Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestr. 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, 2018, comprise Schaeffler AG and its subsidiaries, investments in associated companies, and joint ventures (together referred to as the “Schaeffler Group”).

The Schaeffler Group is a globally leading, integrated automotive and industrial supplier. Extensive systems know-how enables the Schaeffler Group to offer comprehensive solutions that are tailored to customer and market requirements. By delivering cutting-edge products for the automotive and industrial sector, the Schaeffler Group is shaping “Mobility for tomorrow” to a significant degree. These include products both for vehicles with only an internal combustion engine and for hybrid and electric vehicles, as well as components and systems for rotary and linear movements, and services, maintenance products, and monitoring systems for a large number of industrial applications. Additionally, the global business with spare parts provides repair solutions in original-equipment quality for the automotive spare parts market. The company earns revenue primarily from the sale of goods – in volume production for major customers as well as through its catalog business – and from services. Production of these goods is frequently based on development services, followed in some cases by the manufacture of tools required to produce the goods. Development services and manufacturing tools generate revenue as well.

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 Federal Gazette (Bundesanzeiger Verlag GmbH, Cologne) and published in the Federal Gazette.

1.2 Basis of preparation

In accordance with section 315e (1) HGB, the consolidated financial statements of the Schaeffler Group for the year ended December 31, 2018 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 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.

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
- identification of cash-generating units and determination of recoverable amounts for purposes of impairment tests of goodwill and non-current assets
- evaluation of control over structured entities, associated companies, and joint ventures
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- determination of expected credit losses on financial assets
- accounting for post-employment employee benefits, especially selecting actuarial assumptions
- recognition and measurement of provisions
- share-based payment and
- determination of fair values of financial debt and derivatives

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 2018. The discount rate used to measure defined benefit pension obligations was increased to reflect higher interest rate levels, affecting the recognized amounts of the provision and shareholders' equity (see Note 4.12). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.13) 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 that are directly or indirectly controlled by Schaeffler AG have been consolidated in the company's consolidated financial statements. Subsidiaries are consolidated in the consolidated financial statements from the date the Schaeffler Group 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.

Investments in joint ventures are jointly controlled by their shareholders. Joint control exists only if decisions about the relevant activities require the unanimous consent of the parties. Parties having joint control hold rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

Investments in associated companies are also accounted for under the equity method if the Schaeffler Group has significant influence over the investee.

Carrying amounts of investments in equity-accounted investees are adjusted to reflect changes in the Schaeffler Group's interest in the equity of the investee. Goodwill capitalized in connection with the initial application of the equity method to the company's interest in the investee is not amortized. The carrying amount of the investment is tested for impairment when there is an indication of impairment ("triggering event").

Foreign currency translation

The exchange rates between the group's most significant currencies and the euro are as follows:

Selected foreign exchange rates **No. 095**

Currencies		12/31/2018	12/31/2017	2018	2017
1 € in		Closing rates		Average rates	
CNY	China	7.88	7.80	7.81	7.63
INR	India	79.73	76.61	80.72	73.51
KRW	South Korea	1,277.93	1,279.61	1,299.23	1,275.98
MXN	Mexico	22.49	23.66	22.71	21.33
USD	U.S.	1.15	1.20	1.18	1.13

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, income (loss) from equity-accounted investees, and income taxes (EBIT). Exchange gains and losses on the translation of financial assets and liabilities and on derivatives obtained to hedge the related currency risk are reflected in financial result.

Foreign entities

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

In 2018, the company recognized revenue based on the accounting policies described below. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Revenue is recognized when the related performance obligation is satisfied, i. e. when the customer obtains control of the promised goods or services. This occurs either at a point in time or over time. The transaction price is the amount of consideration to which the Schaeffler Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Schaeffler Group recognizes revenue in the amount of the agreed price relating to the relevant performance obligation. The Schaeffler Group's customers are granted rebates, bonuses, discounts, credits, price concessions, or other variable price concessions. These types of variable consideration are recognized as a reduction of revenue during the year based on historical experience, contractually agreed bonus scales, and prior period sales. Since it expects that the period between when control over a promised good or service transfers and when payment is received will be one year or less, the Schaeffler Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for any financing component. Warranties provided in connection with the sale of goods or services are only intended to provide assurance that the product complies with agreed-upon specifications. Therefore, Schaeffler continues to account for warranties under IAS 37.

Customers typically have 30 to 60 days from the date the invoice is issued to pay for performance obligations under contracts with customers. Invoices are normally issued as at the date the performance obligation is satisfied.

The dates on which performance obligations under contracts with customers are satisfied can be summarized as follows:

Performance obligations under contracts with customers **No. 096**

Type of revenue	Date performance obligations satisfied
Revenue from the sale of goods	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Revenue from the sale of customer-specific products	Revenue recognition over time for customer-specific products for which the Schaeffler Group has an enforceable right to payment for performance completed to date amounting to any costs incurred plus a reasonable profit margin. This will result in revenue being recognized before the date of actual delivery. Revenue for customer-specific finished goods is recognized at the amount of the full price of the finished good in the period in which the customer is obligated to take delivery. For customer-specific goods in progress, the amount of revenue for the period in which the customer is obligated to take delivery is derived from the acquisition cost of the goods in progress rather being determined as the amount of the full price of the goods when they are finished. The method described above best represents the transfer of customer-specific products to the customer.
Revenue from the sale of tools	Depending on specific customer contracts and purchase orders, revenue is normally recognized at the date of delivery.
Development service revenue	Revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This revenue is recognized when the development services have been rendered in full.
Other service revenue	Revenue is mostly recognized at a point in time upon completion of the service.

In 2017, the company recognized revenue based on the following accounting policies:

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 the Schaeffler Group,
- the costs associated with the transaction can be measured reliably,
- the Schaeffler Group 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 and advance development are expensed immediately.

Starting January 1, 2018, expenses for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract are recognized as cost of sales when the completed development service is transferred to the customer. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

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.

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 the higher of fair value less costs of disposal and value in use of the cash-generating unit. Value in use is determined using the discounted cash flow method. 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 five-year-forecast and on a perpetuity for the period beyond that timeframe. 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 details. 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. The Schaeffler Group'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

In 2018, the company accounted for financial instruments using the accounting policies described below.[4]

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.

[4] See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

IFRS 9 contains three fundamental categories for the classification of financial instruments: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). Under IFRS 9, financial assets are classified based on the company's business model for managing the financial assets and on their contractual cash flow characteristics.

Financial assets at fair value through profit or loss

This category mainly includes a portion of the trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) (see Note 4.15). Due to the short maturity of these receivables, their transaction price represents their fair value. The fair value of marketable securities, on the other hand, is derived from market prices.

Financial assets at fair value through other comprehensive income

Financial investments in strategic long-term minority investments are measured at fair value, and changes in fair value are recognized in other comprehensive income. Accumulated other comprehensive income is not reclassified to the consolidated income statement upon disposal.

Financial assets at amortized cost

This category comprises trade receivables (except those that are available for sale under the ABCP program), cash and cash equivalents, and other financial assets. These assets are measured at amortized cost less impairment losses recognized for expected credit losses. Schaeffler uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables. Under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using customer-specific probabilities of default and taking into account information about future conditions. Credit loss allowances for the remaining financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly, the credit loss allowance recognized has to be based on lifetime expected credit losses. 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. See the "Credit risk" section in the "Financial instruments" chapter for further details.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement) (see Note 5.2).

Financial liabilities

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

Derivative financial instruments

Derivative financial instruments are generally classified and measured at fair value through profit or loss unless they are subject to hedge accounting.

Derivatives embedded in financial liabilities 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.

In 2017, the company accounted for financial instruments using the following accounting policies:

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.

The Schaeffler Group 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 payment delays on the part 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.

Trade receivables sold under receivable sale programs as well as the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

Cash and cash equivalents are accounted for at cost.

Financial liabilities

Except for derivative financial instruments, the Schaeffler Group 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.

Contract assets

In 2018, the company accounted for contract assets using the accounting policies described below. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Contract assets mainly result from revenue for customer-specific products recognized over time. This affects products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. Contract assets are reclassified to trade receivables when they represent an unconditional right to receive the consideration. This is the case when the invoice is issued to the customer. The Schaeffler Group uses the simplified impairment approach for contract assets; under this approach, a credit loss allowance is recognized based on lifetime expected credit losses.

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. In accordance with IAS 37, interest related to income taxes is recognized at the amount required to settle the current obligation as at the reporting date. 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 (incl. 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 twelve 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 the Schaeffler Group 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, and 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, the Schaeffler Group 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.

The German pension plans are measured based on the new "Heubeck-Richttafeln 2018 G" mortality tables starting in 2018.

Provisions

Provisions are recognized when the Schaeffler Group has a present legal or constructive obligation as a result of a past event, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at best estimate. Non-current 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.

Contract liabilities

In 2018, the company accounted for contract liabilities using the accounting policies described below. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Contract liabilities partly result from payments received from customers for development services. This revenue is recognized when the customer obtains control of the completed development services.

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 a binomial option pricing model. The fair value is recognized as personnel expense over the period between grant date and settlement date.

1.4 Change in accounting policy IAS 8

In September 2018, the IFRS Technical Committee of the Accounting Standards Committee of Germany (“Deutsches Rechnungslegungs Standards Committee” - DRSC) issued DRSC Interpretation 4 (IFRS) Accounting for Interest and Penalties Related to Income Taxes. The Interpretation addresses the accounting for interest and penalties pursuant to section 3 (4) Fiscal Code of Germany (“Abgabenordnung” - AO) related to actual income taxes as defined in IAS 12.5 (“interest and penalties related to income taxes”) in financial statements prepared in accordance with IFRS as adopted by the EU. The Interpretation clarifies that interest and penalties pursuant to section 3 (4) AO related to income taxes should be accounted for under IAS 37. This has resulted in changes in the recognition, measurement, and presentation of interest and penalties related to income taxes. The change in accounting treatment represents a change in accounting policy in accordance with IAS 8. Its impact on the consolidated financial statements can be summarized as follows:

Impact IAS 8 – consolidated statement of financial position **No. 097**

January 1, 2017

in € millions	Balance as at January 01, 2017, before IAS 8 adjustments	Change in accounting policy IAS 8	Balance as at January 01, 2017
ASSETS			
Total non-current assets	5,979	0	5,979
Total current assets	5,585	0	5,585
Total assets	**11,564**	**0**	**11,564**
SHAREHOLDERS’ EQUITY AND LIABILITIES			
Total shareholders’ equity	**1,997**	**33**	**2,030**
Other reserves	-404	33	-371
Other	2,401	0	2,401
Total non-current liabilities	**6,361**	**-31**	**6,330**
Provisions	96	14	110
Income tax payables	163	-45	118
Other	6,102	0	6,102
Total current liabilities	**3,206**	**-2**	**3,204**
Provisions	354	24	378
Income tax payables	176	-26	150
Other	2,676	0	2,676
Total shareholders’ equity and liabilities	**11,564**	**0**	**11,564**

Impact IAS 8 – consolidated statement of financial position **No. 098**

December 31, 2017

in € millions	Balance as at December 31, 2017, before IAS 8 adjustments	Change in accounting policy IAS 8	Balance as at December 31, 2017
ASSETS			
Total non-current assets	6,178	0	6,178
Total current assets	5,359	0	5,359
Total assets	**11,537**	**0**	**11,537**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total shareholders' equity	**2,548**	**33**	**2,581**
Other reserves	249	33	282
Other	2,299	0	2,299
Total non-current liabilities	**5,676**	**-32**	**5,644**
Provisions	173	15	188
Income tax payables	153	-47	106
Other	5,350	0	5,350
Total current liabilities	**3,313**	**-1**	**3,312**
Provisions	233	31	264
Income tax payables	162	-32	130
Other	2,918	0	2,918
Total shareholders' equity and liabilities	**11,537**	**0**	**11,537**

This change in accounting policy has no significant impact on the consolidated income statement.

1.5 New accounting pronouncements

New accounting pronouncements effective in 2018

The effects of applying IFRS 9 and IFRS 15 effective January 1, 2018, which are discussed below, have resulted in a change in accounting policy. In accordance with the transition requirements, the Schaeffler Group has applied the modified retrospective approach to transition to both IFRS 9 and IFRS 15, i.e. the standard was only applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of initially applying the standard was recognized as an adjustment to the opening balance of shareholders' equity as at January 1, 2018, the date of initial application.

Other amendments to International Financial Reporting Standards (IFRS) required to be applied for the first time have not had any significant impact on these financial statements.

IFRS 9

Classification and measurement of financial assets and financial liabilities

Classification and measurement of the part of the portfolio of trade receivables that is available for sale under the ABCP program (asset-backed commercial paper) has changed from the previous measurement base, amortized cost (AC), to measurement at fair value through profit or loss (FVTPL). This has not resulted in any measurement differences. Investments previously measured at amortized cost under the exception allowed by IAS 39 because their fair value was not reliably determinable are now accounted for at fair value through other comprehensive income (FVOCI). Initial application of this accounting treatment has increased other reserves by EUR 24 m.

IFRS 9 largely carries forward the classification and measurement requirements of IAS 39 for financial liabilities. Although the Schaeffler Group has one modified financial liability, this has not impacted the amounts recognized in the financial statements.

Impairment model for financial assets

IFRS 9 has also introduced a new impairment model for financial assets accounted for at amortized cost. The standard has replaced the previous incurred loss model with an expected loss model. Initial application of the new impairment model has increased the Schaeffler Group's other reserves by EUR 4 m upon transition (see also Note 4.6 “Trade receivables”).

Hedge accounting

In accordance with the option provided for hedge accounting in the transition requirements of IFRS 9, the Schaeffler Group will continue to apply the hedge accounting requirements of IAS 39 and intends to initially apply IFRS 9 at a later date, i.e. after January 1, 2018.

