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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, 2016 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 global automotive and industrial supplier.

The company is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Electronic Federal Gazette.

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, 2016 have been compiled 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 determined 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.

In the past, customer payments for development services were presented in the consolidated income statement as service revenue. Starting in 2016, these customer payments are netted against the related development costs and reported under research and development expenses in the consolidated income statement. Figures for the comparison period for revenue (decrease of EUR 47 m) and research and development expenses (decrease of EUR 47 m) were adjusted retrospectively. The change was made to provide better financial information and to bring the presentation into line with common industry practice.

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.

Estimation uncertainty and management judgment

In compiling financial statements, 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 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 2016. 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 4.11). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.12) were updated to reflect current information.

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. 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. 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 compiling the consolidated financial statements. Intercompany profits or losses on intra-group transactions 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

Selected foreign exchange rates No. 092

Currencies		Closing rates		Average rates	
1 € in		12/31/2016	12/31/2015	2016	2015
CNY	China	7.32	7.06	7.35	6.97
INR	India	71.45	72.02	74.38	71.18
KRW	South Korea	1,270.57	1,280.78	1,284.51	1,255.73
MXN	Mexico	21.79	18.92	20.66	17.60
USD	U.S.A.	1.05	1.09	1.11	1.11

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies 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. Non-monetary items are translated at historical rates.

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

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

Revenue 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.

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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.

Functional costs

Income and expenses are allocated to the various functional areas. Depreciation, amortization, and impairment losses on intangible assets and property, plant and equipment are allocated to the functional area in which the asset is utilized.

Research and development expenses

Expenses incurred for research activities, advance development, and to produce customer-specific applications are expensed immediately.

Development costs are only recognized as intangible assets once the capitalization criteria of IAS 38 are met.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on a straight-line basis over a period of six years beginning when the intangible asset is ready for use. Amortization expense is reported in cost of sales.

Financial result

Interest income and expense are recognized in the period to which they relate.

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.

Newly issued shares are 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, but is tested for impairment annually and when there is an indication ("triggering event"). 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. 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 detailed three-year-forecast and on a perpetuity for the period beyond that time frame. 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 group management report for further detail. Past trends and historic experience are also used in developing the forecast. The discount rate reflects current market expectations and specific risks.

Other intangible assets and property, plant and equipment

Other intangible assets and property, plant and equipment are recognized at acquisition or production cost plus incidental acquisition costs and, where applicable, subsequent acquisition cost and are amortized or depreciated over their expected useful life on a straight-line basis, provided they have a determinable useful life. The expected useful lives of software and capitalized development costs are three and six years, respectively, and range from 15 to 25 years for buildings, from two to ten years for technical equipment and machinery and from three to eight years for other equipment. Impairment losses are recognized for impairments.

Leases

Lease payments classified as operating leases are expensed on a straight-line basis over the lease term. Schaeffler's finance leases are immaterial.

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").

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.

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

These are measured at fair value. Changes in fair value are recognized in other comprehensive income (including the related deferred taxes). Fair values are largely 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.

Loans and receivables

Loans and receivables are measured at amortized cost less any impairment losses. 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. 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.

Cash and cash equivalents are accounted for at cost.

Financial liabilities

Except for derivative financial instruments, Schaeffler measures its financial liabilities at amortized cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are classified as trading and measured at fair value unless they are subject to hedge accounting.

Embedded derivatives are separated from the host instrument when the economic characteristics and risks of the embedded derivative are considered not closely related to the economic characteristics and risks of the host instrument.

Hedge accounting

Hedging relationships are accounted for using the cash flow and net investment hedge models. The effective portion of changes in the fair value of the hedging instrument is included in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

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 and written down to net realizable value if lower.

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.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (including the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within 12 months. Such assets and liabilities are presented separately in the statement of financial position. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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.

Actuarial gains and losses arising from defined benefit plans are recognized in 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 presented in financial result 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

Provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense 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.

1.4 New accounting pronouncements

The new Standards and amendments of Standards initially effective starting in 2016 have not had a significant impact on these financial statements.

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 2016, and none were adopted early.

In July 2014, the IASB issued its standard IFRS 9 Financial Instruments which replaces the requirements of IAS 39. The standard is effective for annual reporting periods beginning on or after January 01, 2018. Earlier application is permitted, but Schaeffler does not plan to apply the standard early.

IFRS 9 introduces a uniform approach to the classification and measurement of financial assets. The classification criteria are the cash flow characteristics and the business model for managing the financial assets. IFRS 9 also introduces a new impairment model for financial assets including trade receivables.

The standard replaces the current incurred loss model with the expected loss model. The hedge accounting requirements were revised to allow financial statements to better reflect the company's risk management strategy. The standard also requires additional quantitative and qualitative note disclosures. Detailed statements regarding the extent of the impact on the Schaeffler Group's consolidated financial statements are currently not yet possible, as the analysis of the implementation of the new standard has not yet been completed.

In May 2014, the IASB issued the new revenue recognition standard IFRS 15 Revenue from Contracts with Customers, merging its existing revenue recognition guidance, which was previously contained in several standards (IAS 18 Revenue and IAS 11 Construction contracts) and interpretations (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31), into one comprehensive standard. In addition, the IASB issued Clarifications to IFRS 15 in April 2016, which addressed initial implementation issues (including identification of separate performance obligations) and provided additional practical expedients to the transition requirements. The standard is effective for annual reporting periods beginning on or after January 01, 2018. Earlier application is permitted. The Schaeffler Group will initially apply the standard for the year beginning on January 01, 2018. The company will use the modified retrospective approach to transition to IFRS 15, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of shareholders' equity at the date of initial application, January 01, 2018.

IFRS 15 is applicable to all contracts, as defined in the standard, with customers for the sale of goods or the rendering of services, and includes a uniform five-step model that is applicable to all industries and is used to determine the amount of revenue and the timing of revenue recognition. The core principle of the new standard is that an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Revenue is recognized when the customer obtains control of the goods or services.

In 2016, the Schaeffler Group initiated a project to implement IFRS 15. The initial project stage consisted of analyzing the impact of the requirements of IFRS 15 at the level of the group's identified homogeneous business models. The company currently expects only limited changes in the total amount of revenue recognized for a contract with a customer. However, depending on the contractual features of customer contracts (which may need to be combined), the timing of revenue recognition may change. As a result, depending on the features of contractual cancellation clauses and on the degree to which the goods or services sold are specific to the customer, which may result in a lack of alternative use of individual products, it may be necessary to recognize revenue over a period of time, which is not required under the current requirements. In addition, for certain types of contracts, separating performance obligations as required under certain conditions and the resulting allocation of the transaction price may result in earlier revenue recognition for activities occurring prior to volume production (especially Tool Shop). Also, it is possible that variable components of consideration and the identification of additional separate performance obligations may lead to shifts in the timing of revenue recognition. Apart from the issues described above, the Schaeffler Group expects changes in the presentation of its statement of financial position, especially regarding the separate line items for contract assets and contract liabilities required by IFRS 15. The standard also requires additional quantitative and qualitative note disclosures.

In addition, the IASB has issued the following new Standards and amendments to existing Standards which had not yet been adopted by the EU as at the date these consolidated financial statements were authorized for issue. The company has not applied any of them early, and is currently not planning to apply any of them early.

New accounting pronouncements – not yet endorsed by the EU No. 093

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual Improvements 2014-2016		01/01/2017/ 01/01/2018	Various improvements to IFRS 1, IFRS 12 and IAS 28	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
Amendments to IFRS 2	Share-based Payments	01/01/2018	Changes regarding arrangements with a net settlement feature and modifications that change classification	Under examination [1]
Clarification to IFRS 15	Revenue from Contracts with Customers	01/01/2018	Clarifications regarding several issues	Under examination [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 2016, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 152 (prior year: 153) subsidiaries; 51 (prior year: 51) entities are domiciled in Germany and 101 (prior year: 102) in other countries.

SIA "Schaeffler Baltic", Riga, Latvia (until December 31, 2016: NACO Technologies SIA) and Compact Dynamics GmbH, Starnberg, were consolidated for the first time in 2016. A disposal (Schaeffler Motorenelemente AG & Co. KG, Herzogenaurach) and two internal mergers have reduced the scope of consolidation.

In the consolidated financial statements as at December 31, 2016, five (prior year: five) investments (including two joint ventures; prior year: two) are accounted for at equity.

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

2.2 Acquisitions and disposals of companies and business operations

Acquisition of companies

On December 20, 2016, Schaeffler Technologies AG & Co. KG acquired 51 % of the shares and voting interests in Compact Dynamics GmbH, Starnberg, from SEMIKRON International GmbH. The acquiree engages in the development and batch production of electric drive systems. For simplification purposes, the company was consolidated beginning on December 31, 2016. Had the company been consolidated effective January 01, 2016, consolidated revenue would have increased by EUR 9 m and consolidated net income by EUR 1 m.

