR 371 m for the EU antitrust penalty in 2014.
[5] Capital expenditures on intangible assets and property, plant and equipment.

Financial calendar 2016

March 15, 2016

Publication of annual results 2015

April 22, 2016

Annual general meeting 2016

May 12, 2016

Publication of results for the first three months 2016

August 11, 2016

Publication of results for the first six months 2016

November 10, 2016

Publication of results for the first nine months 2016

All information is subject to correction and may be changed at short notice.

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