The carrying amounts of financial instruments by class of the consolidated statement of financial position and by category per IFRS 9 can be reconciled to the categories previously used under IAS 39 follows:

Financial instruments by class and category in accordance with IFRS 7.8 [1)] **No. 099**

		12/31/2018	01/01/2018		12/31/2017
in € millions	Category IFRS 7.8 per IFRS 9	Carrying amount	Carrying amount	Category IFRS 7.8 per IAS 39	Carrying amount
Financial assets, by class					
Trade receivables	Amortised cost	1,914	2,131	LaR	2,127
Trade receivables – ABCP program [1)]	FVTPL	89	65	LaR	65
Other financial assets					
• Other investments [1)]	FVOCI	38	41	AfS	17
• Marketable securities	FVTPL	17	16	AfS	16
• Derivatives designated as hedging instruments	n.a.	43	58	n.a.	58
• Derivatives not designated as hedging instruments	FVTPL	31	85	HfT	85
• Miscellaneous other financial assets	Amortised cost	108	46	LaR	46
Cash and cash equivalents	Amortised cost	801	698	LaR	698
Financial liabilities, by class					
Financial debt	FLAC	3,348	3,068	FLAC	3,068
Trade payables	FLAC	1,967	1,867	FLAC	1,867
Refund liabilities	n.a.	236	213		0
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	40	11	n.a.	11
• Derivatives not designated as hedging instruments	FVTPL	27	25	HfT	25
• Miscellaneous other financial liabilities	FLAC	423	457	FLAC	670
Summary by category					
Financial assets at amortized cost (Amortized cost)		2,823	2,875	LaR	2,936
Financial assets at fair value through profit or loss (FVTPL)		137	166	HfT	85
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)		38	41	AfS	33
Financial liabilities at amortized cost (FLAC)		5,738	5,392	FLAC	5,605
Financial liabilities at fair value through profit or loss (FVTPL)		27	25	HfT	25

[1)] The reclassifications under IFRS 9 relate to:
a) Trade receivables that are available for sale under the ABCP program (reclassified from LaR to FVTPL).
b) Other investments (reclassified from AfS to FVOCI equity instruments).

IFRS 15

New IFRS 15 Revenue from Contracts with Customers replaces existing revenue recognition guidance previously contained in several standards (IAS 18 Revenue and IAS 11 Construction Contracts) and interpretations (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). Its initial application has mainly had the following impact on transition.

Development services

Starting January 1, 2018, revenue is recognized for development services that represent a distinct, separately identifiable performance obligation vis-à-vis the customer and for which the Schaeffler Group is entitled to consideration under the contract. This consideration is recognized as revenue when the customer obtains control of the completed development services. The related expenses are expensed as cost of sales when revenue is recognized. In the past, payments received from customers for development services were offset against the related development costs and the net amount was classified as research and development expenses.

Customer-specific products

Starting January 1, 2018, revenue is recognized over time for products that have no alternative use due to their specifications, provided the Schaeffler Group has an enforceable right to payment from the customer for these products amounting to at least any costs of performance completed to date plus a reasonable profit margin. This has resulted in revenue being recognized earlier than under the company's previous accounting policies.

Initial application of these changes has increased the Schaeffler Group's other reserves as at January 1, 2018, by EUR 7 m. This transition adjustment was adjusted retrospectively during the year.

Additionally, advance payments received under contracts with customers within the scope of IFRS 15 were reclassified to contract liabilities during the year. These had previously been reported in other liabilities. Furthermore, selling expenses (bonuses, rebates, discounts) are presented separately as refund liabilities. These had previously been reported in other financial liabilities.

The following summaries provide an overview of the impact of IFRS 15 on the consolidated financial statements as at December 31, 2018.

IFRS 15 – impact on consolidated statement of financial position No. 100

in € millions	12/31/2018	Impact IFRS 15	12/31/2018 before applying IFRS 15
ASSETS			
Contract assets	11	11	0
Other assets	86	1	85
Non-current assets	**6,828**	**12**	**6,816**
Inventories	2,183	-13	2,196
Contract assets	45	45	0
Current assets	**5,534**	**32**	**5,502**
Total assets	**12,362**	**44**	**12,318**
SHAREHOLDERS' EQUITY AND LIABILITIES			
• Other reserves	866	19	847
Shareholders' equity	**3,060**	**19**	**3,041**
Contract liabilities	2	2	0
Other financial liabilities	9	1	8
Deferred tax liabilities	131	9	122
Non-current liabilities	**5,780**	**12**	**5,768**
Provisions	244	-3	247
Contract liabilities	45	45	0
Other financial liabilities	481	-234	715
Refund liabilities	236	236	0
Other liabilities	320	-31	351
Current liabilities	**3,522**	**13**	**3,509**
Total shareholders' equity and liabilities	**12,362**	**44**	**12,318**

IFRS 15 – impact on consolidated income statement No. 101

in € millions	2018	Impact IFRS 15	2018 before applying IFRS 15
Revenue	14,241	69	14,172
Cost of sales	-10,558	-113	-10,445
Gross profit	**3,683**	**-44**	**3,727**
Research and development expenses	-847	58	-905
EBIT	**1,354**	**14**	**1,340**
Financial result	**-155**	**3**	**-158**
Income taxes	-300	-5	-295
Net income	**895**	**12**	**883**
Earnings per common share (basic/diluted, in €)	1.32	0.02	1.30
Earnings per common non-voting share (basic/diluted, in €)	1.33	0.02	1.31

New accounting pronouncements endorsed by the EU effective in 2019

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 2018, and none were adopted early.

In October 2017, the IASB issued Amendments to IFRS 9 that are effective as at January 1, 2019, and require retrospective application (endorsed by the EU in March 2018). These amendments address whether prepayment features with negative compensation meet the cash flow condition; their impact on the Schaeffler Group is insignificant.

In July 2018, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments in order to clarify the accounting for various uncertainties regarding the income tax treatment of positions and transactions. Based on current assessments, this clarification will not have a significant impact on the Schaeffler Group. The new interpretation is effective as at January 1, 2019 (endorsed by the EU in October 2018).

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the requirements of IAS 17 and the related Interpretations. The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Schaeffler Group has initially applied the standard for the year beginning on January 1, 2019.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. In the future, lessees will capitalize the right to use the leased asset and recognize a liability representing its obligation to make lease payments. The new standard substantially carries forward the lessor accounting requirements in IAS 17, continuing to require them to classify leases as operating leases or finance leases.

The Schaeffler Group is using the modified retrospective approach to transition to IFRS 16, i.e. the standard is only applied to the most recent reporting period presented in the financial statements (the year 2019). Prior year amounts are not adjusted. The company has elected to apply the exemptions for short-term leases with a term of up to twelve months and for leases of low-value assets. The Schaeffler Group intends to apply additional practical expedients.

The Schaeffler Group has examined the impact of applying IFRS 16 in a dedicated project. Following a systematic analysis, the project is currently in the final implementation stage of processes and systems changes. Based on the current status of the project, the Schaeffler Group expects the main impact of transitioning to the new standard to result from the future capitalization of real estate and vehicle leases previously classified as operating leases. The nature of expenses related to leases will change, since the Schaeffler Group will be recognizing depreciation on rights of use as well as interest expense on lease obligations.

Based on information currently available, the Schaeffler Group estimates the change in accounting for leases as a consequence of IFRS 16 to result in the recognition of additional lease liabilities and right of use assets of EUR 219 m as at January 1, 2019. The resulting depreciation on right of use assets for 2019 is estimated at EUR 60 m, and interest expense on lease liabilities at EUR 4 m. Based on the current status of the project, the Schaeffler Group does not expect any significant impact on its EBIT.

New accounting pronouncements not endorsed by the EU in 2019

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. 102**

Standard/Interpretation		Effective date	Subject of Standard/ Interpretation or amendment	Expected impact on the Schaeffler Group
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	01/01/2019	Amendments clarifying that long-term interests that are considered part of the net investment in an associate or joint venture are accounted for under IFRS 9 unless they are accounted for under the equity method	None
Amendments to IAS 19	Employee benefits	01/01/2019	Recalculation of current service cost and net interest for the remainder of the annual reporting period after an amendment, curtailment, or settlement of a pension plan during the year	Under examination [1]
Annual improvements 2015 – 2017		01/01/2019	Various amendments to IFRS 3, IFRS 11, IAS 12, IAS 23	Under examination [1]
Amendments to References to the Conceptual Framework in IFRS Standards		01/01/2020	Revised definitions of assets and liabilities and new guidelines on measurement and derecognition, presentation and disclosure	None
Amendments to IFRS 3	Business Combinations	01/01/2020	Issuance of a definition of a business	Under examination [1]
Amendments to IAS 1 and IAS 8		01/01/2020	Definition of material	Under examination [1]
IFRS 17	Insurance Contracts	01/01/2021	Principles for recognition, measurement, and presentation of as well as disclosures about insurance contracts	Under examination [1]
Amendments to IFRS 10, IAS 28		Undefined	Clarification of accounting for gains and losses on the sale or contribution of assets between an investor and its associate or joint venture	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 2018, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 152 (prior year: 151) subsidiaries; 51 (prior year: 50) entities are domiciled in Germany and 101 (prior year: 101) in other countries.

The companies acquired in 2017, autinity systems GmbH and afr-consulting GmbH (now Schaeffler Digital Solutions GmbH), were consolidated for the first time effective January 1, 2018. A total of eight entities were consolidated for the first time in 2018. Seven intra-group mergers have reduced the number of entities consolidated.

The impact of the changes in the scope of consolidation on the Schaeffler Group's net assets, financial position, and earnings was insignificant during the reporting period.

In the consolidated financial statements as at December 31, 2018, three (prior year: two) joint ventures and two associated companies (prior year: three) are accounted for at equity.

More on the Schaeffler Group's companies in Note 5.10

3. Notes to the consolidated income statement

3.1 Revenue

Revenue from contracts with customers can be analyzed by category and segment as follows:

IFRS 15 – analysis of revenue by category **No. 103**

	01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31	
	2018	2017 1) 2)	**2018**	2017 1) 2)	**2018**	2017 1) 2)	**2018**	2017 1)
in € millions	Automotive OEM		Automotive Aftermarket		Industrial		Total	
Revenue by type								
• Revenue from the sale of goods	8,767	8,839	1,859	1,880	3,353	3,117	13,979	13,836
• Revenue from the sales of tools	124	116	0	0	0	0	124	116
• Revenue from development services	58	0	0	0	0	0	58	0
• Revenue from other services	44	26	0	0	30	33	74	59
• Other revenue	4	10	0	0	2	0	6	10
Total	**8,997**	**8,991**	**1,859**	**1,880**	**3,385**	**3,150**	**14,241**	**14,021**
Revenue by region 3)								
• Europe	4,014	4,004	1,393	1,375	1,906	1,804	7,313	7,183
• Americas	1,938	1,932	340	403	596	575	2,874	2,910
• Greater China	1,910	1,927	76	57	575	472	2,561	2,456
• Asia/Pacific	1,135	1,128	50	45	308	299	1,493	1,472
Total	**8,997**	**8,991**	**1,859**	**1,880**	**3,385**	**3,150**	**14,241**	**14,021**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.
2) Prior year information presented based on 2018 segment structure. Prior year amounts are based on a retrospective change in segment structure. See Note 5.5 “Segment information” to the consolidated financial statements for further details.
3) By market (customer location).

The following overview shows receivables, contract assets, and contract liabilities from contracts with customers.

Contract balances No. 104

in € millions	12/31/2018	01/01/2018
Trade receivables	2,003	2,192
Contract assets	56	48
Contract liabilities	47	37
Revenue recognized in the reporting period [1]		
• that was included in the contract liability balance at the beginning of the year	34	-
• from performance obligations satisfied in previous years	9	-

[1] Amounts for the reporting period from January 1, 2018, to December 31, 2018.

Contract assets on hand as at December 31, 2018, resulted from revenue that has been recognized over time for customer-specific products.

Contract liabilities on hand as at December 31, 2018, represented payments received from customers for development services for which control had not yet been transferred to the customer as well as other advance payments received under contracts with customers.

As at December 31, 2018, the remaining performance obligations mainly represented outstanding performance obligations under development agreements. The related revenue is recognized when the customer obtains control of the development services. The company expects to recognize EUR 57 m in revenue in connection with these performance obligations, largely over the next 3 years.

There were no significant changes in the balances of contract assets and contract liabilities during the reporting period except for the reclassification of a portion of advance payments received to contract liabilities.

3.2 Other income

Other income No. 105

in € millions	2018	2017
Gains on reversal of provisions	35	38
Miscellaneous income	52	44
Total	**87**	**82**

Gains on reversal of provisions included EUR 23 m (prior year: EUR 6 m) in gains on the reversal of provisions for potential third party claims in connection with antitrust proceedings and other compliance cases.

3.3 Other expenses

Other expenses No. 106

in € millions	2018	2017
Exchange losses	6	35
Miscellaneous expenses	71	106
Total	**77**	**141**

Exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2018, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 6 m (prior year: EUR 35 m).

Miscellaneous other expenses included EUR 26 m (prior year: EUR 0 m) in expenditures related to the reorganization of the “Bearing & Components Technologies” unit and its integration into the Automotive OEM and Industrial divisions. In addition, EUR 22 m (prior year: EUR 0 m) in expenses were attributable to the reorganization of the company’s UK business activities. The prior year included EUR 39 m in restructuring expenses incurred to set up a shared service center in Europe.

3.4 Personnel expense and headcount

Average number of employees by region No. 107

	2018	2017
Europe	63,001	60,954
Americas	13,243	12,826
Greater China	12,829	11,981
Asia/Pacific	3,159	2,936
Total	**92,232**	**88,697**

The number of employees as at December 31, 2018 was 92,478, 2.6% above the prior year level of 90,151.

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

Personnel expense No. 108

in € millions	2018	2017
Wages and salaries	3,743	3,606
Social security contributions	716	700
Other personnel expense	141	131
Total	**4,600**	**4,437**

The increase in personnel expense in 2018 was mainly attributable to pay increases arising from local collective agreements and to the expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions.

Other personnel expense includes EUR 138 m (prior year: EUR 128 m) in retirement benefit expenses.