In determining net income, the company did not assume that the excess of fair values over carrying amounts capitalized in the purchase price allocation as at the acquisition date would have been the same had the business combination occurred on January 01, 2016. The company was assigned to the Automotive division and, therefore, to the Automotive segment.

The consideration transferred had a fair value of EUR 45 m at the acquisition date. This resulted in a liability of EUR 23 m (payable in cash) for the 51 % interest acquired and a contingent purchase price payable of EUR 22 m for the shares remaining with SEMIKRON International GmbH for the time being. The contingent purchase price payable was measured at fair value and results from a combined symmetric put/call option for the remaining shares. The fair value of the contingent purchase price payable was determined based on the contractual exercise price and the expected exercise date. As the symmetric options with largely identical conditions represent a forward contract when viewed in combination, in substance, the Schaeffler Group has present ownership of the shares underlying the options. Therefore, the company has anticipated the exercise of the option and recognized a financial liability rather than a non-controlling interest.

The allocation of the purchase price resulted in EUR 41 m in goodwill and a minor amount of intangible assets (carrying amount as at December 31, 2016: EUR 0 m, fair value as at December 31, 2016: EUR 1 m). The goodwill, which is not deductible for tax purposes, represents factors that are not separable and, therefore, cannot be separately recognized under IFRS; these factors are, in particular, the know-how of the workforce of Compact Dynamics GmbH and expected income from synergies in development and manufacturing, the main reasons behind the transaction.

Receivables assumed in the transaction had a carrying amount of EUR 1 m as at December 31, 2016, which was equal to fair value. The carrying amounts of the remaining assets and liabilities assumed are equal to their fair value. Total identifiable net assets amounted to EUR 4 m as at December 31, 2016.

The transaction did not have any further impact on the Schaeffler Group's net assets, financial position and earnings as at December 31, 2016.

Disposals of companies and business operations

In a contract signed on December 21, 2016, the Schaeffler Group agreed to sell its interest and voting interest in Schaeffler Motorenelemente AG & Co. KG to the Weber Group effective December 31, 2016. The company specializes in the mechanical processing of cylinder heads and other complex housings, which are not an integral part of the Schaeffler Group's core business. The disposal transaction resulted in a loss of EUR 13 m, which is included in other expenses, and eliminated EUR 18 m in assets and EUR 5 m in liabilities from the statement of financial position.

Further, Schaeffler Schweiz GmbH plans to sell its fine blanking activities to Swiss Güntensperger Group in an asset deal. The sale agreement was signed in November 2016, but is subject to several conditions. The transaction is expected to close in the second quarter of 2017. Since the company is committed to the sale and the sale is highly probable to occur within twelve months, the assets and liabilities concerned are classified as assets held for sale in accordance with IFRS 5 as at December 31, 2016.

3. Notes to the consolidated income statement

3.1 Revenue

Revenue No. 094

in € millions	2016	2015
Revenue from the sale of goods	13,193	13,044
Other revenue	145	135
Total	**13,338**	**13,179**

Other revenue primarily includes EUR 96 m (prior year: EUR 86 m) in revenue from the sale of tools and machines constructed by the company as well as EUR 38 m (prior year: EUR 45 m) from services.

3.2 Other income

Other income No. 095

in € millions	2016	2015
Gains on disposal of assets	1	23
Miscellaneous income	40	34
Total	**41**	**57**

3.3 Other expenses

Other expenses No. 096

in € millions	2016	2015
Exchange losses	9	40
Miscellaneous expenses	168	346
Total	**177**	**386**

Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2016, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 9 m (prior year: EUR 40 m).

Miscellaneous other expenses include EUR 45 m (prior year: EUR 36 m) in expenses related to the stepped-up efficiency measures aimed at revitalizing the Industrial division under the second wave of the program “CORE”. Another EUR 86 m in expenses were attributable to potential third party claims in connection with antitrust proceedings and other compliance cases. The prior year included EUR 238 m related to a provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014.

3.4 Personnel expense and headcount

Average number of employees by region No. 097

	2016	2015
Europe	59,609	58,496
Americas	12,563	12,662
Greater China	10,778	10,037
Asia/Pacific	2,783	2,735
Total	**85,733**	**83,930**

The number of employees at December 31, 2016 was 86,662, 2.9 % above the prior year level of 84,198.

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

Personnel expense No. 098

in € millions	2016	2015
Wages and salaries	3,388	3,253
Social security contributions	665	621
Other personnel expense	114	116
Total	**4,167**	**3,990**

The increase in personnel expense in 2016 is mainly attributable to pay increases arising from local collective agreements and to the targeted expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions. In order to further strengthen its innovative ability, the company focused on recruiting new personnel in its research and development departments, especially in Germany.

Other personnel expense includes EUR 110 m (prior year: EUR 109 m) in retirement benefit expenses.

3.5 Financial result

Schaeffler Group financial result No. 099

in € millions	2016	2015
Interest expense on financial debt [1]	-286	-513
Interest income on shareholder loans	49	72
Foreign exchange gains and losses	-12	-224
Fair value changes and compensation payments on derivatives	-21	234
Fair value changes on embedded derivatives	-30	-79
Interest income and expense on pensions and partial retirement obligations	-45	-42
Other	4	5
Total	**-341**	**-547**

[1] Incl. amortization of transaction costs and prepayment penalties.

Interest expense on financial debt amounted to EUR 286 m in 2016 (prior year: EUR 513 m) and includes EUR 48 m in prepayment penalties and EUR 31 m in deferred transaction costs derecognized. Please refer to the chapter entitled "Current and non-current financial debt" for further detail. The prior year amount included prepayment penalties of EUR 173 m and EUR 23 m in deferred transaction costs derecognized in connection with the early redemption of bonds.

Interest income on shareholder loans earned on a loan receivable from IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH), was EUR 49 m (prior year: EUR 72 m).

Net **foreign exchange** losses on financial assets and liabilities amounted to EUR 12 m (prior year: losses of EUR 224 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro. The company has hedged these instruments using cross-currency derivatives and reports the resulting losses of EUR 21 m (prior year: gains of EUR 234 m) under **fair value changes and compensation payments on derivatives**. The losses largely relate to the early termination of cross-currency derivatives.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 30 m (prior year: EUR 79 m), comprising EUR 79 m in losses related to prepayment options written off in connection with the refinancing transactions in 2016, partially offset by EUR 49 m in gains resulting from changes in the fair value of the remaining prepayment options.

3.6 Income taxes

Income taxes No. 100

in € millions	2016	2015
Current income taxes	345	287
Deferred income taxes	-2	-37
Income taxes	**343**	**250**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2016.

The average domestic tax rate was 28.6 % in 2016 (prior year: 28.4 %). 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 12.7 % (prior year: 12.5 %).

The current income tax benefit related to prior years amounted to EUR 13 m (prior year: EUR 24 m) in 2016. Schaeffler incurred EUR 6 m in deferred tax expense related to prior years (prior year: EUR 17 m) in 2016.

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 2016 is based on the Schaeffler Group's 28.6 % (prior year: 28.4 %) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation No. 101

in € millions	2016	2015
Earnings before income taxes	1,215	855
Expected tax expense	**348**	**243**
Addition/reduction due to deviating local tax bases	5	7
Foreign/domestic tax rate differences	-19	-14
Change in tax rate and law	-2	-1
Non-recognition of deferred tax assets	4	-1
Tax credits and other tax benefits	-11	-6
Non-deductible expenses	32	26
Taxes for previous years	-7	-7
Other	-7	3
Reported tax expense	**343**	**250**

Foreign/domestic tax rate differences primarily represent the impact of differences in country-specific tax rates applicable to German and foreign entities.

Non-deductible expenses and tax-free income includes 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. 102

in € millions	2016	2015
Net income	872	605
Net income attributable to shareholders of the parent company	859	591
Earnings attributable to common shares (basic/diluted)	644	442
Earnings attributable to common non-voting shares (basic/diluted)	215	149
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	116
Earnings per common share (basic/diluted, in €)	**1.29**	**0.88**
Earnings per common non-voting share (basic/diluted, in €)	**1.30**	**1.28**

There were no dilutive items at December 31, 2016 or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

The carrying amounts of **goodwill** allocated to cash-generating units amounted to EUR 319 m (prior year: EUR 275 m) for the Automotive segment and EUR 208 m (prior year: EUR 208 m) for the Industrial segment. The addition of EUR 44 m in the Automotive segment resulted from the acquisition of Compact Dynamics GmbH.

For purposes of determining recoverable amount, cash flows beyond the detailed forecasting horizon of 2019 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 12.6 % (prior year: 13.3 %) as the weighted average cost of capital for the Automotive segment and 12.6 % (prior year: 13.5 %) for the Industrial segment. This corresponds to a post-tax interest rate of 8.9 % for the Automotive segment (prior year: 9.4 %) and 8.9 % for the Industrial segment (prior year: 9.4 %).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2016 and the prior year, they were not impaired.