3.5 Financial result

Schaeffler Group financial result **No. 109**

in € millions	2018	2017
Interest expense on financial debt [1]	-99	-123
Interest income on shareholder loans	-1	-17
Gains and losses on derivatives and foreign exchange	-43	-14
Interest income and expense on pensions and partial retirement obligations	-40	-38
Other	28	0
Total	**-155**	**-192**

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

Interest expense on financial debt amounted to EUR 99 m in 2018 (prior year: EUR 123 m) and included prepayment penalties of EUR 0 m (prior year: EUR 13 m) and EUR 0 m (prior year: EUR 5 m) in deferred transaction costs derecognized.

Net **foreign exchange** losses on financial assets and liabilities and net losses on **derivatives** amounted to EUR 1 m (prior year: EUR 17 m). These include the impact of translating the financing instruments denominated in U.S. dollars to euros and hedges of these instruments using cross currency swaps.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 43 m (prior year: EUR 14 m).

3.6 Income taxes

Income taxes **No. 110**

in € millions	2018	2017
Current income taxes	302	329
Deferred income taxes	-2	10
Total	**300**	**339**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2018.

The average domestic tax rate was 28.6% in 2018 (prior year: 28.6%). 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: 12.7%).

The current income tax benefit related to prior years amounted to EUR 3 m (prior year: EUR 13 m) in 2018. The Schaeffler Group had a deferred tax benefit of EUR 44 m related to prior years (prior year: EUR 16 m) in 2018.

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 2018 is based on the Schaeffler Group's 28.6% (prior year: 28.6%) effective combined trade and corporation tax rate including solidarity surcharge.

Tax rate reconciliation **No. 111**

in € millions	2018	2017
Earnings before income taxes	1,195	1,336
Expected tax expense	**342**	**382**
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-17	-22
Change in tax rate and law	1	-8
Non-recognition of deferred tax assets	18	7
Tax credits and other tax benefits	-15	-16
Non-deductible expenses and non-taxable income	16	24
Taxes for previous years	-47	-29
Other	-3	-4
Reported tax expense	**300**	**339**

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 non-taxable income includes non-deductible operating expenses and deferred tax liabilities on dividends expected to be paid by subsidiaries.

Taxes for previous years mainly contain income tax benefits from reassessments of tax issues from prior years.

3.7 Earnings per share

Earnings per share **No. 112**

in € millions	2018	2017
Net income	895	997
Net income attributable to shareholders of the parent company	881	980
Earnings attributable to common shares	660	734
Earnings attributable to common non-voting shares	221	246
Average number of common shares issued in millions	500	500
Average number of common non-voting shares issued in millions	166	166
Earnings per common share (basic/diluted, in €)	**1.32**	**1.47**
Earnings per common non-voting share (basic/diluted, in €)	**1.33**	**1.48**

There were no dilutive items as at December 31, 2018, 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

Effective January 1, 2018, the former Automotive Aftermarket business division was set up as the company's third division. In this context, the number of groups of cash-generating units to which goodwill has been allocated was increased from two to three. Goodwill was allocated based on relative value in use.

The carrying amounts of goodwill allocated to the groups of cash-generating units to which **goodwill** has been allocated were EUR 243 m for the Automotive OEM segment (prior year: EUR 243 m), EUR 76 m for the Automotive Aftermarket segment (prior year: EUR 76 m), and EUR 211 m (prior year: EUR 208 m) for the Industrial segment.

For purposes of determining value in use, cash flows beyond the detailed forecasting horizon of 2021 are based on the 2022 and 2023 planning years and, for periods after 2023, on an annuity calculated using an annual growth rate of 1.0% (prior year: 1.0%) for each segment." Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 12.1% as the weighted average cost of capital for the Automotive OEM segment and 12.9% for the Automotive Aftermarket segment (prior year: Automotive segment 12.6%) as well as 12.1% (prior year: 12.4%) for the Industrial segment. This corresponds to a post-tax interest rate of 8.9% for the Automotive OEM segment and 9.8% for the Automotive Aftermarket segment (prior year: Automotive segment 9.1%) as well as 8.9% (prior year: 9.0%) for the Industrial segment.

As the value in use of each of the groups of cash-generating units exceeded their carrying amount both for 2018 and the prior year, they were not impaired.

Internally generated intangible assets consisted largely of development costs of EUR 46 m (prior year: EUR 55 m), including EUR 1 m (prior year: EUR 35 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 27 m (prior year: EUR 28 m) and was recognized in the following line items in the consolidated income statement: Cost of sales EUR 9 m (prior year: EUR 6 m), research and development expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 13 m (prior year: EUR 17 m).

Intangible assets **No. 113**

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2017	**527**	**1,082**	**310**	**1,919**
Additions	0	19	13	32
Disposals	0	-7	0	-7
Transfers	0	-1	1	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	**527**	**1,089**	**322**	**1,938**
Balance as at January 01, 2018	**527**	**1,089**	**322**	**1,938**
Additions	3	13	1	17
Disposals	0	-34	0	-34
Transfers	0	1	0	1
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**530**	**1,069**	**323**	**1,922**
Accumulated amortization and impairment losses				
Balance as at January 01, 2017	**0**	**1,028**	**259**	**1,287**
Amortization	0	19	9	28
Disposals	0	-7	0	-7
Transfers	0	0	0	0
Foreign currency translation	0	-4	-2	-6
Balance as at December 31, 2017	**0**	**1,036**	**266**	**1,302**
Balance as at January 01, 2018	**0**	**1,036**	**266**	**1,302**
Amortization	0	18	9	27
Disposals	0	-34	0	-34
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2018	**0**	**1,020**	**275**	**1,295**
Net carrying amounts				
As at January 01, 2017	**527**	**54**	**51**	**632**
As at December 31, 2017	**527**	**53**	**56**	**636**
As at January 01, 2018	**527**	**53**	**56**	**636**
As at December 31, 2018	**530**	**49**	**48**	**627**

4.2 Property, plant and equipment

Property, plant and equipment **No. 114**

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2017	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Additions	39	372	109	735	1,255
Disposals	-2	-190	-71	-1	-264
Transfers	69	401	28	-498	0
Reclassification to IFRS 5	-3	0	0	0	-3
Foreign currency translation	-66	-269	-22	-22	-379
Balance as at December 31, 2017	**2,567**	**8,724**	**1,126**	**970**	**13,387**
Balance as at January 01, 2018	**2,567**	**8,724**	**1,126**	**970**	**13,387**
Adjustments IFRS 15	**0**	**-5**	**0**	**0**	**-5**
Balance as at January 01, 2018, including IFRS 15	**2,567**	**8,719**	**1,126**	**970**	**13,382**
Additions	46	361	82	769	1,258
Disposals	-8	-179	-67	-3	-257
Transfers	108	412	33	-554	-1
Reclassification to IFRS 5	-6	0	0	0	-6
Foreign currency translation	1	-9	2	0	-6
Balance as at December 31, 2018	**2,708**	**9,304**	**1,176**	**1,182**	**14,370**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2017	**1,358**	**6,091**	**817**	**5**	**8,271**
Depreciation	78	556	105	0	739
Impairment losses	0	0	0	0	0
Disposals	-1	-186	-70	0	-257
Transfers	0	0	0	0	0
Reclassification to IFRS 5	0	0	0	0	0
Foreign currency translation	-31	-184	-15	-1	-231
Balance as at December 31, 2017	**1,404**	**6,277**	**837**	**4**	**8,522**
Balance as at January 01, 2018	**1,404**	**6,277**	**837**	**4**	**8,522**
Adjustments IFRS 15	**0**	**-3**	**0**	**0**	**-3**
Balance as at January 01, 2018, including IFRS 15	**1,404**	**6,274**	**837**	**4**	**8,519**
Depreciation	82	619	92	0	793
Impairment losses	0	0	0	1	1
Disposals	-7	-175	-66	-1	-249
Transfers	0	0	0	0	0
Reclassification to IFRS 5	-4	0	0	0	-4
Foreign currency translation	1	-9	1	-1	-8
Balance as at December 31, 2018	**1,476**	**6,709**	**864**	**3**	**9,052**
Net carrying amounts					
As at January 01, 2017	**1,172**	**2,319**	**265**	**751**	**4,507**
As at December 31, 2017	**1,163**	**2,447**	**289**	**966**	**4,865**
As at January 01, 2018	**1,163**	**2,447**	**289**	**966**	**4,865**
As at December 31, 2018	**1,232**	**2,595**	**312**	**1,179**	**5,318**

As at December 31, 2018, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 465 m (prior year: EUR 451 m).

4.3 Investments in equity-accounted investees

Investments in equity-accounted investees consisted of EUR 158 m (prior year: EUR 0 m) in investments in joint ventures and EUR 2 m (prior year: EUR 3 m) in investments in associated companies.

The most significant joint venture is Schaeffler Paravan Technologie GmbH & Co. KG, Herzogenaurach, which was established in 2018.

The company is jointly controlled by its two limited partners, Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH.

90% of its shares are held by Schaeffler Technologies AG & Co. KG and Arnold Verwaltungs GmbH holds a 10% interest. The joint venture's two shareholders have joint control because decisions about the relevant activities require the unanimous consent of both shareholders.

The general partner of Schaeffler Paravan Technologie GmbH & Co. KG is Schaeffler Paravan Management GmbH (no shareholdings).

The company has EUR 190 m in share capital, contributed in cash (EUR 180 m) and in kind (EUR 10 m).

On October 1, 2018, the joint venture acquired the Space Drive "Drive-by-Wire"-Technology (from Paravan GmbH and Roland Arnold GmbH & Co. KG) and the "Schaeffler Mover" activities from Schaeffler Technologies AG & Co. KG. The objective of the company is the further development of the "Drive-by-Wire"-Technology and the development and sale of mobility systems.

The following summarized financial information can be derived from the financial statements of Schaeffler Paravan Technologie GmbH & Co. KG for 2018 prepared in accordance with IFRS. The summarized financial information is shown at 100%.

Schaeffler Paravan Technologie GmbH & Co. KG **No. 115**

in € millions	2018
Current assets	3.6
• Liquid funds	1.0
Non-current assets	186.7
Total assets	**190.3**
Current liabilities	3.4
• Current financial liabilities	1.0
Non-current liabilities	1.7
• Non-current financial liabilities	1.0
Total liabilities	**5.1**
Revenue	0.9
Depreciation and amortization	-2.3
Earnings before income taxes	-4.4
Other comprehensive income	-0.3
Income taxes	0.0
Total comprehensive income after taxes	**-4.7**
Net assets	**185.2**
Proportionate sale of net assets	166.7
Elimination of proportionate share of gain on contribution in kind	-8.9
Carrying amount of investment	**157.8**

The impact of other equity-accounted joint ventures and of associated companies on the Schaeffler Group's net assets, financial position, and earnings as at the end of the reporting period was insignificant.

4.4 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. 116**

in € millions	12/31/2017 [1] Net	Recognized in profit or loss	Recognized in equity	Recognized in other comprehensive income	12/31/2018 Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-24	2	0	0	-22	2	-24
Property, plant and equipment	-38	-10	0	0	-48	99	-147
Financial assets	-1	-12	0	19	6	6	0
Inventories	95	-4	2	0	93	101	-8
Trade receivables and other assets	-32	56	-4	0	20	155	-135
Provisions for pensions and similar obligations	336	-6	0	11	341	405	-64
Other provisions and other liabilities	35	-31	0	0	4	148	-144
Interest- and loss carryforwards	21	4	0	0	25	25	0
Outside basis differences	-29	-1	0	0	-30	0	-30
Deferred taxes (gross)	**363**	**-2**	**-2**	**30**	**389**	**941**	**-552**
Netting						421	-421
Deferred taxes (net)	**363**	**-2**	**-2**	**30**	**389**	**520**	**-131**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

The group had gross carryforwards under the interest deduction cap of EUR 46 m (prior year: EUR 32 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carryforwards.

As at December 31, 2018, the Schaeffler Group had gross loss carryforwards of EUR 137 m (prior year: EUR 99 m) for corporation tax and EUR 35 m (prior year: EUR 9 m) for trade tax, including EUR 113 m (prior year: EUR 72 m) in corporation tax losses and EUR 24 m (prior year: EUR 9 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 44 m (prior year: EUR 22 m) of the corporation tax loss carryforwards on which no deferred tax assets were recognized can be carried forward for a limited period. The interest carryforwards can be utilized indefinitely.

No deferred tax assets were recognized on EUR 56 m (prior year: EUR 31 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 2,156 m (prior year: EUR 2,006 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 4 m (prior year: EUR 5 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

As at December 31, 2018, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 290 m (prior year: EUR 260 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

As at December 31, 2018, income tax receivables amounted to EUR 102 m (prior year: EUR 102 m) and did not include any non-current balances.

As at December 31, 2018, income tax payables amounted to EUR 172 m (prior year: EUR 236 m), including non-current balances of EUR 103 m (prior year: EUR 106 m).[5]

4.5 Inventories

Inventories **No. 117**

in € millions	12/31/2018	12/31/2017[1)]
Raw materials and supplies	442	393
Work in progress	597	571
Finished goods and merchandise	1,142	1,052
Advance payments	2	1
Total	**2,183**	**2,017**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

EUR 10,452 m (prior year: EUR 10,021 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2018.

The impairment allowance on inventories amounted to EUR 276 m (prior year: EUR 271 m) as at December 31, 2018.

4.6 Trade receivables

Trade receivables **No. 118**

in € millions	12/31/2018	12/31/2017[1)]
Trade receivables (gross)	**2,021**	**2,213**
Impairment allowances	-18	-21
Trade receivables (net)	**2,003**	**2,192**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

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

Impairment allowances on trade receivables **No. 119**

in € millions	2018	2017[1)]
Impairment allowances as at January 01 per IAS 39	**-21**	**-25**
Adjustment for initial application of IFRS 9	4	
Impairment allowances as at January 01 per IFRS 9	**-17**	
Additions	-5	-1
Allowances used to cover write-offs	1	2
Reversals	3	3
Impairment allowances as at December 31	**-18**	**-21**

[1)] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

[5] In 2018, the Schaeffler Group has initially applied DRSC Interpretation 4 (IFRS) issued in September 2018, resulting in a retrospective adjustment of the prior year amounts (see Note 1.4 for further details).

Aging of trade receivables **No. 120**

in € millions		12/31/2018	12/31/2017 1)
Carrying amount		**2,021**	**2,213**
Not past due		**1,868**	**2,033**
Past due	up to 60 days	**102**	**134**
	61 – 120 days	**17**	**14**
	121 – 180 days	**7**	**10**
	181 – 360 days	**12**	**7**
	› 360 days	**15**	**15**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

As at December 31, 2018, trade receivables outstanding with a carrying amount of EUR 166 m (prior year: EUR 123 m) net of retained credit risk had been sold under the ABCP program (see Note 5.2).

No trade receivables were pledged as security for lines of credit as at December 31, 2018 (prior year: EUR 195 m).

As at December 31, 2017, trade receivables of EUR 2,033 m were neither impaired nor past due. Receivables totaling EUR 134 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 46 m as at December 31, 2017, and the related impairment allowance was EUR -21 m.

More on the Schaeffler Group’s exposure to credit, currency, and liquidity risk in Note 4.15

4.7 Other financial assets and other assets

Other financial assets (non-current/current) **No. 121**

	12/31/2018			12/31/2017 1)		
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	38	0	38	17	0	17
Derivative financial assets	39	34	73	69	74	143
Miscellaneous other financial assets	29	97	126	25	37	62
Total	**106**	**131**	**237**	**111**	**111**	**222**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

As at December 31, 2018, **non-current derivative financial assets** consisted mainly of derivatives used to hedge currency risk and prepayment options on financial debt. The current portion of derivative financial assets represented fair values of derivatives the Schaeffler Group uses to hedge currency risk.

Current miscellaneous other financial assets comprise rights arising from the sale of receivables.

In addition, the presentation of investments in equity-accounted investees on the statement of financial position has been changed to presentation in a separate line item retrospectively to January 1, 2017 (prior year: EUR 3 m).

More on the Schaeffler Group’s exposure to currency and liquidity risk in Note 4.15

Other assets (non-current/current) **No. 122**

			12/31/2018			12/31/2017
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	46	0	46
Tax receivables	1	224	225	1	202	203
Miscellaneous other assets	39	43	82	24	34	58
Total	**86**	**267**	**353**	**71**	**236**	**307**

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.

4.8 Cash and cash equivalents

As at December 31, 2018, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 379 m (prior year: EUR 293 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 or contractual restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

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

Assets held for sale of EUR 2 m relate to the planned sale of a property and the building on it that is scheduled to close in the first quarter of 2019.

The property held for sale as at December 31, 2017 was sold in the first quarter of 2018.

4.10 Shareholders' equity

Shareholders' equity **No. 123**

in € millions	12/31/2018	12/31/2017 [1) 2)]
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	866	282
Accumulated other comprehensive income (loss)	-907	-822
Equity attributable to shareholders of the parent company	**2,973**	**2,474**
Non-controlling interests	87	107
Total shareholders' equity	**3,060**	**2,581**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

2) Change in accounting policy for interest and penalties related to income taxes. See Note 1.4 "Change in accounting policy IAS 8" to the consolidated financial statements for further details.

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, 2018.

Capital reserves remained unchanged at EUR 2,348 m as at December 31, 2018.

The change in **other reserves** in 2018 was largely 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 2018, a dividend of EUR 361 m will be proposed to the Schaeffler AG annual general meeting. EUR 91 m of these dividends relate to the common non-voting shares. This represents a total dividend of EUR 0.55 (prior year: EUR 0.55) per common non-voting share and EUR 0.54 (prior year: EUR 0.54) 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 consisted of the impact of currency translation, changes in the fair value of financial instruments designated as hedging instruments, and remeasurements of pensions and similar obligations.

As at December 31, 2018, **non-controlling interests** represented third-party interests in the equity of Schaeffler India Ltd. EUR 25 m were reclassified from non-controlling interests to other reserves in connection with the merger of INA Bearings India Private Limited and LuK India Private Limited with Schaeffler India Ltd. completed during the year.

4.11 Current and non-current financial debt

Financial debt (current/non-current) **No. 124**

			12/31/2018			12/31/2017
in € millions	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	Total
Bonds	0	2,019	2,019	0	1,994	1,994
Facilities Agreement	160	986	1,146	0	983	983
Capital investment loan	0	183	183	0	89	89
Other financial debt	0	0	0	2	0	2
Total	**160**	**3,188**	**3,348**	**2**	**3,066**	**3,068**

The increase in financial debt compared to December 31, 2017, is largely due to an additional EUR 94 m drawn under the capital investment loan to finance the long-term logistics projects and EUR 160 m drawn under the Revolving Credit Facility.

As at December 31, 2018, the group's debt consisted of a loan tranche with a principal of EUR 1.0 bn, a Revolving Credit Facility with a principal of EUR 1.3 bn, a capital investment loan with a principal of EUR 250 m, and four bond series with a principal totaling the equivalent of approximately EUR 2.0 bn.

The Schaeffler Group had the following loans outstanding as at December 31, 2018:

Schaeffler Group loans **No. 125**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	
Tranche	Currency	Principal in millions		Carrying amount in € millions		Coupon		Maturity
Term Loan	EUR	1,000	1,000	993	991	Euribor [1)] + 1.20%	Euribor [1)] + 1.20%	09/30/2023
Revolving Credit Facility [2)]	EUR	1,300	1,300	153	-8	Euribor [1)] + 0.80%	Euribor [1)] + 0.80%	09/30/2023
Capital investment loan [3)]	EUR	250	250	183	89	Euribor [1)] + 1.00%	Euribor [1)] + 1.00%	12/15/2022
Total				**1,329**	**1,072**			

[1)] Euribor Floor of 0.00%.
[2)] EUR 173 m (December 31, 2017: EUR 12 m) were drawn down as at December 31, 2018, including EUR 13 m in the form of ancillary facilities such as letters of credit.
[3)] EUR 184 m (December 31, 2017: EUR 90 m) were drawn down as at December 31, 2018.

In addition, the Schaeffler Group had further lines of credit in the equivalent of approximately EUR 134 m (prior year: approximately EUR 154 m), primarily in the U.S. and China. Approximately EUR 118 m of these facilities were unutilized as at December 31, 2018 (prior year: approximately EUR 111 m).

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. 126**

		12/31/2018	12/31/2017	12/31/2018	12/31/2017		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966 [1]	EUR	400	400	399	398	2.50%	05/15/2020
XS1067864022 [1]	EUR	500	500	499	498	3.50%	05/15/2022
US806261AM57 [1]	USD	600	600	525	502	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	596	3.25%	05/15/2025
Total				**2,019**	**1,994**		

[1] Bond has reached its contractual call date and can be redeemed at any time at the issuer's discretion.

The differences between principal and carrying amount are the result of accounting for these instruments at amortized cost calculated using the effective interest method. The carrying amount of the revolving credit facility consisted of the amount drawn and unamortized transaction costs.

An additional EUR 23 m (prior year: EUR 22 m) in interest accrued on the bonds up to December 31, 2018, were reported in other financial liabilities (see Note 4.14).

Under its existing debt financing agreements, the Schaeffler Group is subject to certain constraints including a requirement to meet a leverage covenant. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the leverage covenant is not met, which would result in the debt becoming due immediately. As in the prior year, the company has complied with the leverage covenant throughout 2018 as stipulated in the debt agreements.

4.12 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 the Schaeffler 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, the Schaeffler Group 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 2018, approximately 95% (prior year: 76%) of pension obligations in the U.S. and approximately 120% (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, 2018:

Amounts recognized in the statement of financial position for pensions and similar obligations **No. 127**

					12/31/2018					12/31/2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Provisions for pensions (liabilities net of related plan assets)	-2,068	-13	0	-92	-2,173	-1,990	-51	-1	-82	-2,124
Pension asset (plan assets net of related liabilities)	0	3	38	5	46	13	0	28	5	46
Net defined benefit liability	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

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. 128**

					12/31/2018					12/31/2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Present value of defined benefit obligations (active members)	-1,271	-58	0	-203	-1,532	-1,206	-76	0	-201	-1,483
Present value of defined benefit obligations (deferred members)	-167	-23	-111	-4	-305	-154	-24	-159	-4	-341
Present value of defined benefit obligations (pensioners)	-808	-113	-79	-27	-1,027	-802	-110	-57	-29	-998
Present value of defined benefit obligations (total)	**-2,246**	**-194**	**-190**	**-234**	**-2,864**	**-2,162**	**-210**	**-216**	**-234**	**-2,822**
Fair value of plan assets	178	184	228	147	737	185	159	243	157	744
Net pension obligation recognized in the statement of financial position	-2,068	-10	38	-87	-2,127	-1,977	-51	27	-77	-2,078
Net defined benefit liability	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

Movements in the net defined pension benefit liability in 2018 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 **No. 129**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Net defined benefit liability (-)/ asset (+) as at January 01	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**
Benefits paid	58	1	1	6	66	59	1	0	7	67
Service cost	-68	0	-2	-14	-84	-70	0	0	-15	-85
Net interest on net defined benefit liability	-37	-1	0	0	-38	-34	-2	0	-2	-38
Employer contributions	-4	34	0	5	35	-2	0	0	16	14
Employee contributions	0	0	0	0	0	0	0	0	0	0
Transfers in/out	0	11	0	0	11	0	-2	0	0	-2
Remeasurement of net defined benefit liability	-40	-2	12	-6	-36	92	6	19	3	120
Changes in foreign exchange rates	0	-2	0	-1	-3	0	4	0	3	7
Net defined benefit liability (-)/ asset (+) as at December 31	**-2,068**	**-10**	**38**	**-87**	**-2,127**	**-1,977**	**-51**	**27**	**-77**	**-2,078**

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. 130**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Present value of defined benefit obligations as at January 01	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**
Benefits paid	62	11	9	21	103	62	10	9	14	95
Current service cost	-68	0	0	-14	-82	-70	0	0	-14	-84
Past service cost	0	0	-2	0	-2	0	0	0	-1	-1
Interest cost	-41	-7	-6	-5	-59	-37	-9	-6	-6	-58
Employee contributions	-12	-1	0	0	-13	-11	-1	0	0	-12
Transfers in/out	0	13	0	0	13	1	0	0	0	1
Gains (+) / losses (-) – changes in financial assumptions	0	12	11	-4	19	85	-11	-7	7	74
Gains (+) / losses (-) – changes in demographic assumptions	-29	1	1	-3	-30	0	2	10	0	12
Gains (+) / losses (-) – experience adjustments	4	-2	11	4	17	-2	-1	0	-6	-9
Changes in foreign exchange rates	0	-11	2	1	-8	0	26	9	6	41
Present value of defined benefit obligations as at December 31	**-2,246**	**-194**	**-190**	**-234**	**-2,864**	**-2,162**	**-210**	**-216**	**-234**	**-2,822**

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. 131**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Fair value of plan assets as at January 01	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**720**
Benefits paid	-4	-10	-8	-15	-37	-3	-9	-9	-7	-28
Interest income on plan assets	4	6	6	5	21	3	7	6	4	20
Employee contributions	12	1	0	0	13	11	1	0	0	12
Employer contributions	-4	34	0	5	35	-2	0	0	16	14
Transfers in/out	0	-2	0	0	-2	-1	-2	0	0	-3
Return on plan assets excluding interest income	-15	-13	-11	-3	-42	9	16	16	2	43
Changes in foreign exchange rates	0	9	-2	-2	5	0	-22	-9	-3	-34
Fair value of plan assets as at December 31	**178**	**184**	**228**	**147**	**737**	**185**	**159**	**243**	**157**	**744**

The Schaeffler Group plans to contribute EUR 9 m to plan assets in 2019.

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

Plan assets consisted of the following:

Classes of plan assets **No. 132**

					12/31/2018					12/31/2017
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Equity instruments	88	18	54	4	164	98	61	66	14	239
Debt instruments	37	166	46	84	333	32	100	47	134	313
Real estate	0	0	26	3	29	0	0	24	3	27
Cash	28	0	2	0	30	30	-2	1	0	29
(Reimbursement) insurance policies	25	0	0	7	32	25	0	0	6	31
Mixed funds	0	0	100	49	149	0	0	105	0	105
Total	**178**	**184**	**228**	**147**	**737**	**185**	**159**	**243**	**157**	**744**

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. 133**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	68	0	0	14	82	70	0	0	14	84
Past service cost	0	0	2	0	2	0	0	0	1	1
• plan amendments	0	0	2	0	2	0	0	0	1	1
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	0	0	0	0
Service cost	**68**	**0**	**2**	**14**	**84**	**70**	**0**	**0**	**15**	**85**
Interest cost	41	7	6	5	59	37	9	6	6	58
Interest income	-4	-6	-6	-5	-21	-3	-7	-6	-4	-20
Net interest on net defined benefit liability/asset	**37**	**1**	**0**	**0**	**38**	**34**	**2**	**0**	**2**	**38**
Gains (-)/losses (+) – changes in financial assumptions	0	-12	-11	4	-19	-85	11	7	-7	-74
Gains (-)/losses (+) – changes in demographic assumptions	29	-1	-1	3	30	0	-2	-10	0	-12
Gains (-)/losses (+) – experience adjustments	-4	2	-11	-4	-17	2	1	0	6	9
Return on plan assets excluding interest income	15	13	11	3	42	-9	-16	-16	-2	-43
Remeasurements of net defined benefit liability/asset	**40**	**2**	**-12**	**6**	**36**	**-92**	**-6**	**-19**	**-3**	**-120**
Total comprehensive (income) loss on defined benefit obligations	**145**	**3**	**-10**	**20**	**158**	**12**	**-4**	**-19**	**14**	**3**

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. 134**

					2018					2017
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	40	0	0	10	50	41	0	0	10	51
Research and development expenses	13	0	0	1	14	13	0	0	1	14
Selling expenses	5	0	0	2	7	5	0	0	3	8
Administrative expenses	10	0	2	1	13	11	0	0	1	12
Included in EBIT	**68**	**0**	**2**	**14**	**84**	**70**	**0**	**0**	**15**	**85**
Interest expense	41	7	6	5	59	37	9	6	6	58
Interest income on plan assets	-4	-6	-6	-5	-21	-3	-7	-6	-4	-20
Included in financial result	**37**	**1**	**0**	**0**	**38**	**34**	**2**	**0**	**2**	**38**
Total	**105**	**1**	**2**	**14**	**122**	**104**	**2**	**0**	**17**	**123**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 18.8 years (prior year: 18.7 years) at year-end. In the most significant countries Germany, the U.S., and the United Kingdom, the duration averages 20.1 years (prior year: 19.7 years), 10.8 years (prior year: 11.7 years), and 20.9 years (prior year: 22.8 years), respectively.