Internally generated intangible assets consist largely of development costs of EUR 47 m (prior year: EUR 37 m), including EUR 22 m (prior year: EUR 5 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 31 m) and was recognized in the following line items in the consolidated income statement: Cost of sales EUR 8 m (prior year: EUR 5 m), research and development expenses EUR 5 m (prior year: EUR 4 m), selling expenses EUR 0 m (prior year: EUR 2 m), and administrative expenses EUR 18 m (prior year: EUR 20 m).

Intangible assets No. 103

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2015	**483**	**1,029**	**275**	**1,787**
Additions from initial consolidation of subsidiaries	0	0	0	0
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**
Balance as at January 01, 2016	**483**	**1,072**	**293**	**1,848**
Additions from initial consolidation of subsidiaries	44	1	0	45
Additions	0	12	17	29
Disposals	0	-4	0	-4
Transfers	0	0	0	0
Foreign currency translation	0	1	0	1
Balance as at December 31, 2016	**527**	**1,082**	**310**	**1,919**
Accumulated amortization and impairment losses				
Balance as at January 01, 2015	**0**	**1,001**	**231**	**1,232**
Additions from initial consolidation of subsidiaries	0	0	0	0
Amortization	0	16	15	31
Impairments	0	0	0	0
Impairment reversals	0	0	0	0
Disposals	0	-7	0	-7
Transfers	0	0	0	0
Foreign currency translation	0	3	0	3
Balance as at December 31, 2015	**0**	**1,013**	**246**	**1,259**
Balance as at January 01, 2016	**0**	**1,013**	**246**	**1,259**
Additions from initial consolidation of subsidiaries	0	0	0	0
Amortization	0	18	13	31
Impairments	0	0	0	0
Impairment reversals	0	0	0	0
Disposals	0	-3	0	-3
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2016	**0**	**1,028**	**259**	**1,287**
Net carrying amounts				
As at January 01, 2015	**483**	**28**	**44**	**555**
As at December 31, 2015	**483**	**59**	**47**	**589**
As at January 01, 2016	**483**	**59**	**47**	**589**
As at December 31, 2016	**527**	**54**	**51**	**632**

4.2 Property, plant and equipment

Property, plant and equipment No. 104

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2015	**2,336**	**7,254**	**970**	**543**	**11,103**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
Additions	43	391	83	531	1,048
Disposals	-15	-185	-44	-2	-246
Transfers	56	322	32	-418	-8
Reclassification to IFRS 5	0	0	0	0	0
Foreign currency translation	28	54	9	9	100
Balance as at December 31, 2015	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Balance as at January 01, 2016	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Additions from initial consolidation of subsidiaries	0	1	0	0	1
Disposals of subsidiaries	-4	-51	-2	0	-57
Additions	44	379	83	580	1,086
Disposals	-3	-176	-45	-3	-227
Transfers	61	419	-3	-477	0
Reclassification to IFRS 5	-18	-36	-2	0	-56
Foreign currency translation	2	38	1	-7	34
Balance as at December 31, 2016	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2015	**1,209**	**5,373**	**768**	**5**	**7,355**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
Depreciation	79	510	74	0	663
Impairments	0	0	0	0	0
Disposals	-9	-178	-43	-1	-231
Transfers	0	0	0	0	0
Reclassification to IFRS 5	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**
Balance as at January 01, 2016	**1,290**	**5,719**	**805**	**3**	**7,817**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	-2	-41	-2	0	-45
Depreciation	78	540	80	0	698
Impairments	2	4	1	1	8
Disposals	-3	-173	-42	0	-218
Transfers	0	24	-24	0	0
Reclassification to IFRS 5	-12	-28	-2	0	-42
Foreign currency translation	5	46	1	1	53
Balance as at December 31, 2016	**1,358**	**6,091**	**817**	**5**	**8,271**
Net carrying amounts					
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**
As at January 01, 2016	**1,158**	**2,117**	**245**	**660**	**4,180**
As at December 31, 2016	**1,172**	**2,319**	**265**	**751**	**4,507**

At December 31, 2016, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 320 m (prior year: EUR 352 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. 105

	12/31/2016		12/31/2015	
in € millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	3	-22	4	-22
Property, plant and equipment	98	-175	94	-156
Financial assets	2	-13	1	-15
Inventories	110	-4	98	-6
Trade receivables and other assets	64	-108	51	-146
Provisions for pensions and similar obligations	406	-35	328	-30
Other provisions and other liabilities	189	-82	219	-87
Interest- and loss carryforwards	15	0	45	0
Deferred taxes (gross)	**887**	**-439**	**840**	**-462**
Netting	-315	315	-355	355
Deferred taxes (net)	**572**	**-124**	**485**	**-107**

The group had gross carryforwards under the interest deduction cap of EUR 10 m (prior year: EUR 103 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carryforwards.

At December 31, 2016, the Schaeffler Group had gross loss carryforwards of EUR 115 m (prior year: EUR 115 m) for corporation tax and EUR 9 m (prior year: EUR 6 m) for trade tax, including EUR 92 m (prior year: EUR 66 m) in corporation tax losses and EUR 9 m (prior year: EUR 6 m) in trade tax losses for which no deferred taxes have been recognized.

The majority of the unrecognized loss carryforwards can be carried forward for a limited period. The remaining interest carryforwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 7 m (prior year: EUR 8 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 1,694 m (prior year: EUR 1,717 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 1 m (prior year: EUR 18 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2016, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 328 m (prior year: EUR 259 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, 2016, income tax receivables amounted to EUR 93 m (prior year: EUR 78 m) and did not include any non-current balances (prior year: EUR 4 m).

At December 31, 2016, income tax payables amounted to EUR 339 m (prior year: EUR 322 m), including non-current balances of EUR 163 m (prior year: EUR 210 m). The reduction in non-current income tax payables compared to the prior year is mainly the result of a reclassification between non-current and current income tax payables.

4.4 Inventories

Inventories No. 106

in € millions	12/31/2016	12/31/2015
Raw materials and supplies	358	343
Work in progress	468	452
Finished goods and merchandise	1,078	1,015
Advance payments	1	2
Total	**1,905**	**1,812**

EUR 9,413 m (prior year: EUR 9,319 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2016.

The impairment allowance on inventories amounted to EUR 260 m (prior year: EUR 234 m) as at December 31, 2016.

4.5 Trade receivables

Trade receivables No. 107

in € millions	12/31/2016	12/31/2015
Trade receivables (gross)	**2,243**	**2,051**
Impairment allowances	-25	-28
Trade receivables (net)	**2,218**	**2,023**

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

Impairment allowances on trade receivables No. 108

in € millions	2016	2015
Impairment allowances as at January 01	**-28**	**-24**
Additions	-3	-9
Allowances used to cover write-offs	3	2
Reversals	3	3
Impairment allowances as at December 31	**-25**	**-28**

Trade receivables of EUR 2,079 m (prior year: EUR 1,884 m) were neither past due nor impaired as at December 31, 2016.

Also as at December 31, 2016, trade receivables of EUR 113 m (prior year: EUR 117 m) were past due but not impaired. These balances were mainly up to 60 days overdue.

Trade accounts receivable subject to specific impairment allowances had a gross carrying amount of EUR 51 m (prior year: EUR 50 m), and the related impairment allowance was EUR -25 m (prior year: EUR -28 m).

Trade receivables pledged as security under loan and bond agreements were released from such pledges under a security release agreement dated August 18, 2016. The company still had receivables of EUR 201 m (prior year: EUR 999 m) that were pledged as security as at December 31, 2016.

The Schaeffler Group's exposure to counterparty, currency and liquidity risk related to trade receivables is disclosed in Note 4.14.

4.6 Other financial assets and other assets

Other financial assets (non-current/current) No. 109

			12/31/2016			12/31/2015
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	3	0	3	1,775	0	1,775
Derivative financial assets	175	29	204	309	53	362
Miscellaneous other financial assets	39	26	65	39	70	109
Total	**217**	**55**	**272**	**2,123**	**123**	**2,246**

The EUR 1,773 m loan receivable from IHO Verwaltungs GmbH as at December 31, 2015 was fully repaid in 2016. Please refer to Note 5.5 for further detail.

At December 31, 2016, **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.

Other financial assets pledged as security under loan and bond agreements in the prior year were released in full from such pledges under a security release agreement dated August 18, 2016 (prior year: EUR 2,081 m).

The Schaeffler Group's exposure to currency and liquidity risk related to other financial assets is disclosed in Note 4.14 on financial instruments.

Other assets (non-current/current) No. 110

			12/31/2016			12/31/2015
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	21	0	21	34	0	34
Tax receivables	1	171	172	1	175	176
Miscellaneous other assets	29	47	76	22	36	58
Total	**51**	**218**	**269**	**57**	**211**	**268**

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.