Over the next ten years, the company expects to make the following payments for the defined benefit obligations it has as at year-end:

Payments expected in coming years **No. 135**

in € millions	Payments expected
2019	92
2020	98
2021	105
2022	111
2023	116
2024–2028	624

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. 136**

	2018					2017				
	Germany	U.S.	United Kingdom	Other countries	Total [1]	Germany	U.S.	United Kingdom	Other countries	Total [1]
Discount rate as at December 31	1.9%	4.3%	2.9%	2.7%	2.2%	1.9%	3.7%	2.6%	2.8%	2.2%
Future salary increases	3.3%	n.a. [2]	n.a. [2]	3.0%	3.2%	3.3%	n.a. [2]	n.a. [2]	3.2%	3.2%
Future pension increases	1.8%	2.5%	3.3%	0.1%	1.9%	1.8%	2.5%	3.3%	0.1%	1.9%

[1] Average discount rate for the Schaeffler Group.
[2] 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. Starting in 2018, the “RICHTTAFELN 2018 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. During the comparative period, 2017, the company used the “RICHTTAFELN 2005 G”. The change to the new “RICHTTAFELN” has increased pension obligations and reduced shareholders’ equity by EUR 28 m in 2018.

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. 137**

						2018					2017
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-378	-19	-34	-24	-455	-352	-22	-42	-24	-440
	Minus 1.0%	519	23	45	29	616	490	27	56	29	602
Future salary increases	Plus 1.0%	50	n.a. [1]	n.a. [1]	18	68	47	n.a. [1]	n.a. [1]	18	65
	Minus 1.0%	-43	n.a. [1]	n.a. [1]	-16	-59	-41	n.a. [1]	n.a. [1]	-15	-56
Future pension increases	Plus 1.0%	219	0	19	3	241	217	0	27	3	247
	Minus 1.0%	-162	0	-17	-2	-181	-162	0	-23	-2	-187

[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 102 m) in Germany, EUR 6 m (prior year: EUR 6 m) in the U.S., and EUR 8 m (prior year: EUR 9 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 2018, the Schaeffler Group incurred EUR 32 m (prior year: EUR 22 m) in expenses related to defined contribution plans. At EUR 14 m (prior year: EUR 15 m), the majority of this amount relates to plans in the U.S.

4.13 Provisions

Provisions No. 138

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2018	**97**	**46**	**83**	**18**	**208**	**452**
Additions	59	39	34	9	27	168
Utilization	-52	-1	-21	-11	-50	-135
Reversals	-6	-1	-23	-4	-38	-72
Foreign currency translation	0	0	0	0	3	3
Balance as at December 31, 2018	**98**	**83**	**73**	**12**	**150**	**416**

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. 139

			12/31/2018			12/31/2017
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	76	22	98	73	24	97
Restructuring	50	33	83	45	1	46
Warranties	0	73	73	0	83	83
Other taxes	0	12	12	0	18	18
Other	46	104	150	70	138	208
Total	**172**	**244**	**416**	**188**	**264**	**452**

Provisions for employee benefits consisted primarily of EUR 52 m (prior year: EUR 57 m) in provisions for long-time service awards and partial retirement programs primarily classified as non-current.

Restructuring provisions consisted mainly of EUR 39 m for the reorganization of the indirect functions at various locations under the “Shared Services” initiative in Europe. Implementation of these measures is expected to be completed by 2022. Additional restructuring provisions of EUR 22 m were recognized for the reorganization of the company’s UK business activities. The company also recognized EUR 26 m in provisions for the reorganization of the “Bearing & Components Technologies” unit (BCT), which had previously acted as an internal supplier, and its integration into the Automotive OEM and Industrial divisions. These provisions amounted to EUR 17 m as at the reporting date.

Warranty provisions consisted, in particular, of provisions for specific cases for which an outflow of resources within one year is considered probable.

Other provisions include, inter alia, provisions for potential third party claims in connection with antitrust proceedings of EUR 31 m (prior year: EUR 55 m). The decrease in other provisions compared to the prior year is primarily attributable to the reversal of a provision for a compliance case. On July 25, 2018, the relevant authorities issued a reprimand, thus completing their investigation of this compliance case, for which the Schaeffler Group had previously recognized a provision. EUR 21 m of the provision has been reversed to profit or loss.

Non-current provisions decreased by EUR 16 m to EUR 172 m (prior year: EUR 188 m), primarily due to the reversal of the provision for a compliance case as discussed above.

Current provisions declined by EUR 20 m to EUR 244 m (prior year: EUR 264 m). The decline resulted mainly from the reversal of various provisions for legal cases as well as warranty provisions.

4.14 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current) **No. 140**

			12/31/2018			12/31/2017 [1]
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	2	283	285	2	299	301
Derivative financial liabilities	2	65	67	0	36	36
Miscellaneous other financial liabilities	5	133	138	22	347	369
Total	**9**	**481**	**490**	**24**	**682**	**706**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

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 an adverse trend in market value.

Miscellaneous other financial liabilities mainly consisted of payments received from customers for receivables sold under the ABCP program (see Note 5.2), accrued interest, and third party claims in connection with the EU antitrust proceedings finalized in March 2014. In the prior year, current miscellaneous other financial liabilities included selling expenses (bonuses, rebates, discounts); these are presented separately as refund liabilities in the statement of financial position starting in 2018.

More on the Schaeffler Group’s exposure to currency and liquidity risk in Note 4.15

Other liabilities (non-current/current) **No. 141**

			12/31/2018			12/31/2017 [1]
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amonts payable to staff	0	123	123	0	152	152
Social security contributions payable	0	46	46	1	41	42
Advance payments received	0	8	8	0	34	34
Other tax payables	0	123	123	0	114	114
Miscellaneous other liabilities	2	20	22	6	26	32
Total	**2**	**320**	**322**	**7**	**367**	**374**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

Amounts payable to staff primarily contained accrued vacation and overtime accounts.

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

Advance payments received in connection with contracts with customers within the scope of IFRS 15 were reclassified to contract liabilities during the year.

Other tax payables included, in particular, value-added taxes payable and payroll withholding taxes payable.

4.15 Financial instruments

Please refer to the "General information" chapter for a breakdown of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8.

Financial instruments by class in accordance with IFRS 7.25-30 **No. 142**

	12/31/2018		12/31/2017 [1]	
in € millions	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets, by class				
Trade receivables	1,914	1,914	2,192	2,192
Trade receivables – ABCP program	89	89	0	0
Other financial assets				
• Other investments	38	38	17	
• Marketable securities	17	17	16	16
• Derivatives designated as hedging instruments	43	43	58	58
• Derivatives not designated as hedging instruments	31	31	85	85
• Miscellaneous other financial assets	108	108	46	46
Cash and cash equivalents	801	801	698	698
Financial liabilities, by class				
Financial debt	3,348	3,364	3,068	3,165
Trade payables	1,967	1,967	1,867	1,867
Refund liabilities	236	236	0	0
Other financial liabilities				
• Derivatives designated as hedging instruments	40	40	11	11
• Derivatives not designated as hedging instruments	27	27	25	25
• Miscellaneous other financial liabilities	423	423	670	670

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

The carrying amounts of trade receivables, including the receivables available for sale under the ABCP program, miscellaneous other financial assets, cash and cash equivalents, trade payables, refund liabilities, 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 the following unconsolidated investments (shares in incorporated companies and cooperatives):

Investments designated as at FVOCI **No. 143**

	Fair value as at 12/31/2018
in € millions	Fair value
Investments in SupplyOn AG	7
Investment in Gemeinschaftskraftwerk GmbH	2
Investment in IAV GmbH	28
Other investments	1
Total	**38**

Since these investments are of a strategic long-term nature, they are designated as at fair value through other comprehensive income. Fair value is measured using an EBIT multiple methodology using sector- and size-specific EBIT multiples. All inputs are observable in the market. There were no partial disposals of such investments in 2018, and no accumulated gains or losses were reclassified within equity. Marketable securities consist primarily of debt 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. As a result of the rating upgrade by Standard & Poor's, the in rem security under the Facilities Agreement and the bond agreements was released in September 2018.

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. 144**

in € millions	Level 1	Level 2	Total
December 31, 2018			
Marketable securities	17	-	17
Derivatives designated as hedging instruments	-	43	43
Derivatives not designated as hedging instruments	-	31	31
Trade receivables – ABCP program	-	89	89
Other investments	-	38	38
Total financial assets	**17**	**201**	**218**
Financial debt	2,020	1,344	3,364
Derivatives designated as hedging instruments	0	40	40
Derivatives not designated as hedging instruments	0	27	27
Total financial liabilities	**2,020**	**1,411**	**3,431**
December 31, 2017 [1]			
Marketable securities	16	-	16
Derivatives designated as hedging instruments	-	58	58
Derivatives not designated as hedging instruments	-	85	85
Total financial assets	**16**	**143**	**159**
Financial debt	2,071	1,094	3,165
Derivatives designated as hedging instruments	-	11	11
Derivatives not designated as hedging instruments	-	25	25
Total financial liabilities	**2,071**	**1,130**	**3,201**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

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. 145**

					2018	2017 [1)]
	Subsequent measurement				Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Financial assets (equity instruments) at fair value through other comprehensive income	-	-	-	-	-	1
Financial assets at fair value through profit or loss	6	-38	-	-	-32	-91
Financial assets at amortized cost	16	-	-2	9	23	-24
Financial liabilities at amortized cost	-101	-	-	-31	-132	-67
Total	**-79**	**-38**	**-2**	**-22**	**-141**	**-181**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 “New accounting pronouncements” to the consolidated financial statements for further details.

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 at fair value through profit and loss of EUR 32 m (prior year: held for trading: EUR 91 m) relates primarily to derivatives. EUR 18 m (prior year: EUR 1 m) of this net loss is included in financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 43 m (prior year: EUR 14 m).

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

The Schaeffler Group’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 the Schaeffler Group’s risks, set appropriate risk limits and controls, monitor risks, and adhere to the limits. Risk management procedures and systems are reviewed on a regular basis to reflect changes in market conditions and the Schaeffler Group’s activities.

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

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

The Schaeffler Group distinguishes between liquidity risk, credit 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 the Schaeffler Group’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, receivable sale programs, 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 an RCF 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 debt, trade payables, refund liabilities, miscellaneous other financial liabilities, and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities **No. 146**

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2018					
Non-derivative financial liabilities	**5,974**	**6,310**	**2,878**	**2,798**	**634**
• Financial debt	3,348	3,671	242	2,795	634
• Trade payables	1,967	1,975	1,975	0	0
• Refund liabilities	236	236	236	0	0
• Other financial liabilities	423	428	425	3	0
Derivative financial liabilities	**67**	**67**	**65**	**2**	**0**
Total	**6,041**	**6,377**	**2,943**	**2,800**	**634**
December 31, 2017					
Non-derivative financial liabilities	**5,605**	**6,007**	**2,590**	**2,236**	**1,181**
• Financial debt	3,068	3,469	74	2,214	1,181
• Trade payables	1,867	1,867	1,867	0	0
• Other financial liabilities	670	671	649	22	0
Derivative financial liabilities	**36**	**36**	**36**	**0**	**0**
Total	**5,641**	**6,043**	**2,626**	**2,236**	**1,181**

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

Credit risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is referred to as credit risk. Regardless of any credit insurance, the maximum credit risk to the Schaeffler Group is represented by the carrying amount of the underlying financial asset.

Credit risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage credit risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline. The company considers a receivable impaired when there is substantial objective evidence. Objective evidence consists of certain events indicating that a default has occurred, such as involvement of a collection agency, collection procedures, foreclosure, and insolvency proceedings. The company determines an individual impairment percentage based on the nature of the event that has occurred and applies that rate to the relevant receivable. Receivables are not derecognized until either the insolvency proceedings are completed or Schaeffler no longer expects to collect the receivable. As at December 31, 2018, the contractual amount outstanding of receivables subject to enforcement measures amounted to EUR 14 m. For expected credit losses, the Schaeffler Group uses the simplified impairment approach for trade receivables (with and without a financing component) as well as for contract assets and lease receivables; under this approach, credit loss allowances are based on credit losses expected over the entire life of the receivable, determined using rating-specific probabilities of default obtained from an external scoring provider that take into account information about future conditions. Expected credit losses are calculated by applying these term-weighted probabilities of default to receivables with medium credit risk that are not impaired. For countries without credit insurance, the company establishes homogeneous portfolios per country and uses the average country-specific probability of default to calculate expected credit losses.

The company uses the following credit risk rating classes to calculate expected credit losses:

Expected credit losses on trade receivables by risk class **No. 147**

	12/31/2018		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
Risk class 1: high credit quality	1,164	0	0%
Risk class 2 – 3: medium credit quality	823	5	1%
Risk class 4: secured	17	0	0%
Risk class 5: negative credit quality and/or insolvent	17	13	76%
Total	**2,021**	**18**	**1%**

Customers with sound credit quality are assigned to risk class 1. The Schaeffler Group serves these customers without any restrictions. The Schaeffler Group anticipates that expected credit losses on these receivables will be insignificant. Risk classes 2 to 3 contain customers with medium credit quality, partly covered by credit insurance. The company only calculates expected credit losses for receivables that are not insured. Risk class 4 consists of export customers to whom the company makes deliveries against letters of credit or based on cash against documents. No credit losses are expected for this class. Risk class 5 comprises customers that are insolvent or have negative credit quality. Deliveries to customers in this group can only be made upon provision of security or against prepayment with the approval of credit management; as a result, no expected credit losses are recognized for this group of customers. Specific impairment allowances are recognized for receivables in risk class 5 based on objective evidence. As at the reporting date, EUR 17 m of the receivables in risk class 5 are considered impaired while receivables in the other risk classes are not impaired.

As at December 31, 2018, 35% of trade receivables were covered by commercial credit insurance. For EUR 707 m in receivables covered by credit insurance, neither specific impairment allowances nor expected credit losses are recognized, while impairment allowances are recognized on EUR 2 m in receivables covered by credit insurance.

Trade receivables in the Automotive OEM division are subject to a concentration of risk on several automobile manufacturers (see Note 5.5) totaling 35.8% (prior year: 39.0%) of trade receivables.

Credit loss allowances for other financial assets, primarily cash and cash equivalents, are measured using the general approach, i.e. at the amount of credit losses resulting from default events expected to occur during the next twelve months, unless credit risk has increased significantly since initial recognition. If credit risk has increased significantly because the external rating has deteriorated, the credit loss allowance recognized has to be based on lifetime expected credit losses. Carrying amount of bank deposits and other financial assets can be summarized by rating class as follows:

Credit rating of cash and cash equivalents **No. 148**

	12/31/2018		
in € millions	Gross carrying amount	Expected credit losses	Weighted average impairment rate
BBB- to AAA	744	0	0%
B- to BB+	55	1	1%
C to CCC+	0	0	-
D	0	0	-
External rating not available	2	0	0%
Total	**801**	**1**	**0%**

Due to investment grade ratings and the credit risk monitoring system in place, Schaeffler Group's cash and cash equivalents and other financial assets (of EUR 108 m) carry low credit risk, which makes tracking their credit risk unnecessary. For all other financial assets, the company does not consider credit risk to be significantly increased unless financial assets are more than 30 days past due or the probability of default changes (relatively) by more than 20%. No cash and cash equivalents were impaired as at the reporting date. The probabilities of default used to determine expected credit losses for cash and cash equivalents and for other financial assets are based on credit default swap spreads quoted in the market; these credit spreads take into account forward-looking macro-economic factors. Expected credit losses for these items were insignificant as at the reporting date.

Credit 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 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 allowances, 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 obligations.

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.

The Schaeffler Group's financial debt can be summarized by type of interest as follows:

Variable and fixed interest financial debt **No. 149**

	12/31/2018	12/31/2017
in € millions	Carrying amount	
Variable interest instruments	**1,329**	**1,072**
• Financial debt	1,329	1,072
Fixed interest instruments	**2,019**	**1,996**
• Financial debt	2,019	1,996

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, 2018, would affect (increase/decrease) net income and shareholder's equity as follows:

Sensitivity analysis: Shift in yield curve **No. 150**

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
As at December 31, 2018				
Variable interest instruments	-7	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	0	27	0	0
Total	**-7**	**27**	**0**	**0**
As at December 31, 2017				
Variable interest instruments	-6	0	0	0
Derivatives designated as hedging instruments	0	0	0	0
Derivatives not designated as hedging instruments	-22	82	0	0
Total	**-28**	**82**	**0**	**0**

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. 151**

in € millions	USD	CNY	RON	PLN
December 31, 2018				
Estimated currency risk from operations	848	613	-244	172
Forward exchange contracts	-653	-511	177	-130
Remaining currency risk from operations	**195**	**102**	**-67**	**42**
December 31, 2017				
Estimated currency risk from operations	807	573	-201	174
Forward exchange contracts	-606	-470	160	-131
Remaining currency risk from operations	**201**	**103**	**-41**	**43**

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 the Schaeffler Group'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 the Schaeffler Group's finance organization. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the U.S. dollar and amount to an estimated EUR 80 m and EUR 57 m, respectively (prior year: Chinese renminbi and Indian rupee of EUR 58 m each).

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, 2018, 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. 152**

	12/31/2018		12/31/2017	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	16	-66	9	-59
CNY	16	-54	23	-39
RON	-6	21	-1	16
HUF	-1	10	9	11
PLN	3	-14	0	-13

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2018, 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 400 m (prior year: USD 400 m).

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, 2018. 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. 153

in € millions	12/31/2018 Net income (loss)	12/31/2018 Shareholders' equity	12/31/2017 Net income (loss)	12/31/2017 Shareholders' equity
Foreign exchange gains and losses on financial debt	-35	-17	-33	-16
Foreign exchange gains and losses on derivatives	35	4	33	11
Total	**0**	**-13**	**0**	**-5**

Foreign exchange gains and losses on financial debt affecting shareholders' equity relate to a hedge of a net investment in a foreign operation.

Derivative financial instruments and hedging relationships

Using derivative financial instruments to manage risk is one component of the Schaeffler Group's risk management system. Notional amounts and fair values of derivative financial instruments as at the reporting date were as follows:

Summary of derivative financial instruments No. 154

in € millions	12/31/2018 Notional value	12/31/2018 Fair value	12/31/2017 Notional value	12/31/2017 Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	1,637	35	2,039	73
• thereof: hedge accounting	741	12	983	39
Cross-currency swaps	402	31	384	18
• thereof: hedge accounting	402	31	384	18
Financial liabilities				
Currency hedging				
Forward exchange contracts	2,670	67	1,698	36
• thereof: hedge accounting	1,368	40	693	11
Cross-currency swaps	-	-	-	-
• thereof: hedge accounting	-	-	-	-

As at December 31, 2018, the Schaeffler Group held the following instruments to hedge its currency risk:

Hedging instruments No. 155

	Maturity Less than 1 year	Maturity More than 1 year
Currency risk		
Forward exchange contracts		
Notional amount of hedging instruments (in € millions)	4.184	123
Average rates of forward exchange contracts		
EUR:USD	1.1906	1.2385
EUR:CNY	8.0885	8.4547
EUR:HUF	320.5170	-
EUR:RON	4.7740	-
Cross-currency swap		
Notional amount of hedging instruments (in € millions)	7	356
Average rate of curency swap EUR:USD	1.0631	1.2746

The Schaeffler Group measures the effectiveness of the hedging relationship between the hedged item and the hedging instrument using interest rates, terms to maturity, interest repricing dates, maturity dates, and notional and principal amounts. The hedging ratio between the hedged item and the hedging instrument is 100%. The company uses the hypothetical derivative method to test whether the designated derivative effectively hedges the cash flows of the hedged item. Possible sources of ineffectiveness include counterparty credit risk and changes in the timing of hedged transactions. No ineffectiveness occurred during the period.

Cash flow hedges

A portion of the Schaeffler Group'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. 156**

in € millions	2018	2017
Balance as at January 01	**33**	**-34**
Additions	-26	33
Reclassified to income statement		
• to other income	-33	0
• to other expense	0	34
Balance as at December 31	**-26**	**33**

The Schaeffler Group also applies cash flow hedge accounting to the foreign currency hedge of its bond issued in U.S. dollars using cross-currency swaps with a notional amount of USD 400 m (prior year: USD 400 m). As a result, accumulated gains of EUR 0.3 m (prior year: EUR 3 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, 2018. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2019 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. 157**

in € millions	2018	2017
Balance as at January 01	**-12**	**-15**
Additions	16	-43
Reclassified to income statement		
• to financial income	-16	0
• to financial expense	0	46
Balance as at December 31	**-12**	**-12**

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 under a net investment hedge (principal of USD 200 m; prior year: USD 200 m). This mitigates the group’s translation risk on the U.S. subsidiaries. As a result, foreign exchange gains of EUR 5 m (prior year: EUR 13 m) on designated financial debt were recognized in other comprehensive income in 2018 and reported in accumulated other comprehensive income (translation reserve) as at December 31, 2018. 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.

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 translation reserve related to net investments **No. 158**

in € millions	2018	2017
Balance as at January 01	**13**	**-10**
Additions	-8	23
Reclassified to income statement		
• to financial income	0	0
• to financial expense	0	0
Balance as at December 31	**5**	**13**

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 IFRS 9, which is not the case for the Schaeffler Group.

Commodity price risk is hedged using long-term supply agreements that include price adjustment clauses.

Risks related to stock-market prices and stock price indices only arise from marketable securities. In light of the size of the Schaeffler Group’s holdings of such financial instruments, the price risk related to these items is considered insignificant.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag fuer Finanztermingeschaefte" – DRV) or on the master agreement of the International Swaps and Derivatives Association (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, except for the embedded options, are as follows:

Offsetting financial assets and financial liabilities **No. 159**

in € millions	12/31/2018	12/31/2017
Financial assets		
Gross amount of financial assets	66	92
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	66	92
Amounts subject to master netting arrangements		
• Derivatives	-42	-32
Net amount of financial assets	24	60
Financial liabilities		
Gross amount of financial liabilities	67	36
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	67	36
Amounts subject to master netting arrangements		
• Derivatives	-42	-32
Net amount of financial liabilities	25	4

4.16 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 1 of the year in which the tranche is granted. Due to the listing, however, the grant date of the 2015 tranche is October 9, 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 1, 2016. However, the grant date of the 2016 tranche is October 1, 2016. The grant date of the 2017 tranche is January 1, 2017, except for one member of the Board of Managing Directors, whose grant date is July 17, 2017. The grant date of the 2018 tranche is January 1, 2018, except for one member of the Board of Managing Directors, whose grant date is March 2, 2018.

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 to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The 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 included in non-current provisions as at December 31, 2018, amounted to EUR 6.4 m (prior year: EUR 9.8 m). Current provisions amounted to EUR 1.8 m as at December 31, 2018 (prior year: EUR 0 m). Net gains from the pro-rata reversal of provisions for the PSUP for 2018 totaled EUR 1.6 m (prior year: net expenses from additions to provisions for the PSUP EUR 6.3 m). There were 3,583,456 PSUs (prior year: 2,417,229 PSUs) in total as at December 31, 2018. All PSUs granted were still outstanding as at December 31, 2018.

The average fair value of a PSU granted was EUR 5.21 (prior year: EUR 11.71) as at December 31, 2018. 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. 160**

	12/31/2018	12/31/2017
Average risk-free interest rate for the remaining performance period	0.91%	-0.50%
Expected dividend yield of Schaeffler AG common non-voting shares	7.37%	3.38%
Expected volatility of Schaeffler AG common non-voting shares	36.83%	28.61%
Expected volatility of the benchmark index	14.80%	10.32%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.53	0.46

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.

4.17 Capital management

The Schaeffler Group has a strategy of pursuing profitable long-term growth. Capital is managed proactively to secure the existence of the company as a going concern for the long term and maintain 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 financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 83.2% as at December 31, 2018 (prior year: 91.8%).

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 of bonds or credit facilities is in 2020. Currency risk is continually monitored and reported at the corporate level. Currency risk is aggregated across the group and hedged using hedging instruments.

In addition, the Schaeffler Group uses receivable sale programs to a limited extent to manage liquidity and improve its working capital. For this purpose, the company has access to an ABCP program of revolving sales of trade receivables with a committed volume of EUR 200 m (prior year: EUR 150 m) (see Note 5.2). Additionally, the Schaeffler Group has the ability to selectively use a further receivable sale program without a fixed committed volume.

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 2018, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's, Moody's, and Fitch. As a basis for executing its growth strategy, 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 a leverage covenant. The inputs to the calculation of the leverage covenant are defined 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 leverage covenant throughout 2018 as stipulated in the debt agreements. Based on its forecast, the Schaeffler Group also expects to comply with the leverage covenant in subsequent years.

In addition to the leverage covenant contained in the debt agreements, the Schaeffler Group regularly calculates further financial indicators. The gearing ratio discussed above and the net debt to EBITDA ratio are two such further financial indicators. The net debt to EBITDA ratio – the ratio of net financial debt to EBITDA (earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation and amortization) – is calculated as follows:

Net financial debt to EBITDA ratio **No. 161**

in € millions	12/31/2018	12/31/2017 [1]
Current financial debt	160	2
Non-current financial debt	3,188	3,066
Financial debt	**3,348**	**3,068**
Cash and cash equivalents	801	698
Net financial debt	**2,547**	**2,370**
Earnings before financial result, income (loss) from equity-accounted investees, income taxes, depreciation, amortization and impairment losses (EBITDA) [2]	**2,175**	**2,295**
Net financial debt to EBITDA ratio [3]	**1.2**	**1.0**

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
[2] EBITDA before special items amounts to EUR 2,202 m (prior year: EUR 2,351 m).
[3] Net financial debt to EBITDA ratio incl. special items (footnote 1).

5. Other disclosures

5.1 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.

The cash outflow for the investment in the newly established joint venture Schaeffler Paravan Technologie GmbH & Co. KG amounted to EUR 161 m. Further cash outflows of EUR 2 m represented the payment of the 2nd tranche of the purchase price for the acquisition of autinity systems GmbH. These were partially offset by EUR 1 m in proceeds received on the disposal of the company's interest in the joint venture PStec Automation and Service GmbH.

EUR 2 m in loans provided to Schaeffler Paravan Technologie GmbH & Co. KG are shown in other investing activities in the statement of cash flows.