Other assets pledged as security under loan and bond agreements in the prior year were released in full from such pledges under a security release agreement dated August 18, 2016 (prior year: EUR 1 m).

4.7 Cash and cash equivalents

At December 31, 2016, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 325 m (prior year: EUR 198 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 or other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

Cash and cash equivalents pledged as security under loan and bond agreements in the prior year were released in full from such pledges under a security release agreement dated August 18, 2016 (prior year: EUR 449 m).

4.8 Assets held for sale and liabilities associated with assets held for sale

Assets and liabilities held for sale are related to the planned sale of the fine blanking activities of Schaeffler Schweiz GmbH, which is scheduled to close in the second quarter of 2017.

The company has written the disposal group down to the lower of its carrying amount and fair value less costs to sell, resulting in an impairment loss of EUR 4 m which has been recognized in other expenses. The impairment loss has reduced the carrying amount of the non-current assets included in the disposal group.

The disposal group related to the fine blanking activities of Schaeffler Schweiz GmbH is largely part of the Automotive segment and includes assets held for sale of EUR 25 m; EUR 14 m of these assets are non-current while EUR 11 m are current. The associated liabilities held for sale of EUR 8 m consist of EUR 3 m in non-current and EUR 5 m in current payables and provisions.

Other comprehensive income includes accumulated losses of EUR 2 m related to the disposal group.

The disposal group was measured at fair value on a non-recurring basis; this measurement was classified as a Level 1 measurement of fair value, based on the inputs of the valuation techniques used.

4.9 Shareholders’ equity

Shareholders’ equity No. 111

in € millions	12/31/2016	12/31/2015
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	-404	-935
Accumulated other comprehensive income (loss)	-713	-599
Equity attributable to shareholders of the parent company	**1,897**	**1,480**
Non-controlling interests	100	88
Total shareholders’ equity	**1,997**	**1,568**

Schaeffler AG’s **share capital** of EUR 666 m remains unchanged.

It is divided into 666 million no-par-value bearer shares, each representing an interest in share capital of EUR 1.00. The no-par-value shares are divided into 500 million common shares and 166 million common non-voting 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.

The common shares are held by IHO Verwaltungs GmbH. The common non-voting shares 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, 2016.

Capital reserves remain unchanged at EUR 2,348 m as at December 31, 2016.

The change in **other reserves** in 2016 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 2016, a dividend of EUR 328 m will be proposed to the Schaeffler AG annual general meeting. EUR 83 m of this dividend relates to the common non-voting shares. This represents a total dividend of EUR 0.50 (prior year: EUR 0.35; special dividend EUR 0.15) per common non-voting share and EUR 0.49 (prior year: EUR 0.34; special dividend EUR 0.15) 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, 2016, **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.

4.10 Current and non-current financial debt

Financial debt (non-current/current) No. 112

			12/31/2016			12/31/2015
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
Bonds	2,719	0	2,719	5,048	0	5,048
Facilities Agreement	982	0	982	632	0	632
Other financial debt	6	3	3	8	3	5
Financial debt	**3,707**	**3**	**3,704**	**5,688**	**3**	**5,685**

The decrease in financial debt compared to December 31, 2015 was primarily attributable to repayments, redemptions, and refinancing transactions. These were partially offset by the impact of currency translation on financial debt denominated in U.S. Dollar.

In May 2016, Schaeffler AG voluntarily prepaid approximately EUR 229 m of its institutional loan tranches. The company paid off EUR 85 m of its Senior Term Loan B EUR and USD 160 m of its Senior Term Loan B USD.

In July 2016, Schaeffler AG refinanced its institutional loan tranches. The new Facilities Agreement consists of a EUR 1.0 bn term loan and a EUR 1.3 bn revolving credit facility. The funds were used to repay the existing loan tranches totaling approximately EUR 418 m. The company paid off EUR 165 m of its Senior Term Loan B EUR and USD 280 m of its Senior Term Loan B USD. A further portion of the funds was used to redeem EUR bonds with a principal of EUR 600 m on August 18, 2016.

On October 07, 2016, the Schaeffler Group fully redeemed USD bonds with a principal of USD 850 m, and on October 13, 2016, it redeemed two EUR bonds with a principal of EUR 500 m each. The bond redemptions were largely funded using the proceeds of the prepayment of a loan receivable from the company's shareholder IHO Verwaltungs GmbH in September 2016.

At December 31, 2016, the group's debt consisted of a loan tranche with a principal of EUR 1.0 bn, five bond series totaling the equivalent of approximately EUR 2,733 m and a revolving line of credit with a principal of EUR 1.3 bn.

In addition, the Schaeffler Group had further lines of credit in the equivalent of approximately EUR 166 m, primarily for the U.S. and China.

The Schaeffler Group's Facilities Agreement consisted of the following loan tranches at December 31, 2016:

Facilities Agreement Schaeffler Group No. 113

Tranche	Currency	Face value in millions 12/31/2016	Face value in millions 12/31/2015	Carrying amount in € millions 12/31/2016	Carrying amount in € millions 12/31/2015	Coupon 12/31/2016	Coupon 12/31/2015	Maturity
Senior Term Loan B	EUR	0	250	0	251	n/a	Euribor[1] + 3.50 %	05/15/2020
Senior Term Loan B	USD	0	440	0	392	n/a	Libor[1] + 3.50 %	05/15/2020
Senior Term Loan	EUR	1,000	0	992	0	Euribor[2] + 1.20 %[3]	n/a	07/18/2021
Revolving Credit Facility[4]	EUR	0	1,000	0	-11	n/a	Euribor + 2.6875 %	10/27/2019
Revolving Credit Facility[4]	EUR	1,300	0	-10	0	Euribor[2] + 0.80 %[3]	n/a	07/18/2021
Total				**982**	**632**			

[1] Euribor/Libor floor of 0.75 %.
[2] Euribor floor of 0.00 %.
[3] Since November 10, 2016.
[4] EUR 13 m (December 31, 2015: EUR 24 m) were drawn down as at December 31, 2016, primarily in the form of letters of credit.

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

Schaeffler Group bonds No. 114

ISIN	Currency	Face value in millions 12/31/2016	Face value in millions 12/31/2015	Carrying amount in € millions 12/31/2016	Carrying amount in € millions 12/31/2015	Coupon	Maturity
XS0923613060[1]	EUR	0	600	0	597	4.25 %	05/15/2018
XS1067864881[2] [3]	EUR	0	500	0	497	3.25 %	05/15/2019
XS1067862919[3]	EUR	0	500	0	497	2.75 %	05/15/2019
XS1212469966	EUR	400	400	397	396	2.50 %	05/15/2020
US806261AJ29	USD	700	700	658	637	4.25 %	05/15/2021
US806261AE32[4]	USD	0	850	0	777	4.75 %	05/15/2021
XS1067864022	EUR	500	500	498	499	3.50 %	05/15/2022
US806261AM57	USD	600	600	571	553	4.75 %	05/15/2023
XS1212470972	EUR	600	600	595	595	3.25 %	05/15/2025
Total				**2,719**	**5,048**		

[1] Redeemed in full on August 18, 2016.
[2] Bonds are unsecured.
[3] Redeemed in full on October 13, 2016.
[4] Redeemed in full on October 07, 2016.

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 27 m (prior year: EUR 39 m) in interest accrued on the bonds up to December 31, 2016 are reported in other financial liabilities (see Note 4.13).

Both the Facilities Agreement and the bond agreements contain certain constraints including a requirement to meet certain financial covenants. The financial covenant relevant to the Facilities Agreement is a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenant is not met, which would result in the debt becoming due immediately.

The shares in two subsidiaries as well as intra-group loan receivables were pledged as collateral under the loan and bond agreements.

4.11 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 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 2016, approximately 74 % (prior year: 73 %) of pension obligations in the U.S. and approximately 104 % (prior year: 113 %) 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, 2016:

Amounts recognized in the statement of financial position for pensions and similar obligations No. 115

	12/31/2016					12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,029	-58	-4	-91	-2,182	-1,778	-59	-1	-104	-1,942
Pension asset (plan assets net of related liabilities)	7	0	12	2	21	7	0	26	1	34
Net defined benefit liability	**-2,022**	**-58**	**8**	**-89**	**-2,161**	**-1,771**	**-59**	**25**	**-103**	**-1,908**

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. 116

	12/31/2016					12/31/2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,224	-84	0	-204	-1,512	-1,005	-84	0	-218	-1,307
Present value of defined benefit obligations (deferred members)	-141	-27	-166	-4	-338	-108	-27	-134	-4	-273
Present value of defined benefit obligations (pensioners)	-825	-115	-65	-26	-1,031	-806	-112	-70	-26	-1,014
Present value of defined benefit obligations (total)	**-2,190**	**-226**	**-231**	**-234**	**-2,881**	**-1,919**	**-223**	**-204**	**-248**	**-2,594**
Fair value of plan assets	168	168	239	145	720	148	164	229	145	686
Net defined benefit liability	**-2,022**	**-58**	**8**	**-89**	**-2,161**	**-1,771**	**-59**	**25**	**-103**	**-1,908**

Movements in the net defined pension benefit liability in 2016 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 No. 117

	2016					2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-1,771**	**-59**	**25**	**-103**	**-1,908**	**-1,793**	**-63**	**3**	**-95**	**-1,948**
Benefits paid	58	1	0	9	68	59	0	0	6	65
Service cost	-56	0	0	-19	-75	-56	-1	0	-20	-77
Net interest on net defined benefit liability	-42	-2	1	-2	-45	-38	-2	1	-2	-41
Employer contributions	12	0	0	12	24	-4	9	0	10	15
Employee contributions	1	0	0	0	1	0	0	0	0	0
Transfers in/out	0	-2	0	0	-2	-17	-1	17	0	-1
Remeasurement of net defined benefit liability	-224	6	-15	10	-223	76	5	5	1	87
Business combinations/disposals	0	0	0	2	2	0	0	0	0	0
Changes in foreign exchange rates	0	-2	-3	2	-3	2	-6	-1	-3	-8
Net defined benefit liability (-)/ asset (+) as at December 31	**-2,022**	**-58**	**8**	**-89**	**-2,161**	**-1,771**	**-59**	**25**	**-103**	**-1,908**

The slight decrease in **service cost** to EUR 75 m (prior year: EUR 77 m) in 2016 was mainly driven by the increase in the discount rate for Germany as at December 31, 2015 to 2.3 % from 2.1 % as at the end of 2014. The reason is as follows: The increase in the discount rate decreases the settlement amount of the defined benefit plans, resulting in lower 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 obligations January 01/December 31 No. 118

					2016					2015
in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total	Germany	U.S.A.	United Kingdom	Other Countries	Total
Present value of defined benefit obligations as at January 01	**-1,919**	**-223**	**-204**	**-248**	**-2,594**	**-1,972**	**-222**	**-188**	**-286**	**-2,668**
Benefits paid	61	11	10	18	100	63	10	18	16	107
Current service cost	-56	0	0	-18	-74	-56	-2	0	-17	-75
Past service cost	0	0	0	-1	-1	0	0	0	-5	-5
Interest cost	-45	-9	-7	-6	-67	-41	-9	-8	-8	-66
Employee contributions	-8	-1	0	-1	-10	-10	-1	0	-1	-12
Transfers in/out	0	0	0	0	0	28	0	-28	0	0
Settlements paid	0	0	0	0	0	0	9	0	55	64
Gains (+) / losses (-) on settlements	0	0	0	0	0	0	1	0	2	3
Gains (+) / losses (-) – changes in financial assumptions	-235	0	-58	4	-289	72	8	7	5	92
Gains (+) / losses (-) – changes in demographic assumptions	0	4	0	-1	3	0	4	7	0	11
Gains (+) / losses (-) – experience adjustments	12	-1	0	2	13	-1	4	-1	-5	-3
Business combinations/disposals	0	0	0	20	20	0	0	0	0	0
Changes in foreign exchange rates	0	-7	28	-3	18	-2	-25	-11	-4	-42
Present value of defined benefit obligations as at December 31	**-2,190**	**-226**	**-231**	**-234**	**-2,881**	**-1,919**	**-223**	**-204**	**-248**	**-2,594**

The portion of the defined benefit obligation and the plan assets subject to the planned disposal of the fine blanking activities in Switzerland have been classified as held for sale; as a result, the net amount of the defined benefit obligation and the plan assets to be disposed of is shown separately in the statement of financial position. Please refer to Note 4.8 for further detail on the planned disposal.

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. 119

					2016					2015
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Fair value of plan assets as at January 01	**148**	**164**	**229**	**145**	**686**	**179**	**159**	**191**	**191**	**720**
Benefits paid	-3	-10	-10	-9	-32	-4	-10	-18	-10	-42
Interest income on plan assets	3	7	8	4	22	3	7	9	6	25
Employee contributions	9	1	0	1	11	10	1	0	1	12
Employer contributions	12	0	0	12	24	-4	9	0	10	15
Transfers in/out	0	-2	0	0	-2	-45	-1	45	0	-1
Settlements paid	0	0	0	0	0	0	-9	0	-55	-64
Return on plan assets excluding interest income	-1	3	43	5	50	5	-11	-8	1	-13
Business combinations/disposals	0	0	0	-18	-18	0	0	0	0	0
Changes in foreign exchange rates	0	5	-31	5	-21	4	19	10	1	34
Fair value of plan assets as at December 31	**168**	**168**	**239**	**145**	**720**	**148**	**164**	**229**	**145**	**686**

The Schaeffler Group plans to contribute EUR 11 m to plan assets in 2017.

Negative employer contributions in the prior year represent refunds of additional contributions made in the past to cover temporary shortfalls.

Plan assets consisted of the following:

Classes of plan assets No. 120

					12/31/2016					12/31/2015
in € millions	Germany	U.S.A.	United Kingdom	Other Countries	Total	Germany	U.S.A.	United Kingdom	Other Countries	Total
Equity instruments	84	68	64	17	233	79	66	62	18	225
Debt instruments	28	99	47	112	286	24	97	49	106	276
Real estate	0	0	23	8	31	0	0	26	14	40
Cash	32	1	2	1	36	20	1	2	1	24
(Reimbursement) insurance policies	24	0	0	7	31	25	0	0	6	31
Mixed funds	0	0	103	0	103	0	0	90	0	90
Total	**168**	**168**	**239**	**145**	**720**	**148**	**164**	**229**	**145**	**686**

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 on defined benefit pension plans No. 121

	2016					2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Current service cost	56	0	0	18	74	56	2	0	17	75
Past service cost	0	0	0	1	1	0	0	0	5	5
• plan amendments	0	0	0	1	1	0	0	0	5	5
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	-1	0	-2	-3
Service cost	**56**	**0**	**0**	**19**	**75**	**56**	**1**	**0**	**20**	**77**
Interest cost	45	9	7	6	67	41	9	8	8	66
Interest income	-3	-7	-8	-4	-22	-3	-7	-9	-6	-25
Net interest on net defined benefit liability/asset	**42**	**2**	**-1**	**2**	**45**	**38**	**2**	**-1**	**2**	**41**
Gains (-)/losses (+) – changes in financial assumptions	235	0	58	-4	289	-72	-8	-7	-5	-92
Gains (-)/losses (+) – changes in demographic assumptions	0	-4	0	1	-3	0	-4	-7	0	-11
Gains (-)/losses (+) – experience adjustments	-12	1	0	-2	-13	1	-4	1	5	3
Return on plan assets excluding interest income	1	-3	-43	-5	-50	-5	11	8	-1	13
Remeasurements of net defined benefit liability/asset	**224**	**-6**	**15**	**-10**	**223**	**-76**	**-5**	**-5**	**-1**	**-87**
Total comprehensive income (loss) on defined benefit obligations	**322**	**-4**	**14**	**11**	**343**	**18**	**-2**	**-6**	**21**	**31**

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 consolidated income statement No. 122

	2016					2015				
in € millions	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Cost of sales	33	0	0	12	45	31	-1	0	16	46
Research and development expenses	11	0	0	1	12	10	0	0	1	11
Selling expenses	4	0	0	3	7	4	0	0	2	6
Administrative expenses	8	0	0	2	10	11	2	0	1	14
Included in EBIT	**56**	**0**	**0**	**18**	**74**	**56**	**1**	**0**	**20**	**77**
Interest expense	45	9	7	6	67	41	9	8	8	66
Interest income on plan assets	-3	-7	-8	-4	-22	-3	-7	-9	-6	-25
Included in financial result	**42**	**2**	**-1**	**2**	**45**	**38**	**2**	**-1**	**2**	**41**
Total	**98**	**2**	**-1**	**20**	**119**	**94**	**3**	**-1**	**22**	**118**

Duration

The weighted average duration of defined benefit obligations is 19.3 years (prior year: 18.1 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 20.3 years (prior year: 18.6 years), 11.9 years (prior year: 12.1 years), and 24.0 years (prior year: 24.9 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. 123

	2016					2015				
	Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate as at December 31	1.7 %	4.2 %	2.8 %	2.6 %	2.1 %	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 %	3.3 %	n.a. [1]	n.a. [1]	3.2 %	3.3 %
Future pension increases	1.8 %	2.5 %	3.3 %	0.1 %	1.9 %	1.8 %	2.5 %	3.2 %	0.3 %	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. 124

		2016					2015				
in € millions		Germany	U.S.A.	United Kingdom	Other countries	Total	Germany	U.S.A.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0 %	-382	-25	-46	-25	-478	-296	-25	-42	-29	-392
	Minus 1.0 %	508	30	63	30	631	408	30	58	35	531
Future salary increases	Plus 1.0 %	50	n.a. [1)]	n.a. [1)]	17	67	41	n.a. [1)]	n.a. [1)]	19	60
	Minus 1.0 %	-44	n.a. [1)]	n.a. [1)]	-15	-59	-36	n.a. [1)]	n.a. [1)]	-17	-53
Future pension increases	Plus 1.0 %	230	0	30	2	262	199	0	25	5	229
	Minus 1.0 %	-190	0	-25	-1	-216	-166	0	-21	-2	-189

[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 106 m (prior year: EUR 90 m) in Germany, EUR 6 m (prior year: EUR 6 m) in the U.S., and EUR 9 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 2016, Schaeffler incurred EUR 20 m (prior year: EUR 18 m) in expenses related to defined contribution plans. At EUR 13 m (prior year: EUR 12 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

Provisions No. 125

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2016	**103**	**42**	**83**	**22**	**363**	**613**
Additions	42	41	53	3	116	255
Utilization	-50	-13	-42	-3	-271	-379
Reversals	-5	-12	-24	0	-5	-46
Interest expense	3	0	0	0	0	3
Foreign currency translation	1	0	0	0	3	4
Balance as at December 31, 2016	**94**	**58**	**70**	**22**	**206**	**450**

Provisions consisted of the following current and non-current portions. Non-current provisions are due in one to five years.

Provisions (non-current/current) No. 126

			12/31/2016			12/31/2015
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	39	55	94	43	60	103
Restructuring	14	44	58	28	14	42
Warranties	0	70	70	0	83	83
Other taxes	0	22	22	0	22	22
Other	43	163	206	111	252	363
Total	**96**	**354**	**450**	**182**	**431**	**613**

Provisions for employee benefits consisted primarily of EUR 60 m (prior year: EUR 54 m) in provisions for long-time service awards and partial retirement programs.

Restructuring provisions mainly included provisions of EUR 10 m (prior year: EUR 36 m) related to the realignment of the Industrial division (program “CORE”). An additional restructuring provision of EUR 41 m was recognized for a second wave of measures in the fourth quarter of 2016.

Other provisions include, inter alia, provisions for potential third party claims in connection with antitrust proceedings and other compliance cases of EUR 103 m. EUR 75 m of these provisions were recognized in the fourth quarter of 2016. The decrease in other provisions compared to the prior year is primarily attributable to the utilization of the provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014 of EUR 217 m.

Other non-current provisions declined by EUR 68 m to EUR 43 m (prior year: EUR 111 m). The decline is largely attributable to the reclassification of provisions from non-current to current to reflect their settlement dates.

Other current provisions decreased by EUR 89 m to EUR 163 m (prior year: EUR 252 m). The impact of the reclassifications described above was more than offset by the utilization of the provision for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014 as also described above.

4.13 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current) No. 127

			12/31/2016			12/31/2015
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	0	262	262	0	227	227
Derivative financial liabilities	5	70	75	3	46	49
Miscellaneous other financial liabilities	81	364	445	9	239	248
Total	**86**	**696**	**782**	**12**	**512**	**524**

Amounts payable to staff included primarily profit sharing accruals.

Derivative financial liabilities included forward exchange contracts used to hedge the Schaeffler Group's currency risk. The change was primarily attributable to a reduction in market value.

The increase in **miscellaneous other financial liabilities** mainly reflects the changed presentation of third party claims in connection with the EU antitrust proceedings finalized in March 2014, which were previously included in other provisions. The consideration payable in connection with the acquisition of Compact Dynamics GmbH is also included in miscellaneous other financial liabilities, as are 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 4.14.

Other liabilities (non-current/current) No. 128

			12/31/2016			12/31/2015
in € millions	Non-current	Current	Total	Non-current	Current	Total
Social security contributions payable	2	40	42	2	38	40
Advance payments received	0	25	25	0	29	29
Other tax payables	0	121	121	0	102	102
Miscellaneous other liabilities	4	158	162	4	136	140
Total	**6**	**344**	**350**	**6**	**305**	**311**

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 current liabilities primarily contained accrued vacation and overtime accounts.

4.14 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 and derivatives subject to hedge accounting are also shown, although they do not fall into 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. 129

			12/31/2016		12/31/2015
in € millions	Category per IFRS 7.8	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class					
Trade receivables	LaR	2,218	2,218	2,023	2,023
Other financial assets					
• Investments in associates [1]	n.a.	3	-	3	-
• Other investments [2]	AfS	14	-	17	-
• Marketable securities	AfS	17	17	14	14
• Derivatives designated as hedging instruments	n.a.	63	63	127	127
• Derivatives not designated as hedging instruments	HfT	141	141	235	235
• Miscellaneous other financial assets	LaR	34	34	1,850	1,856
Cash and cash equivalents	LaR	1,071	1,071	799	799
Financial liabilities, by class					
Financial debt	FLAC	3,707	3,820	5,688	5,793
Trade payables	FLAC	1,625	1,625	1,405	1,405
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	40	40	16	16
• Derivatives not designated as hedging instruments	HfT	35	35	33	33
• Miscellaneous other financial liabilities	FLAC	707	707	475	475
Summary by category					
Available-for-sale financial assets (AfS)		31	-	31	-
Financial assets held for trading (HfT)		141	-	235	-
Loans and receivables (LaR)		3,323	-	4,672	-
Financial liabilities at amortized cost (FLAC)		6,039	-	7,568	-
Financial liabilities held for trading (HfT)		35	-	33	-

[1] 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.

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 2016, 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 4.10). 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: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- 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 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. 130

in € millions	Level 1	Level 2	Total
December 31, 2016			
Marketable securities	17	-	17
Derivatives designated as hedging instruments	-	63	63
Derivatives not designated as hedging instruments	-	141	141
Total financial assets	**17**	**204**	**221**
Financial debt	2,813	1,007	3,820
Derivatives designated as hedging instruments	0	40	40
Derivatives not designated as hedging instruments	0	35	35
Total financial liabilities	**2,813**	**1,082**	**3,895**
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	-	16	16
Derivatives not designated as hedging instruments	-	33	33
Total financial liabilities	**5,069**	**773**	**5,842**

The company reviews its financial instruments at the end of each reporting period for any required transfers between levels. No transfers between levels were made during the period.

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 are as follows:

Net gains and losses by category of financial instruments in accordance with IFRS 7.20 No. 131

	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impair-ment loss	Foreign currency translation	**2016**	**2015**
Available-for-sale financial assets	-	0	-	-	0	2
Financial assets and liabilities held for trading	104	-113	-	-	-9	84
Loans and receivables	54	-	3	-13	44	116
Financial liabilities at amortized cost	-289	-	-	-54	-343	-755
Total	**-131**	**-113**	**3**	**-67**	**-308**	**-553**

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 loss on financial assets and liabilities held for trading of EUR 9 m (prior year: net gain of EUR 84 m) relates entirely to derivatives. EUR 4 m (prior year: EUR 168 m) of this net loss is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 30 m (prior year: EUR 79 m).

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 detail 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 1.3 bn currently bearing interest at Euribor plus 0.80 % 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. 132

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	More than 5 years
December 31, 2016					
Non-derivative financial liabilities	**6,039**	**6,704**	**2,400**	**2,506**	**1,798**
• Financial debt	3,707	4,363	136	2,429	1,798
• Trade payables	1,625	1,625	1,625	0	0
• Other non-derivative financial liabilities	707	716	639	77	0
Derivative financial liabilities	**75**	**75**	**70**	**5**	**0**
Total	**6,114**	**6,779**	**2,470**	**2,511**	**1,798**
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**

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 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 38.4 % 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. 133

	Carrying amount	
in € millions	12/31/2016	12/31/2015
Variable interest instruments	**983**	**635**
• Financial debt	983	635
Fixed interest instruments	**2,724**	**5,053**
• Financial debt	2,724	5,053

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, 2016 would affect (increase/decrease) net income and shareholders' equity as follows:

Sensitivity analysis: Shift in yield curve No. 134

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2016				
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	-22	6	0	0
Total	**-29**	**6**	**-2**	**2**
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**

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. 135

in € millions	USD	CNY	RON	PLN
December 31, 2016				
Estimated currency risk from operations	730	533	-197	157
Forward exchange contracts	-573	-413	143	-119
Remaining currency risk from operations	**157**	**120**	**-54**	**38**
December 31, 2015				
Estimated currency risk from operations	740	491	-211	150
Forward exchange contracts	-622	-336	156	-95
Remaining currency risk from operations	**118**	**155**	**-55**	**55**

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 76 m (prior year: EUR 36 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 mainly 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, 2016, 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. 136

	12/31/2016		12/31/2015	
in € millions	Net income (loss)	Share-holders' equity	Net income (loss)	Share-holders' equity
USD	15	-67	16	-67
CNY	19	-39	14	-25
HUF	6	10	1	9
PLN	0	-12	-1	9

Conversely, a 10 % rise in the Euro against the significant foreign currencies as at December 31, 2016 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 800 m (prior year: USD 1,800 m). Changes in the fair value of those cross-currency swaps not subject to hedge accounting (notional amount of USD 400 m; prior year: USD 800 m) were recognized directly in profit or loss in 2016.

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, 2016. 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. 137

	12/31/2016		12/31/2015	
in € millions	Net income (loss)	Share-holders' equity	Net income (loss)	Share-holders' equity
Foreign exchange gains and losses on financial debt	-76	-47	-165	-72
Foreign exchange gains and losses on derivatives	80	7	170	16
Total	**4**	**-40**	**5**	**-56**

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. 138

in € millions	12/31/2016 Nominal value	12/31/2016 Fair value	12/31/2015 Nominal value	12/31/2015 Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,458	32	2,050	53
• thereof: hedge accounting	439	6	599	18
Cross-currency swaps	759	108	1,653	214
• thereof: hedge accounting	380	57	919	108
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,106	75	2,187	49
• thereof: hedge accounting	1,166	40	797	16
Cross-currency swaps	57	0	0	0
• thereof: hedge accounting	57	0	0	0

Cash flow hedges

A portion of Schaeffler's forward exchange contracts and cross-currency swaps in certain currencies are accounted for as cash flow hedges with perfect effectiveness. 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. 139

in € millions	2016	2015
Balance as at January 01	**3**	**-45**
Additions	-34	3
Reclassified to income statement		
• to other income	-3	0
• to other expense	0	45
Balance as at December 31	**-34**	**3**

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 400 m (prior year: USD 1,000 m). As a result, accumulated gains of EUR 27 m (prior year: gains of EUR 14 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, 2016. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2017 to 2023.

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. 140

in € millions	2016	2015
Balance as at January 01	**-42**	**-56**
Additions	-51	75
Reclassified to income statement		
• to financial income	0	-61
• to financial expense	78	0
Balance as at December 31	**-15**	**-42**

Net investment in a foreign operation

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 500 m; prior year: USD 790 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 10 m (prior year: losses of EUR 95 m) on designated financial debt were recognized in other comprehensive income and reported in accumulated other comprehensive income (translation reserve) as at December 31, 2016. 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. 141

in € millions	12/31/2016	12/31/2015
Financial assets		
Gross amount of financial assets	204	362
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	204	362
Amounts subject to master netting arrangements		
• Derivatives	-62	-47
Net amount of financial assets	142	315
Financial liabilities		
Gross amount of financial liabilities	75	49
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	75	49
Amounts subject to master netting arrangements		
• Derivatives	-62	-47
Net amount of financial liabilities	13	2

4.15 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. Due to the listing, however, the grant date of the 2015 tranche is October 09, 2015.

In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. For eligible senior management, the performance period of the 2016 tranche begins retroactively on January 01, 2016. However, the grant date of the 2016 tranche is October 01, 2016.

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 beneficiary remains employed with the Schaeffler Group 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.

Obligations under the PSUP as at December 31, 2016 amounted to EUR 3.5 m (prior year: EUR 0.7 m) and were included in non-current provisions. Net expenses arising from the PSUP for 2016 totaled EUR 2.8 m (prior year: EUR 0.7 m). There were 1,310,594 PSUs (prior year: 474,016 PSUs) in total as at December 31, 2016. All PSUs granted in 2016 were still outstanding as at December 31, 2016.

The average fair value of a PSU granted was EUR 11.31 as at December 31, 2016 (prior year: EUR 13.18). PSUs included in the base number as well as those subject to the FCF-based performance target are measured based on the price of Schaeffler AG common non-voting shares 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 of PSUs with a TSR-based performance target is 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 TSR-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 reflects the following input parameters:

Binomial model – input parameters No. 142

	12/31/2016	12/31/2015
Average risk-free interest rate for the remaining performance period	-0.35%	0.11%
Expected dividend yield of Schaeffler AG common non-voting shares	2.49%	2.15%
Expected volatility of Schaeffler AG common non-voting shares	34.27%	33.02%
Expected volatility of the benchmark index	18.75%	19.53%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.61	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.

4.16 Capital management

The Schaeffler Group has a long-term strategy of pursuing profitable growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and create financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term 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. Capital management also strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net debt to equity (gearing ratio). The Schaeffler Group has an effective cash management system in place and has diversified its external financing in terms of, for instance, instruments and maturities. The Schaeffler Group can currently utilize cash and cash equivalents, cash flow from operations, various loan facilities, and debt and equity funding via the capital markets to meet its short-, medium-, and long-term financing needs. The next maturity date is in 2020.

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. Credit ratings assigned by external rating agencies are key to this ability. In 2016, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's and Moody's. As a basis for executing its growth strategies, the company intends to maintain the investment grade rating it initially gained in 2016 for the long-term.

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet certain financial covenants (see Note 4.10). Compliance with these financial covenants is continually monitored at group level. The inputs to the calculation of the financial covenants are defined in detail in the debt 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 2016 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 debt 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. 143

in € millions	12/31/2016	12/31/2015
Current financial debt	3	3
Non-current financial debt	3,704	5,685
Total financial debt	**3,707**	**5,688**
Cash and cash equivalents	1,071	799
Total net financial debt	**2,636**	**4,889**
Earnings before financial result, income taxes, depreciation and amortization and impairment losses (EBITDA) 1)	**2,293**	**2,096**
Net financial debt to EBITDA ratio 2)	**1.1**	**2.3**

1) EBITDA incl. EUR 144 m (prior year: EUR 274 m) in special items.
2) Debt to EBITDA ratio incl. special items (footnote 1).

The gearing ratio, the ratio of net debt to equity, was 132.0 % at December 31, 2016 (prior year: 311.8 %).

5. Other disclosures

5.1 Leases

Future minimum lease payments under non-cancellable operating rental and lease agreements are due as follows:

Leases No. 144

in € millions	12/31/2016	12/31/2015
Less than one year	58	56
Between one and five years	60	64
More than five years	5	6
Total	**123**	**126**

The obligations consisted primarily of rental agreements for real estate and lease agreements relating to company vehicles and IT and logistics.

In 2016, the Schaeffler Group recognized EUR 85 m in expenses related to operating rental and lease agreements in profit or loss (prior year: EUR 84 m).

5.2 Contingent liabilities

At December 31, 2016, the Schaeffler Group had contingent liabilities of EUR 46 m (prior year: EUR 23 m). These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. 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 in connection with 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.

In connection with the repayment 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 96 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.

The disposal of Schaeffler Motorenelemente AG & Co. KG and the planned sale of the fine blanking activities of Schaeffler Schweiz GmbH have not affected the statement of cash flows as no payments were made for these transactions in 2016. The purchase price for the acquisition of Compact Dynamics GmbH has also not been paid yet. The inflow of the EUR 2 m in cash held by Compact Dynamics GmbH is reflected in other investing activities.

Other financing activities include EUR 1,773 m in cash provided by the prepayment in full of a loan that was receivable by Schaeffler AG from IHO Verwaltungs GmbH.

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 AG 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.

The Schaeffler Group is divided into the two segments Automotive division and Industrial division as described below. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, 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.

Since January 01, 2016, the Industrial division segment is primarily managed based on regions due to its broad 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. Within the regions, the Industrial business is grouped into eight sectors: wind, raw materials, aerospace, rail, offroad, two wheelers, power transmission, and industrial automation. Sales to distributors (Industrial Distribution) round out the Industrial division's regional business.

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.

Reconciliation to earnings before income taxes No. 145

in € millions	2016	2015
EBIT Automotive [1]	1,383	1,135
EBIT Industrial [1]	173	267
EBIT	**1,556**	**1,402**
Financial result	-341	-547
Earnings before income taxes	**1,215**	**855**

[1] Prior year information presented based on 2016 segment structure.

In 2016, the Schaeffler Group generated revenue of EUR 1,462 m (prior year: EUR 1,528 m) from one key customer, representing approximately 11.0 % (prior year: 11.6 %) of total group revenue and approximately 14.1 % (prior year: 15.3 %) of Automotive segment revenue.

In addition to the divisions and functions, the Schaeffler Group's multi-dimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive division and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2016:

Information about geographical areas No. 146

	Revenue [1]		Non-current assets [2]	
in € millions	**2016**	**2015**	**12/31/2016**	**12/31/2015**
Europe	7,077	7,027	3,039	2,843
Americas	2,800	2,901	818	706
Greater China	2,053	1,898	932	879
Asia/Pacific	1,408	1,353	350	341
Total	**13,338**	**13,179**	**5,139**	**4,769**

[1] Revenue by market (customer locations); Prior year information presented based on 2016 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, China, and the U.S. had revenue of EUR 2,790 m (prior year: EUR 2,928 m), EUR 1,986 m (prior year: EUR 1,806 m), and EUR 1,827 m (prior year: EUR 1,870 m) as well as non-current assets of EUR 1,757 m (prior year: EUR 1,634 m), EUR 931 m (prior year: EUR 878 m), and EUR 476 m (prior year: EUR 399 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.

The remuneration of the Board of Managing Directors of Schaeffler AG according to IAS24 for 2016 totaled EUR 19 m (prior year: EUR 21 m), including EUR 12 m (prior year: EUR 16 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 3 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 0 m (prior year: EUR 0.3 m), and share-based payments totaled EUR 2.6 m (prior year: EUR 0.7 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1 - 3) HGB amounted to EUR 19 m (prior year: EUR 21 m) in 2016.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2016 under the Performance Share Unit Plan (PSUP) implemented in 2015: 252,051 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 13.82), 126,033 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 13.82) and 126,033 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 9.13).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 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 and adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand and were repaid in 2016.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.8 m (prior year: EUR 1.9 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 dependants) of Schaeffler AG and its legal predecessors received remuneration of EUR 2.9 m in 2016 (prior year: EUR 0.3 m).

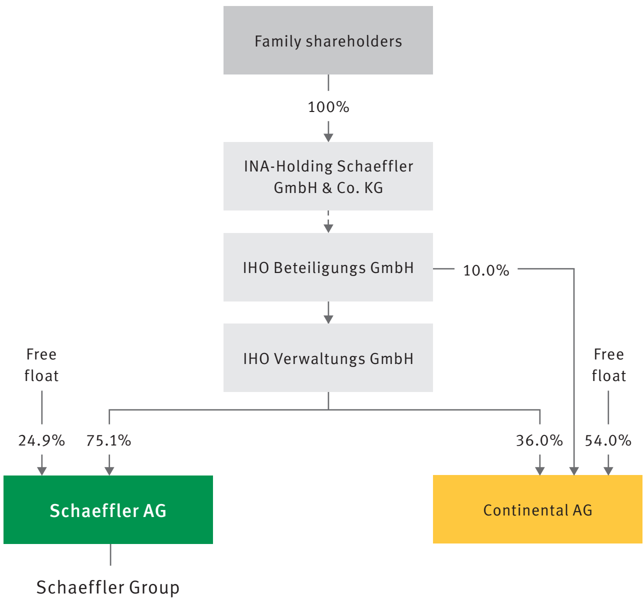
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 11 m at December 31, 2016 (prior year: EUR 8 m).

In the prior year, members of the Board of Managing Directors and the Supervisory Board of Schaeffler AG as well as close members of their family acquired bonds issued by Schaeffler Finance B.V. totaling EUR 1 m. Additionally, bonds issued in prior years with a value of EUR 3 m (prior year: EUR 1 m) held by key management personnel and close members of their family were redeemed. At December 31, 2016, 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 0.8 m (prior year: EUR 6 m). Key management personnel and close members of their family received interest of EUR 0.1 m (prior year: EUR 0.2 m) 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 No. 147
as at December 31, 2016



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 2016.

In 2016 and 2015, Schaeffler Group companies had various business relationships with the group's related entities.

On April 22, 2016, the Schaeffler AG annual general meeting declared a total dividend of EUR 328 m in respect of 2015, including EUR 245 m on the common shares held by IHO Verwaltungs GmbH.

The EUR 1,773 m loan receivable from IHO Verwaltungs GmbH as at December 31, 2015 was fully repaid in two partial payments made in May and September of 2016. Interest income earned on this loan in 2016 amounted to EUR 49 m (prior year: EUR 72 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. 148

	Receivables		Payables	
in € millions	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Related entities	22	1,787	12	8

Expenses and income from transactions with related entities No. 149

	Expenses		Income	
in € millions	2016	2015	2016	2015
Related entities	84	78	168	176

Receivables from transactions with related entities include EUR 22 m (prior year: EUR 14 m) in trade receivables.

5.6 Auditors' fees

Schaeffler AG incurred the following fees for services rendered by the global network of KPMG and KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG):

Auditors' fees No. 150

	KPMG		thereof KPMG AG	
in € millions	2016	2015	2016	2015
Financial statement audit services	6.4	6.5	3.7	3.6
Other attestation services	0.1	0.3	0.1	0.3
Tax advisory services	1.3	1.0	1.0	0.8
Other services	0.5	1.4	0.4	1.3
Total	**8.3**	**9.2**	**5.2**	**6.0**

The amounts required to be disclosed under section 314 (1)(9) HGB were determined in accordance with the revised version of IDW RS HFA 36 dated September 08, 2016. Prior year information was adjusted accordingly. Global fees were determined in line with these requirements.

KPMG AG is considered Schaeffler AG's auditor. The fees paid to KPMG AG related to services rendered to Schaeffler AG and its German subsidiaries.

5.7 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 2016 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.8 Events after the reporting period

No material events expected to have a significant impact on the results of operations, financial position, or net assets of the Schaeffler Group occurred after December 31, 2016.

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

The parent company is Schaeffler AG, which is based in Herzogenaurach.

List of shareholdings No. 151

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated I. Germany (51)			
AS Auslandsholding GmbH 2)	Buehl	DE	100.00
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH 3)	Starnberg	DE	51.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG 1) 5)	Buehl	DE	100.00
Dürkopp Maschinenbau GmbH 2)	Schweinfurt	DE	100.00
Egon von Ruville GmbH 2)	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG 1) 5)	Schweinfurt	DE	100.00
FAG Industrial Services GmbH 2)	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH 2)	Schweinfurt	DE	100.00
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH – AMUS 2)	Homburg	DE	100.00
IAB Grundstücks-verwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH 2)	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics AG & Co. KG 1) 5)	Suhl	DE	100.00
INA Automotive GmbH 2)	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Bühl mbH 2)	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH 2)	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK ASG GmbH	Buehl	DE	100.00
LuK Auslandsholding GmbH 2)	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH 2)	Buehl	DE	100.00
LuK GmbH & Co. KG 1) 5)	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG 1) 5)	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG 1) 5)	Unna	DE	100.00
LuK Vermögens-verwaltungsgesellschaft mbH 2)	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH 2)	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG 1) 5)	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG 1) 5)	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH 2)	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH 2)	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 1) 5)	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG 1) 5)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH 2)	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 1) 5)	Herzogenaurach	DE	100.00
II. Foreign (101)			
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
Schaeffler Schweiz GmbH	Romanshorn	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.	Mailand	IT	75.00
INA Invest S.r.l.	Momo	IT	100.00
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
NACO Technologies SIA (since January 01, 2017: SIA "Schaeffler Baltic")	Riga	LV	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
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler 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. 6)	Bangkok	TH	49.00
Schaeffler Holding (Thailand) Co., Ltd. 6)	Bangkok	TH	49.00
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100.00
Schaeffler Turkey Endüstri ve Otomotiv Ticaret Limited Sirketi	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.	Caracas	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	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG 5)	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00
II. Foreign (2)			
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00
C. Unconsolidated entities Foreign (1)			
Schaeffler (Xiangtan) Co., Ltd. 4)	Xiangtan	CN	100.00

1) Exemption under section 264b HGB.
2) Exemption under section 264 (3) HGB.
3) The company is consolidated as if it were wholly owned, since the parties hold matching call and put options on the remaining shares.
4) The company is insignificant to the results of operations, financial position, and net assets of Schaeffler AG as at the reporting date.
5) Schaeffler AG or another consolidated entity is the general partner.
6) The company is consolidated based on a majority of the voting rights.

5.10 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*,
Barbara Resch*, 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

Supervisory Board committees

Mediation committee: Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Maria-Elisabeth Schaeffler-Thumann, 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), Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, and Maria Elisabeth Schaeffler-Thumann

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),
Oliver Jung (Chief Operating Officer),
Prof. Dr. Peter Pleus (CEO Automotive),
Corinna Schittenhelm (Chief Human Resources Officer),
Dr. Stefan Spindler (CEO Industrial),
Matthias Zink (CEO Automotive; since January 01, 2017)

The following member left the Board of Managing Directors in 2016

Norbert Indlekofer (CEO Automotive; until December 31, 2016)

* Employee representative.

5.11 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 20, 2017 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 20, 2017

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dr. Ulrich Hauck

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Dr. Stefan Spindler

Matthias Zink

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 of the position of the company and the group for the business year from January 1, 2016 to December 31, 2016. 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 consolidated statement of changes in shareholders’ equity and the notes to the consolidated financial statements, together with its report of the position of the company and the group for the business year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the report of the position of the company and the group 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 report on the position of the company and the group 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 its report of the position of the company and the group 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 report of the position of the company and the group 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 its report of the position of the company and the group. 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 report on the position of the company and the group is consistent with the consolidated financial statements, complies with the German statutory requirements, 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 21, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Alt-Scherer Wirtschaftsprüferin	Koeplin 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 20, 2017

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dr. Ulrich Hauck

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Dr. Stefan Spindler

Matthias Zink