Summary of changes in financial debt **No. 162**

				Financial debt	Cross-currency swaps held for hedging purposes		Total
in € millions	Bonds	Facilities agreement	Capital investment loan	Other financial debt	Financial assets	Financial liabilities	
Balance as at January 01, 2018	**1,994**	**983**	**89**	**2**	**-13**	**0**	**3,055**
Changes from financing cash flows							
Receipts from loans	0	235	94	75	0	0	404
Repayments of loans	0	-75	0	-77	0	0	-152
Total changes from cash flows	**0**	**160**	**94**	**-2**	**0**	**0**	**252**
Changes arising from obtaining or losing control of subsidiaries or other businesses	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Effect of changes in foreign exchange rates	**24**	**0**	**0**	**0**	**0**	**0**	**24**
Changes in fair values	**0**	**0**	**0**	**0**	**-16**	**0**	**-16**
Other non-cash changes	**1**	**3**	**0**	**0**	**0**	**0**	**4**
Balance as at December 31, 2018	**2,019**	**1,146**	**183**	**0**	**-29**	**0**	**3,319**

5.2 Involvement with unconsolidated structured entities

The Schaeffler Group sells a portion of its trade receivables to a structured entity under an ABCP program (asset-backed commercial paper). The structured entity obtains its funding primarily from the capital markets. The receivables are sold on a revolving basis at their face value less variable reserves and a variable fee discount. The structured entity has engaged the Schaeffler Group to service the receivables in return for an arm's-length fee. The structured entity has the right to remove the Schaeffler Group as the servicer and to engage someone else to service the receivables. The Schaeffler Group has concluded that it does not control the structured entity and, therefore, does not consolidate it.

The sold receivables (see Note 4.6) and the related liabilities are recognized to the extent of the credit risk retained (continuing involvement).

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2018:

Balances – involvement with the structured entity **No. 163**

in € millions	12/31/2018	12/31/2017[1]
Carrying amount of receivables transferred	166	123
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	25	14
Payments received from customers on receivables sold and not yet passed on to the structured entity (recognized as other financial liabilities in the statement of financial position)	60	42
Carrying amount of receivables (classified as trade receivables) and the other liability resulting from the continuing involvement (classified in other financial liabilities in the statement of financial position)	4	2

[1] The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

In 2018, the committed financing volume under the ABCP program was expanded to a total of EUR 200 m (prior year: EUR 150 m), resulting in a cash inflow from operating activities of EUR 50 m (prior year: EUR 150 m).

5.3 Leases

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

Rental and lease agreements **No. 164**

in € millions	12/31/2018	12/31/2017
Less than one year	59	57
Between one and five years	73	65
More than five years	9	11
Total	**141**	**133**

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

In 2018, the Schaeffler Group recognized EUR 98 m (prior year: EUR 89 m) in expenses related to operating rental and lease agreements in profit or loss, including expenses for incidental costs and service agreements.

5.4 Contingent liabilities

As at December 31, 2018, the Schaeffler Group had contingent liabilities of EUR 74 m (prior year: EUR 74 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 as well as for potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but can currently not be estimated.

5.5 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.

Up to December 31, 2017, the Schaeffler Group divided its business into the two divisions Automotive and Industrial. In order to make the company even more customer-oriented in a fast-changing market and competitive environment, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a stand-alone division with its own CEO as of January 1, 2018. As a consequence, the Schaeffler Group has been dividing its business into three divisions – **Automotive OEM, Automotive Aftermarket, and Industrial** – since January 1, 2018. The Automotive OEM division business was organized into the four **business divisions (BD) Engine Systems, Transmission Systems, E-Mobility,** and **Chassis Systems**. The Automotive Aftermarket and Industrial divisions are managed regionally, based on the **regions Europe, Americas, Greater China,** and **Asia/Pacific.**

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 impairment losses are reported based on the current allocation of customers to divisions. The allocation of customers to segments and the allocation of indirect expenses was reviewed and adjusted during the year. To ensure that the information on the Automotive OEM division, Automotive Aftermarket division, and Industrial division segments is comparable, prior year information was also presented using the current year's customer structure. Revenue related to transactions between operating segments is not included.

The following summary describes the operations of each of the Schaeffler Group's three reportable segments:

Automotive OEM

Business consisting of sale of goods and providing development and other services to customers in the automotive sector. These include primarily manufacturers of passenger cars and commercial vehicles (OEM) and automotive suppliers (Tier 1 and Tier 2). The Automotive OEM division is working on a wide range of technologies for the various drive concepts, markets, and regions and delivers appropriate solutions for the most varied requirements of the automotive industry. This includes precision components and systems for engines, transmissions, and chassis of vehicles with drive trains based on the internal combustion engine just as much as applications for hybrid and electric vehicles.

- The **Engine Systems BD** develops and provides components and systems for engines. These precision products are key to helping engines consume less fuel and comply with increasingly stringent emissions standards while also increasing driving comfort and driving dynamics and extending maintenance intervals and service life. The portfolio includes products such as valve-lash adjustment elements, variable valve train systems, camshaft phasing systems, and the thermal management module. The Engine Systems BD generated EUR 2,783 m in revenue during the year (prior year: EUR 2,786 m).
- The **Transmission Systems BD** develops and provides innovative components and systems for transmissions. More and more, the emphasis in this business division is shifting toward automatic transmissions which are replacing the conventional manual transmission. Applications for electrified drive concepts round out the range of transmissions for the future. The BD also possesses extensive expertise in the field of torsional vibration dampers. The Transmission Systems BD generated EUR 4,170 m in revenue during the year (prior year: EUR 4,204 m).
- The **E-Mobility BD** offers its customers solutions for the entire spectrum of electrification options – from 48-volt mild hybrids and plug-in hybrids through to all-electric vehicles. Its wide-ranging know-how makes the Automotive OEM division an expert partner to its customers. The product portfolio includes hybrid modules, electric axle drives, electromechanical actuators, and in the future electric motors and electric solutions for the entire drive train, as well. The E-Mobility BD generated EUR 486 m in revenue during the year (prior year: EUR 416 m).
- The **Chassis Systems BD** develops and provides components and systems for chassis. Its wide variety of products ranges from wheel bearings through to mechatronic systems for active chassis and will also include steering systems in the future. The Chassis Systems BD generated EUR 1,558 m in revenue during the year (prior year: EUR 1,585 m).

Automotive Aftermarket

The Automotive Aftermarket division is responsible for the Schaeffler Group's global business with spare vehicle parts. Customers include almost all major international and national trading companies which in turn supply the Schaeffler Group's products to other distribution levels all the way down to the repair shop. The Automotive Aftermarket division is largely supplied from the Automotive OEM division's manufacturing locations. In addition, it successfully cooperates with all relevant trade cooperatives around the world in which a large number of its customers are organized. Like the Automotive OEM and Industrial divisions, the Automotive Aftermarket division operates under the Schaeffler corporate brand but distributes its products under the product brands LuK, INA, and FAG. It provides innovative repair solutions in original-equipment quality for clutch and clutch release systems, engine and transmission applications, and chassis applications. All components are optimally tuned to work together and allow for fast and professional replacement.

Whether for clutches, vibration damping, or transmission components – being a specialist for the drive train, the Automotive Aftermarket division offers intelligent repair solutions to the spare parts market under the LuK brand. Thanks to comprehensive systems expertise, these solutions enable repair shops to perform maintenance efficiently. The repair solutions Schaeffler offers under the INA brand represent a spectrum of products for the key engine systems that is unprecedented in width. Whether for the valve train, timing drive, front end auxiliary drive, or cooling system – INA products are based on the expertise gained from the development and volume production of original equipment. The FAG brand products make the Automotive Aftermarket division the specialist for chassis technology in the spare parts market for every aspect of the wheel drive, axle and wheel suspension, stabilizers, steering systems, and engine and transmission mounts. Top material and manufacturing quality ensure well-thought out repair solutions that are tailored to exactly suit repair shop needs. In addition, the service brand REPXPERT focuses especially on comprehensive services for repair shops.

The Europe region generated EUR 1,393 m in revenue during the year (prior year: EUR 1,375 m), the Americas region generated EUR 340 m in revenue during the year (prior year: EUR 403 m), the Greater China region generated EUR 76 m during the year (prior year: EUR 57 m), and the Asia/Pacific region generated EUR 50 m in revenue during the year (prior year: EUR 45 m).

Industrial

The Industrial division distributes components and systems for rotary and linear movements as well as services such as maintenance products and monitoring systems. It offers goods and services ranging from high-volume standard products to individual specialized solutions and from mechanical components through to mechatronic systems and digital services. The common denominator of these products and services is the technological expertise and the know-how covering the customer's entire system. The management model of the Industrial division follows a regional approach based on the regions Europe, Americas, Greater China, and Asia/Pacific. Within the regions, the direct business with customers is grouped into eight sector clusters: (1) wind, (2) raw materials, (3) aerospace, (4) railway, (5) offroad, (6) two-wheelers, (7) power transmission, and (8) industrial automation. In addition, the business with distributors is managed by the Industrial Distribution unit. In the field of Industry 4.0, the Industrial division offers several platform designs for comprehensively improving systems. Whether in the drive train, in machine tools, predictive maintenance for wind power, or condition monitoring for trains.

The Europe region generated EUR 1,906 m in revenue during the year (prior year: EUR 1,804 m), the Americas region generated EUR 596 m in revenue during the year (prior year: EUR 575 m), the Greater China region generated EUR 575 m during the year (prior year: EUR 472 m), and the Asia/Pacific region generated EUR 308 m in revenue during the year (prior year: EUR 299 m).

Information on the operating activities of the three 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. 165**

in € millions	2018	2017 [1) 2)]
EBIT Automotive OEM [2)]	682	951
EBIT Automotive Aftermarket [2)]	319	333
EBIT Industrial [2)]	353	244
EBIT	**1,354**	**1,528**
Financial result	-155	-192
Income (loss) from equity-accounted investees	-4	0
Earnings before income taxes	**1,195**	**1,336**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year information presented based on 2018 segment structure.

In 2018, the Schaeffler Group generated revenue of EUR 1,485 m (prior year: EUR 1,485 m) from one key customer, representing 10.4% (prior year: 10.6%) of total group revenue and 15.8% (prior year: 15.9%) of Automotive OEM 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 OEM division, Automotive Aftermarket 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 2018:

Information about geographical areas **No. 166**

	2018	2017 1)	12/31/2018	12/31/2017 1)
in € millions		Revenue 2)		Non-current assets 3)
Europe	7,313	7,183	3,584	3,344
Americas	2,874	2,910	823	769
Greater China	2,561	2,456	1,155	1,027
Asia/Pacific	1,493	1,472	383	361
Total	**14,241**	**14,021**	**5,945**	**5,501**

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Revenue by market (customer locations). Prior year information presented based on 2018 segment structure.
3) 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 2,645 m (prior year: EUR 2,639 m), EUR 2,493 m (prior year: EUR 2,394 m), and EUR 1,873 m (prior year: EUR 1,881 m) as well as non-current assets of EUR 2,202 m (prior year: EUR 2,017 m), EUR 1,155 m (prior year: EUR 1,027 m), and EUR 452 m (prior year: EUR 422 m), respectively.

Reconciliation of EBIT to EBIT before special items **No. 167**

		01/01-12/31		01/01-12/31		01/01-12/31		01/01-12/31
	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1) 2)	2018	2017 1)
in € millions		Automotive OEM		Automotive Aftermarket		Industrial		Total
EBIT	**682**	**951**	**319**	**333**	**353**	**244**	**1,354**	**1,528**
• in % of revenue	7.6	10.6	17.2	17.7	10.4	7.7	9.5	10.9
Special items	**11**	**22**	**-3**	**25**	**19**	**9**	**27**	**56**
• Legal cases	-13	-3	-3	20	-5	0	-21	17
• Restructuring	24	25	0	5	24	9	48	39
• Other	0	0	0	0	0	0	0	0
EBIT before special items	**693**	**973**	**316**	**358**	**372**	**253**	**1,381**	**1,584**
• in % of revenue	7.7	10.8	17.0	19.0	11.0	8.0	9.7	11.3

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.
2) Prior year amounts are based on a retrospective change in segment structure.

5.6 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 for 2018 in accordance with IAS 24 totaled EUR 15 m (prior year: EUR 19 m), including EUR 11 m (prior year: EUR 12 m) in short-term benefits. Expenses of EUR 3 m (prior year: EUR 2 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 1 m (prior year: EUR 1 m), and share-based payments totaled EUR -1 m (prior year: EUR 4 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 18 m (prior year: EUR 17 m) in 2018.

In addition, the company has committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand in advance to one of these Managing Directors for 2019; these payments will be offset against payment of the long-term bonuses granted in 2017, 2018, and 2019.

The following share-based remuneration was granted to members of the Board of Managing Directors in 2018 under the Performance Share Unit Plan (PSUP) implemented in 2015: 252,760 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively), 126,383 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 12.48 and EUR 10.63, respectively) and 126,383 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 7.92 and EUR 6.00, respectively).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 277,722 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively), 138,864 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.84 and EUR 10.67, respectively) and 138,864 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.99 and EUR 4.58, respectively). Please refer to the remuneration report for a detailed discussion of the PSUP.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.5 m (prior year: EUR 1.6 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 3 m in 2018 (prior year: EUR 4 m).

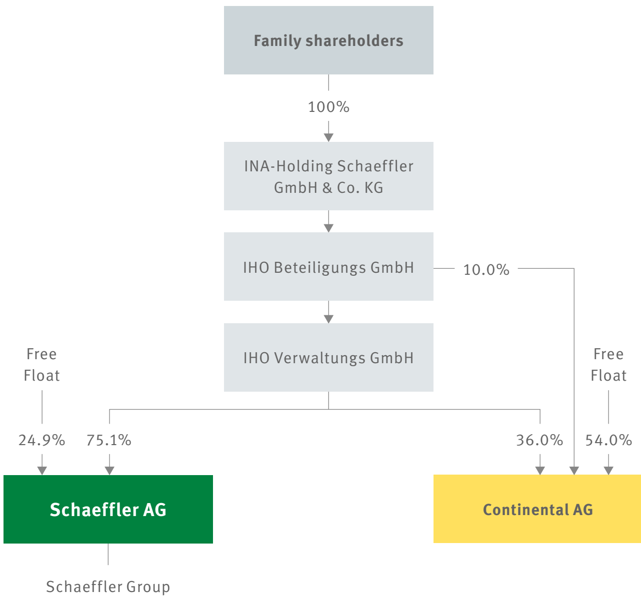
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 21 m as at December 31, 2018 (prior year: EUR 13 m).

As at December 31, 2018, 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 0.5 m (prior year: EUR 0.6 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.0 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0 m (prior year: EUR 0 m) held by key management personnel and close members of their family were redeemed.

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. 168**
as at December 31, 2018



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 2018.

In 2018 and 2017, Schaeffler Group companies had various business relationships with the group's related entities.

On April 20, 2018, the Schaeffler AG annual general meeting declared a total dividend of EUR 361 m in respect of 2017, including EUR 270 m on the common shares held by IHO Verwaltungs GmbH.

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. Transactions with related entities arose largely from business relationships with the Continental Group.

Receivables and payables from transactions with related entities **No. 169**

	12/31/2018	12/31/2017 1)	12/31/2018	12/31/2017
in € millions		Receivables		Payables
Related entities	32	25	17	17

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Expenses and income from transactions with related entities **No. 170**

	2018	2017	2018	2017 1)
in € millions		Expenses		Income
Related entities	100	85	135	129

1) The Schaeffler Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018, using the modified retrospective approach to transition to the new requirements. Under this approach, prior year amounts are not adjusted. See Note 1.5 "New accounting pronouncements" to the consolidated financial statements for further details.

Receivables from transactions with related entities include EUR 32 m (prior year: EUR 25 m) in trade receivables.

5.7 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. 171**

	2018	2017	2018	2017
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	6.9	6.9	4.1	4.0
Other attestation services	0.3	0.3	0.2	0.2
Tax advisory services	0.8	1.7	0.7	1.6
Other services	0.2	0.1	0.1	0.0
Total	**8.2**	**9.0**	**5.1**	**5.8**

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.

5.8 Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code pursuant to section 161 AktG in December 2018 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 Events after the reporting period

The agreement to acquire a 100% interest in Elmotec Statomat Holding GmbH entered into on November 28, 2018, closed on January 31, 2019. Elmotec Statomat Holding GmbH is a manufacturer of production machinery for the high-volume construction of electric motors. The acquisition represents a step toward expanding the Schaeffler Group's manufacturing expertise in the field of construction of electric motors and implementing its electric mobility strategy. The consideration to be transferred for the acquisition, which is payable in cash, falls in a range between EUR 55 m and EUR 65 m. The amount of the consideration transferred depends on the amounts of financial debt, net working capital, and further liabilities and provisions in the closing balance sheet of Elmotec Statomat as well as on changes in receivables over a period of two years beginning on the closing date of the acquisition.

As neither the financial statements of Elmotec Statomat Holding GmbH for 2018 nor a purchase price allocation are available at the time of preparation of the Schaeffler Group's consolidated financial statements, no other reportable information is available.

No other material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2018.

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

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

List of shareholdings **No. 172**

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (51)			
CBF Europe GmbH	Wuppertal	DE	100.00
Compact Dynamics GmbH	Starnberg	DE	100.00
CVT Beteiligungsverwaltungs GmbH	Buehl	DE	100.00
CVT Verwaltungs GmbH & Co. Patentverwertungs KG [1) 3)]	Buehl	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG [1) 3)]	Schweinfurt	DE	100.00
FAG Industrial Services GmbH [2)]	Herzogenrath	DE	100.00
INA - Drives & Mechatronics AG & Co. KG [1) 3)]	Suhl	DE	100.00
INA Automotive GmbH	Herzogenaurach	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH [2)]	Herzogenaurach	DE	100.00
LuK GmbH & Co. KG [1) 3)]	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG [1) 3)]	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG [1) 3)]	Unna	DE	100.00
PD Qualifizierung und Beschäftigung GmbH [2)]	Schweinfurt	DE	100.00
Schaeffler AS Auslandsholding GmbH [2)]	Buehl	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG [1) 3)]	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Bio-Hybrid GmbH	Herzogenaurach	DE	100.00
Schaeffler Bühl Auslandsholding GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Beteiligungs GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Holding GmbH [2)]	Buehl	DE	100.00
Schaeffler Bühl Verwaltungs GmbH [2)]	Buehl	DE	100.00
Schaeffler Consulting GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler Digital Solutions GmbH	Chemnitz	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 Friction Verwaltungs GmbH	Buehl	DE	100.00
Schaeffler Grundstücks-verwaltungsgesellschaft mbH	Buehl	DE	100.00
Schaeffler IAB Beteiligungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler IAB Verwaltungs GmbH [2)]	Herzogenaurach	DE	100.00
Schaeffler IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
Schaeffler Immobilien AG & Co. KG [1) 3)]	Herzogenaurach	DE	100.00
Schaeffler Invest GmbH	Herzogenaurach	DE	100.00
Schaeffler KWK Verwaltungs GmbH	Langen	DE	100.00
Schaeffler Paravan Management GmbH	Herzogenaurach	DE	100.00
Schaeffler Raytech Verwaltungs GmbH	Morbach	DE	100.00
Schaeffler Schweinfurt Beteiligungs GmbH [2)]	Schweinfurt	DE	100.00
Schaeffler Technologies AG & Co. KG [1) 3)]	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 Sechs 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) 3)]	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
Schaeffler 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 (Xiangtan) Co., Ltd.	Xiangtan	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
Schaeffler CZ s.r.o.	Prague	CZ	100.00
Schaeffler Production CZ s.r.o.	Lanskroun	CZ	100.00
Schaeffler Danmark ApS	Aarhus	DK	100.00
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100.00

Schaeffler Finland Oy	Espoo	FI	100.00
Schaeffler Chain Drive Systems SAS	Calais	FR	100.00
Schaeffler France SAS	Haguenau	FR	100.00
LuK (UK) Limited	Sheffield	GB	100.00
LuK Leamington Limited	Sheffield	GB	100.00
Schaeffler (UK) Limited	Sutton Coldfield	GB	100.00
Schaeffler Automotive Aftermarket (UK) Limited	Sheffield	GB	100.00
Stocklook Limited	Swansea	GB	100.00
The Barden Corporation (UK) Ltd.	Plymouth	GB	100.00
Schaeffler Greece Automotive and Industrial Products and Services M.E.P.E.	Athens	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
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Savaria Kft.	Szombathely	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
Schaeffler India Ltd.	Mumbai	IN	74.13
INA Invest S.r.l.	Momo	IT	100.00
Schaeffler Italia S.r.l.	Momo	IT	100.00
Schaeffler Railway Products G.e.i.e.	Milan	IT	75.00
Schaeffler Water Pump Bearing 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
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.	Puebla	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Cuautitian Izcalli	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Puebla	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	Sandnes	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Global Services Europe Sp. z o.o.	Wroclaw	PL	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 SR d.o.o.	Belgrad	RS	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.	Bangkok	TH	100.00
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	100.00
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 Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Aerospace USA Corporation	Danbury	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
Schaeffler Holding LLC	Danbury	US	100.00
Schaeffler Transmission Systems LLC	Wooster	US	100.00
Schaeffler Transmission, LLC	Wooster	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. Joint ventures			
Germany (3)			
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [3]	Hanover	DE	50.00
Schaeffler Paravan Technologie GmbH & Co. KG [3]	Herzogenaurach	DE	90.00

C. Associated companies			
Foreign (2)			
Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

[1] Exemption under section 264b HGB.
[2] Exemption under section 264 (3) HGB.
[3] Schaeffler AG or another consolidated entity is the general partner.

5.11 Members of the Supervisory Board and of the Board of Managing Directors

Members of the Supervisory Board

Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson), Jürgen Wechsler* (Deputy Chairperson), Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Andrea Grimm*, Susanne Lau* (as of August 8, 2018), Norbert Lenhard*, Dr. Siegfried Luther, Dr. Reinold Mittag*, Barbara Resch*, Dirk Spindler*, Robin Stalker, Jürgen Stolz*, Salvatore Vicari*, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich*, Prof. Dr.-Ing. Tong Zhang

The following member left the Supervisory Board in 2018

Stefanie Schmidt* (until June 30, 2018)

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

Robin Stalker (Chairman; since July 1, 2018), Dr. Siegfried Luther (Chairman; until June 30, 2018), Dr. Reinold Mittag, Georg F. W. Schaeffler, Salvatore Vicari, and Jürgen Worrich

Nomination committee

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

Technology committee (since October 5, 2018)

Prof. Dr. Hans-Jörg Bullinger (Chairman), Norbert Lenhard, Georg F. W. Schaeffler, Salvatore Vicari, Jürgen Wechsler, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich und Prof. Dr.-Ing. Tong Zhang

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), Dietmar Heinrich (Chief Financial Officer), Andreas Schick (Chief Operating Officer; since April 1, 2018), Corinna Schittenhelm (Chief Human Resources Officer), Michael Söding (CEO Automotive Aftermarket; since January 1, 2018), Dr. Stefan Spindler (CEO Industrial), Matthias Zink (CEO Automotive OEM)

The following members left the Board of Managing Directors in 2018

Oliver Jung (Chief Operating Officer; until March 31, 2018), Prof. Dr. Peter Pleus (CEO Automotive OEM; until December 31, 2018)

* Employee representative on the Supervisory Board.

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 19, 2019, 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 19, 2019

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink

Independent Auditors' Report

To Schaeffler AG, Herzogenaurach

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Schaeffler AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018, to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Schaeffler AG for the financial year from January 1, 2018, to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration which is included in the "Corporate Governance" section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance declaration mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditors' report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018, to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognition and Measurement of Warranty Provisions

For the accounting and valuation methods applied, please refer to Note 1.3 to the consolidated financial statements. The valuation principles are described in Note 4.13.

The Financial Statement Risk The calculation of provisions for warranty obligations is associated with unavoidable estimation uncertainties, is complex, and is subject to a high risk of change. The approach and assessment depend, among other things, on the discovery of identified defects, on the actual amount of damages, and on other factors within the framework of settlement procedures.

There is a risk to the financial statements that the recognition and measurement of provisions for warranty obligations may not be appropriate.

Our Audit Approach First, we assessed whether the recognition criteria for the warranty provisions as of December 31, 2018, had been met and whether the warranty cases had been fully identified. In this regard, we had the legal department and other departments explain to us potential significant legal cases arising from warranty matters, inspected minutes of relevant meetings of the Board of Managing Directors and obtained attorney confirmations. In addition, we have inspected the underlying written correspondence and detailed documentation on the events and claims for damages relating to individual material cases.

Subsequently, we had the Board of Managing Directors, the Quality Department, and the Finance Department explain to us the assumptions underlying the valuation of the warranty provisions. In this context, we have understood the scope of the related deliveries as well as the estimated cost of replacements and exchanges for the individual warranty cases inspected.

Our Observations The assessments made with regard to warranty and goodwill obligations are appropriate.

Identification of Performance Obligations and Timing of Revenue Recognition

For the accounting and valuation methods applied, please refer to Notes 1.3 and 1.5 to the consolidated financial statements.

The Financial Statement Risk Group revenues for the fiscal year 2018 amounted to EUR 14.2 bn.

Under IFRS 15, the Schaeffler Group recognizes revenue when (or as) it satisfies a performance obligation under a contract with a customer by transferring a promised good or rendering a promised service. An asset or a service is deemed to have been transferred when the customer obtains control of this asset or service. In accordance with the transfer of control, revenue is to be recognized either at a point in time or over the period of time to which the Schaeffler Group expects to be entitled to consideration. The types of revenue and the way in which control is transferred are presented in Note 1.3 to the consolidated financial statements.

Due to the judgement involved in assessing the criteria for the existence of a performance obligation and in assessing the transfer of control, there is a risk to the financial statements that revenue will be incorrectly deferred as of the balance sheet date and that the disclosures in the notes to the consolidated financial statements required by IFRS 15 are incomplete or inappropriate.

Our Audit Approach Due to the first-time application of IFRS 15, we have focused our audit on the assessment of the performance obligations and revenue recognition criteria made by management. To this end, we have acknowledged the requirements of the Group-wide accounting guideline. We assessed the proper implementation of the accounting guidelines on the basis of a risk-based sample of contracts.

In order to assess the appropriateness and completeness of the information, we had the Board of Managing Directors and Corporate Accounting explain to us the approach followed in the implementation project. In particular, we have:

- assessed the identification and analysis of significant impacts of transition arising from the first-time application of IFRS 15,
- assessed decisions involving judgement such as the criteria for identifying performance obligations for development services or the criterion of alternative use of customer-specific products,

as well as reconciled the qualitative and quantitative IFRS 15 disclosures to the analyses and evidence provided to us and assessed them for consistency with regard to our understanding of the impact of transition.

Our Observations The Schaeffler Group's approach to the identification of performance obligations and the application of the criteria for the transfer of control are appropriate. The disclosures required by IFRS 15 are presented appropriately in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance declaration, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditors' report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, any matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditors' report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected group auditors by the annual general meeting on April 20, 2018. We were engaged by the Supervisory Board on July 4, 2018. We have been the group auditors of Schaeffler AG without interruption since the financial year 2015.

We declare that the opinions expressed in this auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

In addition to the consolidated financial statements, we audited the annual financial statements of Schaeffler AG and conducted various annual audits of financial statements of subsidiaries. As part of our audit, we performed a review of interim financial statements, as well as audited parts of the internal control system (ICS). In addition, we audited the combined separate non-financial report of Schaeffler AG as well as performed statutory or contractual audits, including audits in accordance with the EEG, EMIR audits in accordance with section 20 WpHG previous version (section 32 (1) WpHG revised version), concept audit for divisional consolidation, comfort letter in connection with the debt issuance program and confirmations of compliance with contractual conditions. We provided a coaching in connection with the non-financial report. We also provided tax advice to certain employees of Schaeffler AG in connection with their relocation to foreign subsidiaries of Schaeffler AG.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Angelika Alt-Scherer.

Munich, February 20, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Alt-Scherer	Koeplin
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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 19, 2019

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Andreas Schick

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink