Notes to the consolidated financial statements

1. General information

1.1 Reporting entity

Schaeffler AG, Herzogenaurach, is a publicly listed corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. The company was founded on April 19, 1982 and is registered in the Commercial Register of the Fürth Local Court (HRB No. 14738). The consolidated financial statements of Schaeffler AG as at December 31, 2017, 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 global automotive and industrial supplier.

The company is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach, which are filed with the operator of the 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, 2017, have been compiled in accordance with International Financial Reporting Standards as adopted in the European Union (EU) by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards as well as with the additional requirements of German commercial law. The term IFRS includes all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in effect as well as all interpretations and amendments issued by the IFRS Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). Comparative figures for the prior year were also determined based on these standards.

General presentation

These consolidated financial statements are presented in euros (EUR), the functional and presentation currency of the Schaeffler Group's parent company. Unless stated otherwise, all amounts are in millions of euros (EUR m). The consolidated statement of financial position is classified using the current/non-current distinction.

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
- determination of valuation allowances on inventories
- assessment of the recoverability of deferred tax assets
- evaluation of control over structured entities
- 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 2017. 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 4.11). In addition, the provisions for restructuring and for antitrust proceedings (see Note 4.12) were updated to reflect current information.

1.3 Summary of significant accounting policies

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

Consolidation principles

All significant domestic and foreign subsidiaries of the Schaeffler Group 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.

Foreign currency translation

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

Selected foreign exchange rates No. 094

Currencies		12/31/2017	12/31/2016	2017	2016
1 € in			Closing rates		Average rates
CNY	China	7.80	7.32	7.63	7.35
INR	India	76.61	71.45	73.51	74.38
KRW	South Korea	1,279.61	1,270.57	1,275.98	1,284.51
MXN	Mexico	23.66	21.79	21.33	20.66
USD	U.S.	1.20	1.05	1.13	1.11

Foreign currency transactions

Transactions denominated in a currency other than the entity's functional currency are translated at the exchange rate applicable on the date they are first recognized. Since receivables and payables denominated in foreign currencies are monetary items, they are translated into the functional currency of the applicable group company at the exchange rate as at the end of the reporting period and when they are realized. Non-monetary items are translated at historical rates.

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

Foreign entities

Assets, including goodwill, and liabilities of subsidiaries whose functional currency is not the euro are translated at the spot rate at the end of the reporting period. The components of equity are translated at historical rates, and items in the consolidated income statement are translated at the weighted average rate for each reporting period. The resulting translation differences are recognized in other comprehensive income and reported in accumulated other comprehensive income. The impact of currency translation recognized in shareholders' equity is reversed to profit or loss when consolidation of the subsidiary ceases.

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

Revenue recognition

Revenue is recognized when, based on the contract with the customer,

- the significant rewards and risks of ownership of the goods have been transferred to the buyer,
- it is sufficiently probable that the economic benefits associated with the sale will flow to 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, advance development, and to produce customer-specific applications are expensed immediately.

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

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

Financial result

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

Earnings per share

Earnings per share are calculated by dividing net income attributable to Schaeffler AG's shareholders by the weighted average number of common and common non-voting shares outstanding during the reporting period.

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. The 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 three-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 investment. 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 the recoverable amount under the value in use concept using the discounted cash flow method. If the value in use does not exceed the carrying amount of the cash-generating unit, the recoverable amount is then determined using fair value less costs of disposal.

Financial instruments

Regular-way sales and purchases of financial assets are accounted for using settlement date accounting.

Primary financial instruments

Primary financial instruments are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are only included in the carrying amount if the financial instrument is not measured at fair value through profit or loss. Subsequent measurement depends on how the financial instrument is categorized.

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 default risks retained (continuing involvement) (see Note 5.2).

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 reported directly in accumulated other comprehensive income until the hedged item occurs. These gains and losses are reclassified to profit or loss in the same period in which the hedged item affects profit or loss. The ineffective portion is recognized in profit or loss.

Inventories

Inventories are measured at the lower of cost and net realizable value. The acquisition cost of raw materials, supplies and purchased merchandise is determined using the moving average cost method. Work in progress and manufactured finished goods are valued at production cost and written down to net realizable value if lower.

Income taxes

Deferred income taxes are accounted for using the asset and liability method.

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

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

Management regularly reviews tax returns, mainly with respect to issues subject to interpretation, and reflects these in income tax payables as appropriate, based on amounts expected to be payable to taxation authorities. Potential risks arising from tax audits are covered by a provision.

Assets and liabilities held for sale

Non-current assets or groups of non-current assets (including the associated liabilities) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Classification as held for sale requires a commitment to a plan to sell the asset or group of assets and the sale must be highly probable within 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 as part of its company pension model.

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 the market rate of return for 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, while interest expense on provisions for pensions and similar obligations and the return on plan assets are considered separately for each plan and presented in the 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.

Provisions

Provisions are recognized at present value calculated by discounting expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money. Interest expense and the impact of any changes in discount rates are presented within the financial result.

Share-based payment

The Schaeffler Group's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using a binomial option pricing model. The fair value is recognized as personnel expense over the period between the grant date and settlement date.

1.4 New accounting pronouncements

Certain amendments to IAS 7 Statement of Cash Flows and IAS 12 Income Taxes are effective starting in 2017. A new reconciliation of changes in liabilities arising from financing activities has been disclosed to meet the requirements of IAS 7. The amendments to IAS 12 have not had any impact on these financial statements.

The Schaeffler Group is not yet required to apply the following amendments to standards issued by the International Accounting Standards Board (IASB) in its financial statements for the financial year 2017, and none were adopted early.

IFRS 9

In July 2014, the IASB issued its standard IFRS 9 Financial Instruments which replaces the requirements of IAS 39. The standard is effective for annual reporting periods beginning on or after January 01, 2018. The company will use the modified retrospective approach to transition to IFRS 9, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of applying the standard retrospectively will be recognized as an adjustment to the opening balance of shareholders' equity at January 01, 2018, the date of initial application.

The Schaeffler Group has examined the impact of applying IFRS 9 in a dedicated project.

IFRS 9 introduces a new approach to the classification and measurement of financial assets. The classification criteria are the cash flow criterion and the business model for managing the financial assets. The Schaeffler Group has reviewed all of its financial assets with respect to whether they meet the cash flow criterion and assigned them to the relevant business models. 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) (see Note 5.2) will change from the current measurement base, amortized cost (AC), to measurement at fair value through profit or loss (FVTPL). This will not result in any significant measurement differences. Investments and marketable securities currently classified as available for sale (AfS) will be classified as at fair value through other comprehensive income (FVTOCI). This will not result in any measurement differences. Investments currently measured at amortized cost under the exception allowed by IAS 39 because their fair value was not reliably determinable will be accounted for at fair value, which is expected to increase other reserves by approx. EUR 24 m upon initial application.

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, the analysis performed to date indicates that this is not expected to affect the amount recognized under IFRS 9.

IFRS 9 also introduces a new impairment model for financial assets accounted for at amortized cost or at fair value through other comprehensive income. The standard replaces the current incurred loss model with an expected loss model. Credit loss allowances recognized for trade receivables 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 other financial assets, primarily cash and cash equivalents, should be measured and recognized 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 reflect lifetime expected credit losses. The Schaeffler Group expects initial application to increase other reserves by up approx. EUR 4 m.

The hedge accounting requirements were also revised under IFRS 9 to allow financial statements to better reflect the company's risk management strategy. The standard requires extensive additional quantitative and qualitative note disclosures as well. 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 the hedge accounting requirements of IFRS 9 at a later date, i.e. after January 01, 2018.

IFRS 15

The 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). The standard is effective for annual reporting periods beginning on or after January 01, 2018. The Schaeffler Group will initially apply the standard for the year beginning on January 01, 2018. The company will use the modified retrospective approach to transition to IFRS 15, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2018). The cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of shareholders' equity at January 01, 2018, the date of initial application.

The Schaeffler Group has examined the impact of applying IFRS 15 in a dedicated project. Areas where initial application is currently expected to result in a significant impact are discussed below.

The Schaeffler Group expects initial application to increase other reserves by approx. EUR 4 m.

Customer tools

The new requirements regarding customers obtaining control of goods or services will result in changes regarding tools for initial series production. The Schaeffler Group has concluded that it has a distinct performance obligation vis-à-vis the customer for tools for initial series production with forecasted revenue of approx. EUR 4 m and is, therefore, required to recognize revenue when the customer obtains control. Consequently, tools for initial series production currently capitalized as assets under construction will be classified as unfinished goods in the opening statement of financial position as at January 01, 2018. This will result in the recognition of revenue and cost of sales when the customer obtains control of the completed tools for initial series production in future periods.

Initial application of this accounting treatment will not result in a significant change in other reserves.

Development services

IFRS 15 will require revenue to be 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. Revenue is recognized when the customer obtains control of the completed development services (revenue recognition at a point in time). Therefore, any costs incurred for these development projects will be accounted for in cost of sales and the reimbursements received from customers as revenues.

Due to these changes, the Schaeffler Group will recognize development services in progress as inventories of EUR 22 m as well as contract liabilities for consideration received from customers of EUR 25 m in its opening statement of financial position as at January 01, 2018. These balances will lead to the recognition of revenue and cost of sales when the customer obtains control of the completed development services in future periods.

The Schaeffler Group expects initial application of this accounting treatment to decrease other reserves by EUR 3 m.

Customer-specific products

IFRS 15 will require revenue to be recognized over time for customer-specific 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.

Products are customer-specific if the Schaeffler Group can sell them to only one customer. This will result in revenue being recognized earlier than under the company's current accounting policies. EUR 29 m in contract assets for revenue recognized over time for customer-specific products will be capitalized in the opening statement of financial position as at January 01, 2018. Inventories will decrease by EUR 22 m.

The Schaeffler Group expects initial application of this accounting treatment to increase other reserves by EUR 7 m.

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the requirements of IAS 17. The standard is effective for annual reporting periods beginning on or after January 01, 2019. Earlier application is permitted, but the Schaeffler Group does not plan to apply the standard early.

IFRS 16 introduces a uniform lessee accounting model requiring lessees to capitalize leases in their statement of financial position. Under this model, lessees are required to recognize assets (for the right of use) and lease liabilities for any lease agreements with a term of more than 12 months. The Schaeffler Group will initially apply the standard for the year beginning on January 01, 2019. The company will use the modified retrospective approach to transition to IFRS 16, i.e. the standard will only be applied to the most recent reporting period presented in the financial statements (the year 2019). The impact of initial application is expected to relate largely to leased real estate. The Schaeffler Group is currently assessing the impact on the consolidated financial statements of applying IFRS 16.

New accounting pronouncements not endorsed by the EU

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. 095

Standard/Interpretation		Effective date	Subject of Standard/Interpretation or amendment	Expected impact on the Schaeffler Group
Annual improvements 2014–2016		01/01/2018	Various improvements to IFRS 1, IFRS 12, and IAS 28	none
Amendments to IFRS 2	Classification of Share-based Payment Transactions	01/01/2018	Changes regarding arrangements with a net settlement feature and modifications that may change classification	Under examination [1]
Amendments to IAS 40	Transfers of Investment Property	01/01/2018	Clarifications regarding the requirements for the transfer of investment property	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	Clarifications regarding the date of the transaction for the purpose of determining the exchange rate for foreign currency transactions involving the recognition of non-monetary assets or liabilities for advance consideration paid or received before the related assets, income, or expenses are recognized.	Under examination [1]
Amendments to IFRS 9	Financial Instruments	01/01/2019	Amendments regarding whether instruments with prepayment features with negative compensation meet the cash flow condition, clarification regarding modification of financial liabilities	none
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
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	Clarification regarding various aspects of uncertainty over income tax treatment	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 2017, the consolidated financial statements of Schaeffler AG cover, in addition to Schaeffler AG, 151 (prior year: 152) subsidiaries; 50 (prior year: 51) entities are domiciled in Germany and 101 (prior year: 101) in other countries.

The scope of consolidation of Schaeffler AG did not change significantly compared to the consolidated financial statements of the Schaeffler Group as at December 31, 2016.

In the consolidated financial statements as at December 31, 2017, five (prior year: five) investments (including two joint ventures; prior year: two) are accounted for at equity.

A further five (prior year: one) companies were not consolidated as at December 31, 2017, since they were insignificant to the results of operations, financial position, and net assets of the Schaeffler Group.

More on the Schaeffler Group's companies in Note 5.10

3. Notes to the consolidated income statement

3.1 Revenue

Revenue No. 096

in € millions	2017	2016
Revenue from the sale of goods	13,828	13,167
Other revenue	193	171
Total	**14,021**	**13,338**

Other revenue primarily includes EUR 116 m (prior year: EUR 96 m) in revenue from the sale of tools and machines constructed by the company as well as EUR 59 m (prior year: EUR 64 m) from services.

3.2 Other income

Other income No. 097

in € millions	2017	2016
Gains on reversal of provisions	38	13
Miscellaneous income	44	28
Total	**82**	**41**

3.3 Other expenses

Other expenses No. 098

in € millions	2017	2016
Exchange losses	35	9
Miscellaneous expenses	106	168
Total	**141**	**177**

Foreign exchange losses consisted largely of exchange losses from operations and exchange losses related to forward exchange contracts. In 2017, netting foreign exchange gains and losses resulted in a net exchange loss of EUR 35 m (prior year: EUR 9 m).

Miscellaneous other expenses include EUR 39 m (prior year: EUR 0 m) in restructuring expenses incurred to set up a shared service center in Europe. In addition, EUR 16 m (prior year: EUR 86 m) in expenses were attributable to potential third-party claims in connection with antitrust proceedings and other compliance cases. The prior year contained EUR 45 m in expenses related to the stepped-up efficiency measures aimed at revitalizing the Industrial division under the second wave of the program “CORE”.

3.4 Personnel expense and headcount

Average number of employees by region No. 099

	2017	2016
Europe	60,954	59,609
Americas	12,826	12,563
Greater China	11,981	10,778
Asia/Pacific	2,936	2,783
Total	**88,697**	**85,733**

The number of employees at December 31, 2017, was 90,151, 4.0% above the prior year level of 86,662.

The Schaeffler Group's personnel expense consisted of the following:

Personnel expense No. 100

in € millions	2017	2016
Wages and salaries	3,606	3,388
Social security contributions	700	665
Other personnel expense	131	114
Total	**4,437**	**4,167**

The increase in personnel expense in 2017 is mainly attributable to pay increases arising from local collective agreements and to the targeted expansion of capacity, mainly in production and production-related areas in the Greater China and Europe regions. In order to further strengthen its innovative ability, the company focused on recruiting new personnel in its research and development departments, especially in Germany.

Other personnel expense includes EUR 128 m (prior year: EUR 110 m) in retirement benefit expenses.

3.5 Financial result

Schaeffler Group financial result No. 101

in € millions	2017	2016
Interest expense on financial debt [1]	-123	-286
Interest income on shareholder loans	0	49
Gains and losses on derivatives and foreign exchanges	-17	-33
Fair value changes on embedded derivatives	-14	-30
Interest income and expense on pensions and partial retirement obligations	-38	-45
Other	0	4
Total	**-192**	**-341**

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

Interest expense on financial debt amounted to EUR 123 m in 2017 (prior year: EUR 286 m) and included prepayment penalties of EUR 13 m (prior year: EUR 48 m) and EUR 5 m (prior year: EUR 31 m) for the early amortization of transaction costs.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any **interest income on loans to shareholders** in 2017 (prior year: EUR 49 m).

Net **foreign exchange** losses on financial assets and liabilities and net losses on **derivatives** amounted to EUR 17 m (prior year: EUR 33 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 14 m (prior year: EUR 30 m), comprising EUR 8 m (prior year: EUR 79 m) in losses related to prepayment options written off as part of the cost of refinancing transactions in 2017 and EUR 6 m (prior year: EUR 49 m in gains) resulting from changes in the fair value of the remaining prepayment options.

3.6 Income taxes

Income taxes No. 102

in € millions	2017	2016
Current income taxes	329	345
Deferred income taxes	10	-2
Total	**339**	**343**

As a corporation, Schaeffler AG was subject to German corporation and trade taxes during the reporting period 2017.

The average domestic tax rate was 28.6% in 2017 (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 13 m (prior year: EUR 13 m) in 2017. The Schaeffler Group had a deferred tax benefit of EUR 16 m related to prior years (prior year: deferred tax expense of EUR 6 m) in 2017.

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 2017 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. 103

in € millions	2017	2016
Earnings before income taxes	1,336	1,215
Expected tax expense	**382**	**348**
Addition/reduction due to deviating local tax bases	5	5
Foreign/domestic tax rate differences	-22	-19
Change in tax rate and law	-8	-2
Non-recognition of deferred tax assets	7	4
Tax credits and other tax benefits	-16	-11
Non-deductible expenses and non-taxable income	24	32
Taxes for previous years	-29	-7
Other	-4	-7
Reported tax expense	**339**	**343**

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. 104

in € millions	2017	2016
Net income	997	872
Net income attributable to shareholders of the parent company	980	859
Earnings attributable to common shares (basic/diluted)	734	644
Earnings attributable to common non-voting shares (basic/diluted)	246	215
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 €)	**1.47**	**1.29**
Earnings per common non-voting share (basic/diluted, in €)	**1.48**	**1.30**

There were no dilutive items at December 31, 2017, or in the prior year. Diluted earnings per share equal basic earnings per share.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

The carrying amounts of **goodwill** allocated to cash-generating units were unchanged at EUR 319 m (prior year: EUR 319 m) for the Automotive segment and EUR 208 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 2020 are based on an annual growth rate of 1.0% (prior year: 1.0%) for each segment. Depending on the underlying business and its country of operation, the Schaeffler Group used an assumed pre-tax interest rate of 12.6% (prior year: 12.6%) as the weighted average cost of capital for the Automotive segment and 12.4% (prior year: 12.6%) for the Industrial segment. This corresponds to a post-tax interest rate of 9.1% for the Automotive segment (prior year: 8.9%) and 9.0% for the Industrial segment (prior year: 8.9%).

As the value in use of each of the cash-generating units exceeded their carrying amount both for 2017 and the prior year, they were not impaired.

Internally generated intangible assets consisted largely of development costs of EUR 55 m (prior year: EUR 47 m), including EUR 35 m (prior year: EUR 22 m) in assets not yet available for use that were not yet subject to amortization.

Amortization of intangible assets totaled EUR 28 m (prior year: EUR 31 m) and was recognized in the following line items in the consolidated income statement: cost of sales EUR 6 m (prior year: EUR 8 m), research and development expenses EUR 5 m (prior year: EUR 5 m), and administrative expenses EUR 17 m (prior year: EUR 18 m).

Intangible assets No. 105

in € millions	Goodwill	Purchased intangible assets	Internally generated intangible assets	Total
Historical cost				
Balance as at January 01, 2016	**483**	**1,072**	**293**	**1,848**
Additions from initial consolidation of subsidiaries	44	1	0	45
Additions	0	12	17	29
Disposals	0	-4	0	-4
Transfers	0	0	0	0
Foreign currency translation	0	1	0	1
Balance as at December 31, 2016	**527**	**1,082**	**310**	**1,919**
Balance as at January 01, 2017	**527**	**1,082**	**310**	**1,919**
Additions from initial consolidation of subsidiaries	0	0	0	0
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**
Accumulated amortization and impairment losses				
Balance as at January 01, 2016	**0**	**1,013**	**246**	**1,259**
Additions from initial consolidation of subsidiaries	0	0	0	0
Amortization	0	18	13	31
Disposals	0	-3	0	-3
Transfers	0	0	0	0
Foreign currency translation	0	0	0	0
Balance as at December 31, 2016	**0**	**1,028**	**259**	**1,287**
Balance as at January 01, 2017	**0**	**1,028**	**259**	**1,287**
Additions from initial consolidation of subsidiaries	0	0	0	0
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**
Net carrying amounts				
As at January 01, 2016	**483**	**59**	**47**	**589**
As at December 31, 2016	**527**	**54**	**51**	**632**
As at January 01, 2017	**527**	**54**	**51**	**632**
As at December 31, 2017	**527**	**53**	**56**	**636**

4.2 Property, plant and equipment

Property, plant and equipment No. 106

in € millions	Land, land rights, and buildings	Technical equipment and machinery	Other equipment	Assets under construction	Total
Historical cost					
Balance as at January 01, 2016	**2,448**	**7,836**	**1,050**	**663**	**11,997**
Additions from initial consolidation of subsidiaries	0	1	0	0	1
Disposals of subsidiaries	-4	-51	-2	0	-57
Additions	44	379	83	580	1,086
Disposals	-3	-176	-45	-3	-227
Transfers	61	419	-3	-477	0
Reclassification to IFRS 5	-18	-36	-2	0	-56
Foreign currency translation	2	38	1	-7	34
Balance as at December 31, 2016	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Balance as at January 01, 2017	**2,530**	**8,410**	**1,082**	**756**	**12,778**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
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**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2016	**1,290**	**5,719**	**805**	**3**	**7,817**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	-2	-41	-2	0	-45
Depreciation	78	540	80	0	698
Impairment losses	2	4	1	1	8
Disposals	-3	-173	-42	0	-218
Transfers	0	24	-24	0	0
Reclassification to IFRS 5	-12	-28	-2	0	-42
Foreign currency translation	5	46	1	1	53
Balance as at December 31, 2016	**1,358**	**6,091**	**817**	**5**	**8,271**
Balance as at January 01, 2017	**1,358**	**6,091**	**817**	**5**	**8,271**
Additions from initial consolidation of subsidiaries	0	0	0	0	0
Disposals of subsidiaries	0	0	0	0	0
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**
Net carrying amounts					
As at January 01, 2016	**1,158**	**2,117**	**245**	**660**	**4,180**
As at December 31, 2016	**1,172**	**2,319**	**265**	**751**	**4,507**
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**

At December 31, 2017, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment to the amount of EUR 451 m (prior year: EUR 320 m).

4.3 Deferred tax assets and liabilities and income tax receivables and payables

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities No. 107

in € millions	12/31/2017 Deferred tax assets	12/31/2017 Deferred tax liabilities	12/31/2016 Deferred tax assets	12/31/2016 Deferred tax liabilities
Intangible assets	2	-28	3	-22
Property, plant and equipment	104	-147	98	-175
Financial assets	2	-4	2	-13
Inventories	101	-5	110	-4
Trade receivables and other assets	65	-108	64	-108
Provisions for pensions and similar obligations	375	-44	406	-35
Other provisions and other liabilities	142	-113	189	-82
Interest- and loss carryforwards	21	0	15	0
Deferred taxes (gross)	**812**	**-449**	**887**	**-439**
Netting	-320	320	-315	315
Deferred taxes (net)	**492**	**-129**	**572**	**-124**

The group had gross carryforwards under the interest deduction cap of EUR 32 m (prior year: EUR 10 m) at the end of the reporting period. The company has recognized deferred tax assets on all interest carryforwards.

At December 31, 2017, the Schaeffler Group had gross loss carryforwards of EUR 99 m (prior year: EUR 115 m) for corporation tax and EUR 9 m (prior year: EUR 9 m) for trade tax, including EUR 72 m (prior year: EUR 92 m) in corporation tax losses and EUR 9 m (prior year: EUR 9 m) in trade tax losses for which no deferred taxes have been recognized.

EUR 22 m (prior year: EUR 51 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 31 m (prior year: EUR 7 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 2,006 m (prior year: EUR 1,694 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 5 m (prior year: EUR 1 m). Recovery of these deferred tax assets is considered probable since sufficient taxable profits are expected in the future.

At December 31, 2017, the amount of deferred taxes recognized in accumulated other comprehensive income was EUR 260 m (prior year: EUR 328 m) and mainly related to hedges of net investments in foreign operations, changes in the fair value of derivatives designated as hedging instruments, as well as remeasurements of pensions and similar obligations.

Income tax receivables and payables

At December 31, 2017, income tax receivables amounted to EUR 102 m (prior year: EUR 93 m) and did not include any non-current balances.

At December 31, 2017, income tax payables amounted to EUR 315 m (prior year: EUR 339 m), including non-current balances of EUR 153 m (prior year: EUR 163 m).

Non-current income tax payables included EUR 47 m (prior year: EUR 46 m) in interest on additional tax payments for prior years. Current income tax payables included EUR 30 m (prior year: EUR 27 m) in interest on additional tax payments for prior years.

4.4 Inventories

Inventories No. 108

in € millions	12/31/2017	12/31/2016
Raw materials and supplies	393	358
Work in progress	571	468
Finished goods and merchandise	1,052	1,078
Advance payments	1	1
Total	**2,017**	**1,905**

EUR 10,021 m (prior year: EUR 9,413 m) in inventories used were expensed as cost of sales in the consolidated income statement in 2017.

The impairment allowance on inventories amounted to EUR 271 m (prior year: EUR 260 m) as at December 31, 2017.

4.5 Trade receivables

Trade receivables No. 109

in € millions	12/31/2017	12/31/2016
Trade receivables (gross)	**2,213**	**2,243**
Impairment allowances	-21	-25
Trade receivables (net)	**2,192**	**2,218**

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

Impairment allowances on trade receivables No. 110

in € millions	2017	2016
Impairment allowances as at January 01	**-25**	**-28**
Additions	-1	-3
Allowances used to cover write-offs	2	3
Reversals	3	3
Impairment allowances as at December 31	**-21**	**-25**

Trade receivables of EUR 2,033 m (prior year: EUR 2,079 m) were neither past due nor impaired as at December 31, 2017.

Also as at December 31, 2017, trade receivables of EUR 133 m (prior year: EUR 113 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 (prior year: EUR 51 m), and the related impairment allowance was EUR -21 m (prior year: EUR -25 m).

At December 31, 2017, trade receivables outstanding with a carrying amount of EUR 123 m (prior year: EUR 0 m) net of retained default risks had been sold under the ABCP program (see Note 5.2).

EUR 195 m (prior year: EUR 201 m) in receivables were pledged as security for a line of credit as at December 31, 2017.

More on the Schaeffler Group's exposure to counterparty, currency, and liquidity risk in Note 4.14

4.6 Other financial assets and other assets

Other financial assets (non-current/current) No. 111

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Loans receivable and financial receivables	2	0	2	3	0	3
Derivative financial assets	69	74	143	175	29	204
Miscellaneous other financial assets	43	37	80	39	26	65
Total	**114**	**111**	**225**	**217**	**55**	**272**

At December 31, 2017, **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.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.14

Other assets (non-current/current) No. 112

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Pension asset	46	0	46	21	0	21
Tax receivables	1	202	203	1	171	172
Miscellaneous other assets	24	34	58	29	47	76
Total	**71**	**236**	**307**	**51**	**218**	**269**

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

The majority of **miscellaneous other assets** represented the non-current and current portions of prepaid assets and deferred charges.

4.7 Cash and cash equivalents

At December 31, 2017, cash and cash equivalents consisted primarily of bank balances.

At the end of the reporting period, cash and cash equivalents include EUR 293 m (prior year: EUR 325 m) held by subsidiaries in Argentina, Brazil, Chile, China, Colombia, India, Peru, the Philippines, South Korea, South Africa, Taiwan, Thailand, Venezuela, Vietnam and other countries. These subsidiaries are subject to exchange restrictions or other legal restrictions. As a result, the availability of these funds to Schaeffler AG as the parent entity is restricted.

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

Assets held for sale of EUR 3 m relate to the planned sale of land scheduled to close in the first quarter of 2018.

The decrease in assets and liabilities held for sale compared to the prior year is due to the complete disposal of the fine blanking activities of Schaeffler Schweiz GmbH, which had been classified as a disposal group as at December 31, 2016, in the second quarter of 2017.

4.9 Shareholders' equity

Shareholders' equity No. 113

in € millions	12/31/2017	12/31/2016
Share capital	666	666
Capital reserves	2,348	2,348
Other reserves	249	-404
Accumulated other comprehensive income (loss)	-822	-713
Equity attributable to shareholders of the parent company	**2,441**	**1,897**
Non-controlling interests	107	100
Total shareholders' equity	**2,548**	**1,997**

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, 2017.

Capital reserves remained unchanged at EUR 2,348 m as at December 31, 2017.

The change in **other reserves** in 2017 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 2017, 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 0.50) per common non-voting share and EUR 0.54 (prior year: EUR 0.49) per common share. As the proposed dividend is subject to shareholder approval at the annual general meeting, it has not been recognized as a liability in these consolidated financial statements.

Accumulated other comprehensive income 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.

At December 31, 2017, **non-controlling interests** represented third-party interests in the equity of Schaeffler India Ltd. (previously FAG Bearings India Ltd.), India. The remaining interests in the two Thai companies Schaeffler (Thailand) Co., Ltd. and Schaeffler Holding (Thailand) Co., Ltd. were acquired during the year.

4.10 Current and non-current financial debt

Financial debt (current/non-current) No. 114

			12/31/2017			12/31/2016
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	1,994	1,994	0	2,719	2,719
Facilities Agreement	0	983	983	0	982	982
Capital investment loans	0	89	89	0	0	0
Other financial debt	2	0	2	3	3	6
Total	**2**	**3,066**	**3,068**	**3**	**3,704**	**3,707**

The decrease in financial debt compared to December 31, 2016, resulted primarily from the early redemption of the USD bond with a principal of USD 700 m, a coupon of 4.25%, and an original maturity of May 2021 in full on May 24, 2017. The redemption was funded using available liquidity and by utilizing EUR 350 m of the revolving credit facility. On November 23, 2017, the Schaeffler Group reduced the amount drawn under the revolving credit facility to a remaining balance of EUR 150 m by repaying EUR 200 m from available liquidity. On December 27, 2017, the Schaeffler Group repaid the remaining balance of EUR 150 m outstanding under the revolving credit facility in full.

On December 15, 2017, Schaeffler AG signed a loan agreement to finance long-term logistics projects. These logistics projects, which form part of the "European Distribution Center" (EDC) project, are the central distribution center "EDC Central" (Kitzingen) and the European assembly and packaging center known as the "Aftermarket Kitting Operation" (AKO). The total amount of the loan is EUR 250 m, of which EUR 90 m (prior year: EUR 0 m) were drawn as at December 31, 2017. The loan has a term until 2022 plus certain renewal options.

At December 31, 2017, the group's debt consisted of a loan tranche with a principal of EUR 1.0 bn, four bond series totaling the equivalent of approx. EUR 2.0 bn, a revolving line of credit (revolving credit facility, RCF) with a principal of EUR 1.3 bn, and a capital investment loan with a principal of EUR 250 m.

The Schaeffler Group had the following loans outstanding at December 31, 2017:

Schaeffler Group loans No. 115

		12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	
Tranche	Currency	Principal in millions		Carrying amount in € millions		Coupon		Maturity
Term Loan	EUR	1,000	1,000	991	992	Euribor [1] + 1.20%	Euribor [1] + 1.20%	07/18/2021
Revolving Credit Facility [2]	EUR	1,300	1,300	-8	-10	Euribor [1] + 0.80%	Libor [1] + 0.80%	07/18/2021
Capital investment loan [3]	EUR	250	0	89	0	Euribor [1] + 1.00%	n/a	12/15/2022
Total				**1,072**	**982**			

[1] Euribor Floor of 0.00%.
[2] EUR 12 m (December 31, 2016: EUR 13 m) were drawn down as at December 31, 2017, primarily in the form of letters of credit.
[3] EUR 90 m (December 31, 2016: EUR 0 m) were drawn down as at December 31, 2017.

In addition, the Schaeffler Group had further committed lines of credit in the equivalent of approx. EUR 154 m (prior year: approx. EUR 160 m), primarily for the U.S. and China. Approx. EUR 111 m (prior year: approx. EUR 160 m) of these committed facilities were unutilized at December 31, 2017.

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. 116

		12/31/2017	12/31/2016	12/31/2017	12/31/2016		
ISIN	Currency	Principal in millions		Carrying amount in € millions		Coupon	Maturity
XS1212469966	EUR	400	400	398	397	2.50%	05/15/2020
US806261AJ29 [1]	USD	0	700	0	658	4.25%	05/15/2021
XS1067864022	EUR	500	500	498	498	3.50%	05/15/2022
US806261AM57	USD	600	600	502	571	4.75%	05/15/2023
XS1212470972	EUR	600	600	596	595	3.25%	05/15/2025
Total				**1,994**	**2,719**		

[1] Redeemed in full on May 24, 2017.

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 value of the Revolving Credit Facility consisted entirely of unamortized transaction costs.

An additional EUR 22 m (prior year: EUR 27 m) in interest accrued on the bonds up to December 31, 2017, were reported in other financial liabilities (see Note 4.13).

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 prior years, the company has complied with the leverage covenant throughout 2017 as stipulated in the debt agreements.

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

4.11 Provisions for pensions and similar obligations

The post-employment benefits the Schaeffler Group provides to its employees include both defined benefit plans and and defined contribution plans. While defined contribution plans generally entail no further obligation beyond the regular contributions included in personnel expense, defined benefit 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 essentially 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 commitments based on pension units largely result from the Schaeffler Company Pension Scheme ("Schaeffler Versorgungsordnung") and similar schemes that base the amount of the pension units 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. Current 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 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 2017, approx. 76% (prior year: 74%) of pension obligations in the U.S. and approx. 113% (prior year: 104%) 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 obligations

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, 2017:

Amounts recognized in the statement of financial position for pensions and similar obligations No. 117

	12/31/2017					12/31/2016				
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)	-1,990	-51	-1	-82	-2,124	-2,029	-58	-4	-91	-2,182
Pension asset (plan assets net of related liabilities)	13	0	28	5	46	7	0	12	2	21
Net defined benefit liability	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

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. 118

	12/31/2017					12/31/2016				
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)	-1,206	-76	0	-201	-1,483	-1,224	-84	0	-204	-1,512
Present value of defined benefit obligations (deferred members)	-154	-24	-159	-4	-341	-141	-27	-166	-4	-338
Present value of defined benefit obligations (pensioners)	-802	-110	-57	-29	-998	-825	-115	-65	-26	-1,031
Present value of defined benefit obligations (total)	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**
Fair value of plan assets	185	159	243	157	744	168	168	239	145	720
Net defined benefit liability	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

Movements in the net defined pension benefit liability in 2017 can be reconciled as follows:

Reconciliation of net defined benefit liability/asset January 01/December 31 No. 119

	2017					2016				
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	**-2,022**	**-58**	**8**	**-89**	**-2,161**	**-1,771**	**-59**	**25**	**-103**	**-1,908**
Benefits paid	59	1	0	7	67	58	1	0	9	68
Service cost	-70	0	0	-15	-85	-56	0	0	-19	-75
Net interest on net defined benefit liability	-34	-2	0	-2	-38	-42	-2	1	-2	-45
Employer contributions	-2	0	0	16	14	12	0	0	12	24
Employee contributions	0	0	0	0	0	1	0	0	0	1
Transfers in/out	0	-2	0	0	-2	0	-2	0	0	-2
Remeasurement of net defined benefit liability	92	6	19	3	120	-224	6	-15	10	-223
Business combinations/disposals	0	0	0	0	0	0	0	0	2	2
Changes in foreign exchange rates	0	4	0	3	7	0	-2	-3	2	-3
Net defined benefit liability (-)/ asset (+) as at December 31	**-1,977**	**-51**	**27**	**-77**	**-2,078**	**-2,022**	**-58**	**8**	**-89**	**-2,161**

The increase in **service cost** to EUR 85 m (prior year: EUR 75 m) in 2017 was mainly driven by the decrease in the discount rate for Germany as at December 31, 2016, to 1.7% from 2.3% as at the end of 2015. The reason is as follows: The decrease in the discount rate increases the settlement amount of the defined benefit plans, resulting in higher service cost than in the prior year.

Movements in defined benefit obligations

The opening and closing balances of the present value of the defined benefit obligations 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. 120

	2017					2016				
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	**-2,190**	**-226**	**-231**	**-234**	**-2,881**	**-1,919**	**-223**	**-204**	**-248**	**-2,594**
Benefits paid	62	10	9	14	95	61	11	10	18	100
Current service cost	-70	0	0	-14	-84	-56	0	0	-18	-74
Past service cost	0	0	0	-1	-1	0	0	0	-1	-1
Interest cost	-37	-9	-6	-6	-58	-45	-9	-7	-6	-67
Employee contributions	-11	-1	0	0	-12	-8	-1	0	-1	-10
Transfers in/out	1	0	0	0	1	0	0	0	0	0
Gains (+) / losses (-) – changes in financial assumptions	85	-11	-7	7	74	-235	0	-58	4	-289
Gains (+) / losses (-) – changes in demographic assumptions	0	2	10	0	12	0	4	0	-1	3
Gains (+) / losses (-) – experience adjustments	-2	-1	0	-6	-9	12	-1	0	2	13
Business combinations/disposals	0	0	0	0	0	0	0	0	20	20
Changes in foreign exchange rates	0	26	9	6	41	0	-7	28	-3	18
Present value of defined benefit obligations as at December 31	**-2,162**	**-210**	**-216**	**-234**	**-2,822**	**-2,190**	**-226**	**-231**	**-234**	**-2,881**

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. 121

					2017					2016
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	**168**	**168**	**239**	**145**	**720**	**148**	**164**	**229**	**145**	**686**
Benefits paid	-3	-9	-9	-7	-28	-3	-10	-10	-9	-32
Interest income on plan assets	3	7	6	4	20	3	7	8	4	22
Employee contributions	11	1	0	0	12	9	1	0	1	11
Employer contributions	-2	0	0	16	14	12	0	0	12	24
Transfers in/out	-1	-2	0	0	-3	0	-2	0	0	-2
Return on plan assets excluding interest income	9	16	16	2	43	-1	3	43	5	50
Business combinations/disposals	0	0	0	0	0	0	0	0	-18	-18
Changes in foreign exchange rates	0	-22	-9	-3	-34	0	5	-31	5	-21
Fair value of plan assets as at December 31	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**720**

The Schaeffler Group plans to contribute EUR 9 m to plan assets in 2018.

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. 122

					12/31/2017					12/31/2016
in € millions	Germany	U.S.	United Kingdom	Other Countries	Total	Germany	U.S.	United Kingdom	Other Countries	Total
Equity instruments	98	61	66	14	239	84	68	64	17	233
Debt instruments	32	100	47	134	313	28	99	47	112	286
Real estate	0	0	24	3	27	0	0	23	8	31
Cash	30	-2	1	0	29	32	1	2	1	36
(Reimbursement) insurance policies	25	0	0	6	31	24	0	0	7	31
Mixed funds	0	0	105	0	105	0	0	103	0	103
Total	**185**	**159**	**243**	**157**	**744**	**168**	**168**	**239**	**145**	**720**

Plan assets do not include real estate used by the Schaeffler Group or any of the Schaeffler Group's own equity instruments. Except for amounts related to real estate and reimbursement insurance policies, all amounts shown above represent market prices quoted in an active market.

Information on changes in the various classes of plan assets in Germany is provided by the fund manager in the form of performance reports and is regularly reviewed by investment committees. The investment strategy follows a lifecycle model: Plan assets are moved to lower-risk asset classes as the beneficiary's age increases.

Asset-liability studies are prepared for the funded defined benefit plans in the United Kingdom and in the U.S. at regular intervals, and the investment policy of each fund is based on the applicable study and any local legal requirements.

Comprehensive income

The following summarizes the various amounts recognized in comprehensive income for defined benefit plans:

Comprehensive income on defined benefit pension plans No. 123

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Current service cost	70	0	0	14	84	56	0	0	18	74
Past service cost	0	0	0	1	1	0	0	0	1	1
• plan amendments	0	0	0	1	1	0	0	0	1	1
Gains (-)/losses (+) on settlements	0	0	0	0	0	0	0	0	0	0
Service cost	**70**	**0**	**0**	**15**	**85**	**56**	**0**	**0**	**19**	**75**
Interest cost	37	9	6	6	58	45	9	7	6	67
Interest income	-3	-7	-6	-4	-20	-3	-7	-8	-4	-22
Net interest on net defined benefit liability/asset	**34**	**2**	**0**	**2**	**38**	**42**	**2**	**-1**	**2**	**45**
Gains (-)/losses (+) – changes in financial assumptions	-85	11	7	-7	-74	235	0	58	-4	289
Gains (-)/losses (+) – changes in demographic assumptions	0	-2	-10	0	-12	0	-4	0	1	-3
Gains (-)/losses (+) – experience adjustments	2	1	0	6	9	-12	1	0	-2	-13
Return on plan assets excluding interest income	-9	-16	-16	-2	-43	1	-3	-43	-5	-50
Remeasurements of net defined benefit liability/asset	**-92**	**-6**	**-19**	**-3**	**-120**	**224**	**-6**	**15**	**-10**	**223**
Total comprehensive (income) loss on defined benefit obligations	**12**	**-4**	**-19**	**14**	**3**	**322**	**-4**	**14**	**11**	**343**

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. 124

					2017					2016
in € millions	Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Cost of sales	41	10	1	13	65	33	0	0	12	45
Research and development expenses	13	2	0	1	16	11	0	0	1	12
Selling expenses	5	2	0	6	13	4	0	0	3	7
Administrative expenses	11	1	0	2	14	8	0	0	2	10
Included in EBIT	**70**	**15**	**1**	**22**	**108**	**56**	**0**	**0**	**18**	**74**
Interest expense	37	9	6	6	58	45	9	7	6	67
Interest income on plan assets	-3	-7	-6	-4	-20	-3	-7	-8	-4	-22
Included in financial result	**34**	**2**	**0**	**2**	**38**	**42**	**2**	**-1**	**2**	**45**
Total	**104**	**17**	**1**	**24**	**146**	**98**	**2**	**-1**	**20**	**119**

Maturity profile of defined benefit obligations

The weighted average duration of defined benefit obligations is 18.7 years (prior year: 19.3 years) at year-end. In the most significant countries, Germany, the U.S., and the United Kingdom, the duration averages 19.7 years (prior year: 20.3 years), 11.7 years (prior year: 11.9 years), and 22.8 years (prior year: 24.0 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. 125

in € millions	Payments expected
2018	88
2019	92
2020	99
2021	105
2022	111
2023–2027	587

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. 126

	2017					2016				
	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%	3.7%	2.6%	2.8%	2.2%	1.7%	4.2%	2.8%	2.6%	2.1%
Future salary increases	3.3%	n.a. [2]	n.a. [2]	3.2%	3.2%	3.3%	n.a. [2]	n.a. [2]	3.2%	3.3%
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. The “RICHTTAFELN 2005 G” mortality tables developed by Prof. Dr. Klaus Heubeck and published by HEUBECK-RICHTTAFELN-GmbH are used for the German plans. These tables are generation tables, which specifically include appropriate assumptions to take into account future increases in life expectancy.

Sensitivity analysis

Selecting the assumptions discussed above is key to the calculation of the present value of the defined benefit obligation. The following table shows the sensitivity of the present value of the defined benefit obligation to changes in one of the key assumptions.

Sensitivity analysis of present value of defined benefit obligation No. 127

		2017					2016				
in € millions		Germany	U.S.	United Kingdom	Other countries	Total	Germany	U.S.	United Kingdom	Other countries	Total
Discount rate	Plus 1.0%	-352	-22	-42	-24	-440	-382	-25	-46	-25	-478
	Minus 1.0%	490	27	56	29	602	508	30	63	30	631
Future salary increases	Plus 1.0%	47	n.a. [1]	n.a. [1]	18	65	50	n.a. [1]	n.a. [1]	17	67
	Minus 1.0%	-41	n.a. [1]	n.a. [1]	-15	-56	-44	n.a. [1]	n.a. [1]	-15	-59
Future pension increases	Plus 1.0%	217	0	27	3	247	230	0	30	2	262
	Minus 1.0%	-162	0	-23	-2	-187	-190	0	-25	-1	-216

[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 102 m (prior year: EUR 106 m) in Germany, EUR 6 m (prior year: EUR 6 m) in the U.S., and EUR 9 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 plans

In 2017, the Schaeffler Group incurred EUR 22 m (prior year: EUR 20 m) in expenses related to defined contribution plans. At EUR 15 m (prior year: EUR 13 m), the majority of this amount relates to plans in the U.S.

4.12 Provisions

Provisions No. 128

in € millions	Employee benefits	Restructuring	Warranties	Other taxes	Other	Total
Balance as at January 01, 2017	**94**	**58**	**70**	**22**	**206**	**450**
Additions	52	39	66	5	68	230
Utilization	-47	-33	-30	-3	-79	-192
Reversals	-1	-18	-21	-6	-24	-70
Foreign currency translation	-1	0	-2	0	-9	-12
Balance as at December 31, 2017	**97**	**46**	**83**	**18**	**162**	**406**

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

Provisions (non-current/current) No. 129

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Employee benefits	73	24	97	39	55	94
Restructuring	45	1	46	14	44	58
Warranties	0	83	83	0	70	70
Other taxes	0	18	18	0	22	22
Other	55	107	162	43	163	206
Total	**173**	**233**	**406**	**96**	**354**	**450**

Provisions for employee benefits consisted primarily of EUR 57 m (prior year: EUR 60 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 in provisions related to setting up a shared service center in Europe. Implementation of these measures will start in 2018 and is expected to be completed by 2022.

Warranty provisions consisted almost entirely 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 and other compliance cases of EUR 55 m (prior year: EUR 103 m). These provisions were classified as both current and non-current. The decrease in other provisions compared to the prior year is primarily attributable to the utilization of the provision for potential third-party claims in connection with the EU antitrust proceedings finalized in March 2014 of EUR 29 m.

Non-current provisions increased by EUR 77 m to EUR 173 m (prior year: EUR 96 m), primarily due to the provisions related to setting up a shared service center in Europe as discussed above.

Current provisions declined by EUR 121 m to EUR 233 m (prior year: EUR 354 m). The reason for this decline was twofold: The provision for potential third-party claims in connection with the EU antitrust proceedings finalized in March 2014 was utilized, and restructuring provisions related to the realignment of the Industrial division (first and second wave program "CORE") recognized in the last two years were nearly fully utilized and partially reversed.

4.13 Other financial liabilities and other liabilities

Other financial liabilities (non-current/current) No. 130

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amounts payable to staff	2	299	301	0	262	262
Derivative financial liabilities	0	36	36	5	70	75
Miscellaneous other financial liabilities	22	347	369	81	364	445
Total	**24**	**682**	**706**	**86**	**696**	**782**

Amounts payable to staff included primarily profit sharing accruals.

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

The decrease in **miscellaneous other financial liabilities** mainly reflects the payment of part of the third-party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the consideration payable in connection with the acquisition of Compact Dynamics GmbH was paid in full (see Note 5.1). Payments received from customers for receivables sold under the ABCP program (see Note 5.2) and higher accrued selling costs (customer bonuses, rebates, early-payment discounts) had an offsetting effect.

More on the Schaeffler Group's exposure to currency and liquidity risk in Note 4.14

Other liabilities (non-current/current) No. 131

			12/31/2017			12/31/2016
in € millions	Non-current	Current	Total	Non-current	Current	Total
Amonts payable to staff	0	152	152	0	138	138
Social security contributions payable	1	41	42	2	40	42
Advance payments received	0	34	34	0	25	25
Other tax payables	0	114	114	0	121	121
Miscellaneous other liabilities	6	26	32	4	20	24
Total	**7**	**367**	**374**	**6**	**344**	**350**

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

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

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

4.14 Financial instruments

The carrying amounts and fair values of financial instruments by class of the consolidated statement of financial position and by category per IFRS 7.8 are summarized below. Investments in associated companies and derivatives subject to hedge accounting are also shown, although they do not fall into any of the IAS 39 measurement categories. No financial instruments were reclassified between categories.

Financial instruments by class and category in accordance with IFRS 7.8 No. 132

in € millions	Category per IFRS 7.8	12/31/2017 Carrying amount	12/31/2017 Fair value	12/31/2016 Carrying amount	12/31/2016 Fair value
Financial assets, by class					
Trade receivables	LaR	2,192	2,192	2,218	2,218
Other financial assets					
• Investments in associates [1)]	n.a.	3	-	3	-
• Other investments [2)]	AfS	17	-	14	-
• Marketable securities	AfS	16	16	17	17
• Derivatives designated as hedging instruments	n.a.	58	58	63	63
• Derivatives not designated as hedging instruments	HfT	85	85	141	141
• Miscellaneous other financial assets	LaR	46	46	34	34
Cash and cash equivalents	LaR	698	698	1,071	1,071
Financial liabilities, by class					
Financial debt	FLAC	3,068	3,165	3,707	3,820
Trade payables	FLAC	1,867	1,867	1,625	1,625
Other financial liabilities					
• Derivatives designated as hedging instruments	n.a.	11	11	40	40
• Derivatives not designated as hedging instruments	HfT	25	25	35	35
• Miscellaneous other financial liabilities	FLAC	670	670	707	707
Summary by category					
Available-for-sale financial assets (AfS)		33	-	31	-
Financial assets held for trading (HfT)		85	-	141	-
Loans and receivables (LaR)		2,936	-	3,323	-
Financial liabilities at amortized cost (FLAC)		5,605	-	6,039	-
Financial liabilities held for trading (HfT)		25	-	35	-

[1)] Equity-accounted investees.
[2)] Investments accounted for at cost.

The carrying amounts of trade receivables, miscellaneous other financial assets, cash and cash equivalents, trade payables, as well as miscellaneous other financial liabilities are assumed to equal their fair value due to the short maturities of these instruments.

Other investments include investments (shares in incorporated companies and cooperatives) for which quoted prices in an active market are not available. As a result, the fair value of these instruments cannot be measured reliably. These investments are therefore accounted for at cost. There were no partial disposals of such investments in 2017, and no (partial) disposals are planned in the foreseeable future. Marketable securities consist almost entirely of equity instruments in the form of money market fund units.

Hedge accounting is only applied to derivatives designated as hedges of currency risk in cash flow hedges. The Schaeffler Group uses cross-currency swaps and forward exchange contracts as hedging instruments here.

Please refer to the notes on the various balance sheet line items for the amount of financial assets pledged as collateral. Financial and non-financial assets of the Schaeffler Group have been pledged on the basis of the Facilities Agreement and the bond agreements (see Note 4.10). Collateral has generally been provided for the term of the loan and bond agreements and may be enforced if the creditors are entitled to call the debt, for instance if financial covenants are not met.

The fair values of financial assets and liabilities that are either measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements were determined using the following valuation methods and inputs:

- Level 1: Exchange-quoted prices as at the reporting date are used for marketable securities as well as bonds payable included in financial debt.
- Level 2: Cross-currency swaps and foreign exchange contracts are measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. These models take into account counterparty credit risk via credit value adjustments. Embedded derivatives are measured using a Hull-White model. Key inputs to this model are interest rates, volatilities, and credit default swap rates (CDS rates).
  The fair value of financial debt (except for the publicly listed bonds payable) is the present value of expected cash in- or outflows discounted using risk-adjusted discount rates that are appropriate to the term of the item being valued and that are in effect at the end of the reporting period.
- Level 3: The Schaeffler Group does not have any financial instruments in this level.

The following table summarizes the fair values and levels of financial assets and liabilities. Financial assets and liabilities whose carrying amount is assumed to represent their fair value have been omitted.

Financial assets and liabilities by fair value hierarchy level No. 133

in € millions	Level 1	Level 2	Total
December 31, 2017			
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	0	11	11
Derivatives not designated as hedging instruments	0	25	25
Total financial liabilities	**2,071**	**1,130**	**3,201**
December 31, 2016			
Marketable securities	17	-	17
Derivatives designated as hedging instruments	-	63	63
Derivatives not designated as hedging instruments	-	141	141
Total financial assets	**17**	**204**	**221**
Financial debt	2,813	1,007	3,820
Derivatives designated as hedging instruments	-	40	40
Derivatives not designated as hedging instruments	-	35	35
Total financial liabilities	**2,813**	**1,082**	**3,895**

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. 134

					2017	2016
		Subsequent measurement			Net income (loss)	
in € millions	Interest and dividends	at fair value	Impairment loss	Foreign currency translation		
Available-for-sale financial assets	-	1	-	-	1	0
Financial assets and liabilities held for trading	40	-131	-	-	-91	-9
Loans and receivables	11	-	2	-37	-24	44
Financial liabilities at amortized cost	-125	-	-	58	-67	-343
Total	**-74**	**-130**	**2**	**21**	**-181**	**-308**

Interest income and expense on financial assets and liabilities accounted for at amortized cost is included in interest income on financial assets and in interest expense on financial debt, respectively (see Note 3.5).

The net loss on financial assets and liabilities held for trading of EUR 91 m (prior year: EUR 9 m) relates entirely to derivatives. EUR 1 m (prior year: EUR 4 m) of this net loss is included in the financial result. Fair value changes on bifurcated embedded derivatives resulted in losses of EUR 14 m (prior year: EUR 30 m).

Financial risk management

Its financial instruments expose the Schaeffler Group to various risks.

Schaeffler's Board of Managing Directors has the overall responsibility for establishing and overseeing the group's risk management system. The finance department 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 Schaeffler Group activities.

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

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

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

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 twelve months. Both the 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 a revolving credit facility (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 liabilities and derivative liabilities are summarized as follows:

Cash flows related to non-derivative and derivative financial liabilities No. 135

in € millions	Carrying amount	Contractual cash flows	Up to 1 year	1–5 years	More than 5 years
December 31, 2017					
Non-derivative financial liabilities	**5,605**	**6,007**	**3,662**	**1,164**	**1,181**
• Financial debt	3,068	3,469	1,146	1,142	1,181
• Trade payables	1,867	1,867	1,867	0	0
• Other non-derivative financial liabilities	670	671	649	22	0
Derivative financial liabilities	**36**	**36**	**36**	**0**	**0**
Total	**5,641**	**6,043**	**3,698**	**1,164**	**1,181**
December 31, 2016					
Non-derivative financial liabilities	**6,039**	**6,704**	**2,400**	**2,506**	**1,798**
• Financial debt	3,707	4,363	136	2,429	1,798
• Trade payables	1,625	1,625	1,625	0	0
• Other non-derivative financial liabilities	707	716	639	77	0
Derivative financial liabilities	**75**	**75**	**70**	**5**	**0**
Total	**6,114**	**6,779**	**2,470**	**2,511**	**1,798**

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

Counterparty risk

The risk that the Schaeffler Group will incur a financial loss as a result of a customer or business partner defaulting is called counterparty risk. This risk is primarily inherent in trade receivables and miscellaneous other financial assets.

Counterparty risk arising on trade receivables is managed by constantly monitoring customers' financial status, creditworthiness, and payment history. Additional measures to manage counterparty risk include efficient collection procedures and the use of commercial credit insurance. All relevant rules are outlined in a Schaeffler Group guideline.

Counterparty risk inherent in derivative financial instruments is the risk that counterparties will fail to meet some or all of their payment obligations. To mitigate this risk, such contracts are only entered into with selected banks.

The maximum counterparty risk at the reporting date, excluding collateral, is represented by the carrying amount of the corresponding financial asset.

The Schaeffler Group's Board of Managing Directors does not have any indications that the debtors will not meet their payment obligations with respect to trade receivables that are neither past due nor impaired. Except for amounts recognized in impairment 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 obligation.

Trade receivables in the Automotive division are subject to a concentration of risk on several automobile manufacturers (see Note 5.5). Receivables from ten automobile manufacturers make up 39.0% (prior year: 38.4%) of trade receivables.

Interest rate risk

Variable interest features give rise to the risk of rising interest rates on financial liabilities and falling interest rates on financial assets. This risk is measured, assessed and, where necessary, hedged using derivative interest rate hedging instruments. The hedged item is the Schaeffler Group's interest-bearing net financial debt.

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

Variable and fixed interest financial debt No. 136

	12/31/2017	12/31/2016
in € millions	Carrying amount	
Variable interest instruments	**1,072**	**983**
• Financial debt	1,072	983
Fixed interest instruments	**1,996**	**2,724**
• Financial debt	1,996	2,724

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, 2017, would affect (increase/decrease) net income and shareholders' equity as follows:

Sensitivity analysis: Shift in yield curve No. 137

	Net income (loss)		Shareholders' equity	
in € millions	Plus 100 Bp	Minus 100 Bp	Plus 100 Bp	Minus 100 Bp
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**
As at December 31, 2016				
Variable interest instruments	-7	0	0	0
Derivatives designated as hedging instruments	0	0	-2	2
Derivatives not designated as hedging instruments	-22	6	0	0
Total	**-29**	**6**	**-2**	**2**

The impact of variable interest instruments is solely due to an increase or decrease in the interest charge.

Currency risk

The Schaeffler Group is exposed to currency risk on sales, purchases, and 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. 138

in € millions	USD	CNY	RON	PLN
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**
December 31, 2016				
Estimated currency risk from operations	730	533	-197	157
Forward exchange contracts	-573	-413	143	-119
Remaining currency risk from operations	**157**	**120**	**-54**	**38**

Estimated currency risk from operations represents the currency risk from operating and investing activities within twelve months after the end of each reporting period. The remaining currency risk from operations reflects the combined exposure of all Schaeffler Group entities not subject to local restrictions on foreign exchange transactions with Schaeffler's finance department. Thus, this exposure represents the difference between hedged items, both recognized and in the form of expected future foreign currency cash flows that have not yet been recognized, on the one hand and hedging instruments that have been recognized in the statement of financial position on the other hand. Currency risk in countries with foreign exchange restrictions (see Note 4.7) is monitored by Schaeffler's finance department. The most significant currency risk exposures in these countries arise on the Chinese renminbi and the Indian rupee and amount to an estimated EUR 58 m (prior year: U.S. dollar of EUR 76 m).

At any point in time the Schaeffler Group hedges a major portion of its estimated currency risk from operations in respect of forecasted sales and purchases over the next twelve months using mainly forward exchange contracts.

IFRS 7 requires entities to disclose the impact of hypothetical changes in exchange rates on net income and shareholders' equity using sensitivity analyses. Exchange rate changes are applied to all of the Schaeffler Group's financial instruments as at the end of the reporting date. The analysis covers foreign currency trade receivables and payables as well as derivative financial instruments used to hedge foreign currency risk.

The sensitivity analysis for currency risk from operations is based on a hypothetical 10% weakening of the euro against each of the significant foreign currencies as of December 31, 2017, 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. 139

	12/31/2017		12/31/2016	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
USD	9	-59	15	-67
CNY	23	-39	19	-39
HUF	9	11	6	10
PLN	0	-13	0	-12

Conversely, a 10% rise in the euro against the significant foreign currencies as at December 31, 2017, 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 800 m). Changes in the fair value of those cross-currency swaps not subject to hedge accounting (notional amount of USD 0 m; prior year: USD 400 m) were recognized directly in profit or loss in 2017.

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, 2017. 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. 140

	12/31/2017		12/31/2016	
in € millions	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Foreign exchange gains and losses on financial debt	-33	-16	-76	-47
Foreign exchange gains and losses on derivatives	33	11	80	7
Total	**0**	**-5**	**4**	**-40**

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

Other price risks

Other price risks normally includes the risk of changes in stock-market prices and stock price indices as well as changes in commodity prices to the extent purchase agreements for commodities are treated as financial instruments due to the requirements of IAS 39, which is not the case for the Schaeffler Group.

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

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

Derivative financial instruments and hedging relationships

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

Summary of derivative financial instruments No. 141

in € millions	12/31/2017 Nominal value	12/31/2017 Fair value	12/31/2016 Nominal value	12/31/2016 Fair value
Financial assets				
Currency hedging				
Forward exchange contracts	2,039	73	1,458	32
• thereof: hedge accounting	983	39	439	6
Cross-currency swaps	384	18	759	108
• thereof: hedge accounting	384	18	380	57
Financial liabilities				
Currency hedging				
Forward exchange contracts	1,698	36	2,106	75
• thereof: hedge accounting	693	11	1,166	40
Cross-currency swaps	0	0	57	0
• thereof: hedge accounting	0	0	57	0

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. 142

in € millions	2017	2016
Balance as at January 01	**-34**	**3**
Additions	33	-34
Reclassified to income statement		
• to other income	0	-3
• to other expense	34	0
Balance as at December 31	**33**	**-34**

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 nominal value of USD 400 m (prior year: USD 400 m). As a result, accumulated gains of EUR 3 m (prior year: gains of EUR 27 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, 2017. There was no ineffectiveness. The foreign exchange effects hedged will be recognized in profit or loss in the years 2018 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. 143

in € millions	2017	2016
Balance as at January 01	**-15**	**-42**
Additions	-43	-51
Reclassified to income statement		
• to financial income	0	0
• to financial expense	46	78
Balance as at December 31	**-12**	**-15**

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 500 m). This mitigates the group's translation risk on the U.S. subsidiaries. As a result, foreign exchange gains of EUR 13 m (prior year: losses of EUR 10 m) on designated financial debt were recognized in other comprehensive income in 2017 and reported in accumulated other comprehensive income (translation reserve) as at December 31, 2017. The hedging relationship did not produce any ineffectiveness that would have had to be recognized separately. Investments in the group's other subsidiaries are not hedged.

Offsetting financial assets and financial liabilities

Certain Schaeffler Group companies enter into derivatives based on the German Master Agreement for Financial Forward Transactions ("Deutscher Rahmenvertrag für Finanztermingeschäfte" – DRV) or on the master agreement of the International Swaps and Derivatives 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. 144

in € millions	12/31/2017	12/31/2016
Financial assets		
Gross amount of financial assets	92	139
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial assets	92	139
Amounts subject to master netting arrangements		
• Derivatives	-36	-62
Net amount of financial assets	56	77
Financial liabilities		
Gross amount of financial liabilities	36	75
Amounts offset in accordance with IAS 32.42	0	0
Net amount of financial liabilities	36	75
Amounts subject to master netting arrangements		
• Derivatives	-36	-62
Net amount of financial liabilities	0	13

4.15 Share-based payment

In connection with the Schaeffler AG listing in October 2015, the company implemented its first share-based payment instrument in the form of a Performance Share Unit Plan (PSUP) for members of Schaeffler AG's Board of Managing Directors. The virtual shares granted (known as Performance Share Units, PSUs) entitle the holder to a cash payment equal to the average share price of Schaeffler AG's common non-voting shares on the vesting date. The PSUs are granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of the year in which the tranche is granted. Due to the listing, however, the grant date of the 2015 tranche is October 09, 2015. In October 2016, the Board of Managing Directors decided to extend the PSUP to selected members of the Schaeffler Group's senior management. For eligible senior management, the performance period of the 2016 tranche begins retroactively on January 01, 2016. However, the grant date of the 2016 tranche is October 01, 2016. The grant date of the 2017 tranche is January 01, 2017, except for one member of the Board of Managing Directors, whose grant date is July 17, 2017.

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 performance period.

The number of PSUs actually payable at the end of the performance period depends on the extent to which the performance targets have been achieved and whether the service condition has been met and can vary between 0% and 100%. The amount payable per PSU is capped at double the underlying price of Schaeffler AG common non-voting shares at the grant date.

Obligations under the PSUP as at December 31, 2017, amounted to EUR 9.8 m (prior year: EUR 3.5 m) and were included in non-current provisions. Net expenses arising from the PSUP for 2017 totaled EUR 6.3 m (prior year: EUR 2.8 m). There were 2,417,229 PSUs (prior year: 1,310,594 PSUs) in total as at December 31, 2017. All PSUs granted were still outstanding as at December 31, 2017.

The average fair value of a PSU granted was EUR 11.71 (prior year: EUR 11.31) as at December 31, 2017. 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. 145

	12/31/2017	12/31/2016
Average risk-free interest rate for the remaining performance period	-0.50%	-0.35%
Expected dividend yield of Schaeffler AG common non-voting shares	3.38%	2.49%
Expected volatility of Schaeffler AG common non-voting shares	28.61%	34.27%
Expected volatility of the benchmark index	10.32%	18.75%
Expected correlation between the benchmark index and Schaeffler AG common non-voting shares	0.46	0.61

Expected future volatilities and the correlation between Schaeffler AG common non-voting shares and the benchmark group (MDAX) were estimated based on the daily closing prices of Schaeffler AG common non-voting shares and the benchmark group (MDAX) in the XETRA trading system of the German Stock Exchange.

4.16 Capital management

The Schaeffler Group has a 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 create financial flexibility for profitable growth in order to add long-term value to the company. A further aim is to ensure that a portion of the company's net income is paid out to shareholders in dividends.

Corporate capital management provides the financial resources required by Schaeffler Group entities, ensures the long-term availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. Capital management also strives to improve the quality of the Schaeffler Group's balance sheet, measured in terms of the development of the ratio of net financial debt to equity including non-controlling interests (gearing ratio). The gearing ratio was 93.0% at December 31, 2017 (prior year: 132.0%).

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 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 150 m (prior year: EUR 0 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 2017, the Schaeffler Group obtained ratings from rating agencies Standard & Poor's and Moody's and, since April 25, 2017, from Fitch Ratings as well. 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 prior years, the company has complied with the leverage covenant throughout 2017 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 taxes, depreciation, amortization, and impairment losses) – is calculated as follows:

Net financial debt to EBITDA ratio No. 146

in € millions	12/31/2017	12/31/2016
Current financial debt	2	3
Non-current financial debt	3,066	3,704
Financial debt	**3,068**	**3,707**
Cash and cash equivalents	698	1,071
Net financial debt	**2,370**	**2,636**
Earnings before financial result, income taxes, depreciation, and amortization and impairment losses (EBITDA) [1)]	**2,295**	**2,293**
Net financial debt to EBITDA ratio [2)]	**1.0**	**1.1**

[1)] EBITDA incl. EUR 56 m (prior year: EUR 144 m) in special items.
[2)] 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.

In connection with the repayment of the USD bond series, Schaeffler AG also terminated a portion of the cross-currency swaps designed to hedge the currency fluctuations before maturity. The termination resulted in cash inflows of EUR 38 m due to exchange rate changes. These cash inflows from the hedging instrument as well as the cash outflows from the hedged item are presented under repayments of loans.

The purchase price for the acquisition of Compact Dynamics GmbH of EUR 45 m was paid in full in 2017. Further cash outflows of EUR 2 m represented the payment of the 1st tranche of the purchase price for the acquisition of autinity GmbH. A 2nd tranche of EUR 2 m was payable in January 2018. These outflows were partially offset by proceeds of EUR 4 m on the disposal of Schaeffler Motorenelemente AG & Co. KG and EUR 16 m on the sale of the fine blanking activities of Schaeffler Schweiz GmbH. The inflow of the EUR 2 m in cash received as part of the acquisition of Compact Dynamics GmbH was reflected in other investing activities in 2016.

Summary of changes in financial debt No. 147

				Financial debt	Cross-currency swaps held or hedging purposes		Total
in € millions	Bonds	Facilities agreement	Capital investment loan	Other financial debt	Financial assets	Financial liabilities	
Balance as at January 01, 2017	**2,719**	**982**	**0**	**6**	**-108**	**0**	**3,599**
Changes from financing cash flows							
Receipts from loans	0	350	90	0	0	0	440
Repayments of loans	-625	-350	0	-3	38	0	-940
Total changes from cash flows	**-625**	**0**	**90**	**-3**	**38**	**0**	**-500**
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	**-105**	**0**	**0**	**0**	**0**	**0**	**-105**
Changes in fair values	**0**	**0**	**0**	**0**	**57**	**0**	**57**
Other non-cash changes	**5**	**1**	**-1**	**-1**	**0**	**0**	**4**
Balance as at December 31, 2017	**1,994**	**983**	**89**	**2**	**-13**	**0**	**3,055**

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 4.5) as well as the related liabilities are recognized to the extent of the company's continuing involvement measured as the amount of the risks retained.

The following balances relate to the Schaeffler Group's involvement with the structured entity as at December 31, 2017:

Balances – involvement with the structured entity No. 148

in € millions	12/31/2017	12/31/2016
Carrying amount of receivables transferred	123	0
Carrying amount of risks and collateral retained in relation to the receivables transferred (recognized as other assets in the statement of financial position)	14	0
Payments received from customers on receivables sold and not yet passed on to the structured entity transferred (recognized as other financial liabilities in the statement of financial position)	42	0
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)	2	0

The ABCP program resulted in a cash inflow of EUR 150 m classified in cash flows from operating activities.

5.3 Leases

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

Rental and lease agreements No. 149

in € millions	12/31/2017	12/31/2016
Less than one year	57	58
Between one and five years	65	60
More than five years	11	5
Total	**133**	**123**

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

In 2017, the Schaeffler Group recognized EUR 89 m (prior year: EUR 85 m) in expenses related to operating rental and lease agreements in profit or loss.

5.4 Contingent liabilities

At December 31, 2017, the Schaeffler Group had contingent liabilities of EUR 74 m (prior year: EUR 46 m). These do not include any items that individually have a material adverse impact on the Schaeffler Group's net assets, financial position, and earnings.

Since 2011, several antitrust authorities have been investigating several manufacturers of rolling bearings and other vendor parts for the automotive sector. The authorities are investigating possible agreements violating antitrust laws. Schaeffler Group companies are among the entities subject to these investigations. In addition, there is a risk that third parties may claim damages in connection with antitrust proceedings that are either ongoing or have been finalized. As at the end of the reporting period, the Schaeffler Group has recognized provisions for a portion of these investigations and potential claims for damages. Additional penalties or claims for damages cannot be ruled out, but can currently not be estimated.

5.5 Segment information

In accordance with IFRS 8, segment information is reported under the management approach, reflecting the internal organizational and management structure including the internal reporting system to the Schaeffler AG Board of Managing Directors. Schaeffler engages in business activities (1) from which it may earn revenues and incur expenses, (2) whose EBIT is regularly reviewed by the Schaeffler Group's Board of Managing Directors and used as a basis for future decisions on how to allocate resources to the segments and to assess their performance, and (3) for which discrete financial information is available.

The Schaeffler Group is divided into the two segments Automotive division and Industrial division as described below. The segments offer different products and services and are managed separately because they require different technology and marketing strategies. Each segment focuses on a specific worldwide group of customers. Consequently, the amounts for revenue, EBIT, assets, additions to intangible assets and property, plant and equipment, as well as amortization, depreciation, and 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 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 two reportable segments:

Automotive

Product and service business with customers in the automotive sector. These include primarily manufacturers of passenger cars and commercial vehicles (OEM), automotive suppliers (Tier 1 and Tier 2), as well as companies focusing on the distribution of spare parts for passenger cars and commercial vehicles (aftermarket). The Automotive 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 drivetrains based on the internal combustion engine just as much as applications for hybrid and electric vehicles. The Automotive Aftermarket business division is responsible for the global business with spare parts and provides innovative repair solutions in original-equipment quality, focusing especially on comprehensive services for repair shops.

Industrial

Product and service business with manufacturers of investment goods. Specifically, these customers operate in the production machinery, drive technology, wind power, construction machinery/tractors, consumer goods, heavy industries, rail traffic and power transmission sectors as well as in the industrial aftermarket. The business with customers in the aerospace industry is also included in this segment. The Industrial division's product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings over three meters in diameter. The focus here is increasingly on smart products and on connecting components.

Information on the operating activities of the two reportable segments is included below. Performance is measured based on EBIT, as the Board of Managing Directors believes that this information is most relevant in evaluating the results of the segments in relation to other entities that operate within these industries.

Reconciliation to earnings before income taxes No. 150

in € millions	2017	2016
EBIT Automotive [1]	1,283	1,373
EBIT Industrial [1]	245	183
EBIT	**1,528**	**1,556**
Financial result	-192	-341
Earnings before income taxes	**1,336**	**1,215**

[1] Prior year information presented based on 2017 segment structure.

In 2017, the Schaeffler Group generated revenue of EUR 1,488 m (prior year: EUR 1,462 m) from one key customer, representing 10.6% (prior year: 11.0%) of total group revenue and 13.7% (prior year: 14.1%) of Automotive segment revenue.

In addition to the divisions and functions, the Schaeffler Group's multidimensional organizational structure is also based on the four regions Europe, Americas, Greater China, and Asia/Pacific. The Automotive division and Industrial division segments are managed on a global basis and operate production and distribution facilities in all four regions. Revenue and non-current assets of the four regions were as follows in 2017:

Information about geographical areas No. 151

	2017	2016	12/31/2017	12/31/2016
in € millions		Revenue [1]		Non-current assets [2]
Europe	7,183	7,077	3,344	3,039
Americas	2,910	2,803	769	818
Greater China	2,456	2,053	1,027	932
Asia/Pacific	1,472	1,405	361	350
Total	**14,021**	**13,338**	**5,501**	**5,139**

[1] Revenue by market (customer locations). Prior year information presented based on 2017 segment structure.
[2] Non-current assets by Schaeffler location. Non-current assets consist of intangible assets and property, plant and equipment.

Germany, China, and the U.S. had revenue of EUR 2,614 m (prior year: EUR 2,818 m), EUR 2,394 m (prior year: EUR 1,992 m), and EUR 1,881 m (prior year: EUR 1,830 m) as well as non-current assets of EUR 2,017 m (prior year: EUR 1,757 m), EUR 1,027 m (prior year: EUR 931 m), and EUR 422 m (prior year: EUR 476 m), respectively.

Effective January 01, 2018, the Automotive Aftermarket was separated from the Automotive division of Schaeffler AG and set up as a third stand-alone division.

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 2017 in accordance with IAS 24 totaled EUR 19 m (prior year: EUR 19 m), including EUR 12 m (prior year: EUR 12 m) in short-term benefits. Expenses of EUR 2 m (prior year: EUR 3 m) were recognized for post-employment benefits. Termination benefits amounted to EUR 1 m (prior year: EUR 0 m), and share-based payments totaled EUR 4 m (prior year: EUR 3 m).

Total remuneration of the Board of Managing Directors in accordance with section 314 (1) (6a) (1-3) HGB amounted to EUR 17 m (prior year: EUR 19 m) in 2017.

In addition, the company has committed to pay two Managing Directors advances of EUR 300 thousand each for 2017 and payments of EUR 300 thousand and EUR 225 thousand, respectively, for 2018, and has also committed to pay EUR 300 thousand 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 2017 under the Performance Share Unit Plan (PSUP) implemented in 2015: 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).

The following share-based remuneration was granted to members of the Board of Managing Directors in the prior year: 252,051 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 13.82), 126,033 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 13.82), and 126,033 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 9.13). 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 1.6 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 4 m in 2017 (prior year: EUR 3 m).

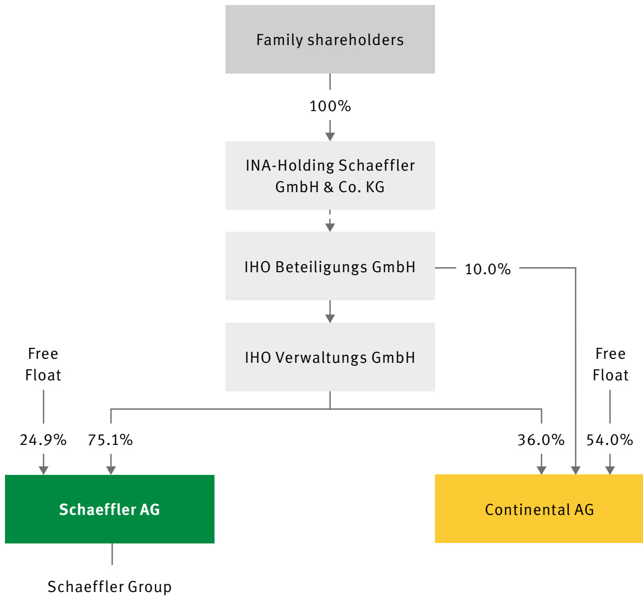
Provisions for pensions and similar obligations for former members of the Board of Managing Directors (and their surviving dependants) of Schaeffler AG and its legal predecessors, before netting of related plan assets, amounted to EUR 13 m at December 31, 2017 (prior year: EUR 11 m).

At December 31, 2017, 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 0.6 m (prior year: EUR 0.8 m). Key management personnel and close members of their family received interest of EUR 0.0 m (prior year: EUR 0.1 m) on these bonds. Additionally, bonds issued in prior years with a value of EUR 0 m (prior year: EUR 3 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 & Co. KG has significant influence.

Simplified ownership structure No. 152
as at December 31, 2017



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 2017.

In 2017 and 2016, Schaeffler Group companies had various business relationships with the group's related entities.

On April 26, 2017, the Schaeffler AG annual general meeting declared a total dividend of EUR 328 m in respect of 2016, including EUR 245 m on the common shares held by IHO Verwaltungs GmbH.

In 2016, IHO Verwaltungs GmbH prepaid its loans payable to Schaeffler AG in full. As a result, the Schaeffler Group no longer earned any interest income on loans to shareholders in 2017 (prior year: EUR 49 m).

Business relationships with Continental Group companies existed in the form of supply of vehicle components and tools, rendering of development and other services, and leases of commercial real estate. The transactions with the Continental Group were entered into at arm's-length conditions.

The following table summarizes all income and expenses from transactions with related Schaeffler Group companies recognized in the Schaeffler Group consolidated financial statements. The summary also shows receivables and payables related to such transactions included in the consolidated financial statements as at the end of each reporting period.

Receivables and payables from transactions with related entities No. 153

	12/31/2017	12/31/2016	12/31/2017	12/31/2016
in € millions		Receivables		Payables
Related entities	25	22	17	12

Expenses and income from transactions with related entities No. 154

	2017	2016	2017	2016
in € millions		Expenses		Income
Related entities	85	84	129	168

Receivables from transactions with related entities include EUR 25 m (prior year: EUR 22 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. 155

	2017	2016	2017	2016
in € millions		KPMG		thereof KPMG AG
Financial statement audit services	6.9	6.4	4.0	3.7
Other attestation services	0.3	0.1	0.2	0.1
Tax advisory services	1.7	1.3	1.6	1.0
Other services	0.1	0.5	0.0	0.4
Total	**9.0**	**8.3**	**5.8**	**5.2**

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 of the German Stock Corporations Act ("Aktiengesetz" –AktG) in December 2017 and have made it publicly available on the Schaeffler Group's website (www.schaeffler.com/ir).

5.9 Events after the reporting period

No material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2017.

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. 156

Entity	Location	Country code	Group ownership interest in %
A. Entities fully consolidated			
I. Germany (50)			
AS Auslandsholding GmbH 2)	Buehl	DE	100.00
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) 4)	Buehl	DE	100.00
Dürkopp Maschinenbau GmbH 2)	Schweinfurt	DE	100.00
Egon von Ruville GmbH 2)	Hamburg	DE	100.00
FAG Aerospace GmbH	Schweinfurt	DE	100.00
FAG Aerospace GmbH & Co. KG 1) 4)	Schweinfurt	DE	100.00
FAG Industrial Services GmbH 2)	Herzogenrath	DE	100.00
FAG Kugelfischer GmbH 2)	Schweinfurt	DE	100.00
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS 2)	Homburg	DE	100.00
IAB Grundstücks-verwaltungsgesellschaft mbH	Buehl	DE	100.00
IAB Holding GmbH 2)	Herzogenaurach	DE	100.00
IAB Verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100.00
INA - Drives & Mechatronics AG & Co. KG 1) 4)	Suhl	DE	100.00
INA Automotive GmbH 2)	Herzogenaurach	DE	100.00
INA Beteiligungsverwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Industrieaufbaugesellschaft Bühl mbH 2)	Buehl	DE	100.00
Industriewerk Schaeffler INA-Ingenieurdienst GmbH 2)	Herzogenaurach	DE	100.00
KWK Verwaltungs GmbH	Langen	DE	100.00
LuK Auslandsholding GmbH 2)	Buehl	DE	100.00
LuK Beteiligungsgesellschaft mbH 2)	Buehl	DE	100.00
LuK GmbH & Co. KG 1) 4)	Buehl	DE	100.00
LuK Management GmbH	Buehl	DE	100.00
LuK Truckparts GmbH & Co. KG 1) 4)	Kaltennordheim	DE	100.00
LuK Unna GmbH & Co. KG 1) 4)	Unna	DE	100.00
LuK Vermögens-verwaltungsgesellschaft mbH 2)	Buehl	DE	100.00
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Buehl	DE	100.00
PD Qualifizierung und Beschäftigung GmbH 2)	Schweinfurt	DE	100.00
Raytech Composites Europe GmbH	Morbach	DE	100.00
Schaeffler Automotive Aftermarket GmbH & Co. KG 1) 4)	Langen	DE	100.00
Schaeffler Beteiligungs-gesellschaft mbH	Herzogenaurach	DE	100.00
Schaeffler Beteiligungs-verwaltungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Elfershausen AG & Co. KG 1) 4)	Herzogenaurach	DE	100.00
Schaeffler Engineering GmbH 2)	Werdohl	DE	100.00
Schaeffler Europa Logistik GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Friction Products GmbH	Morbach	DE	100.00
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100.00
Schaeffler Immobilien AG & Co. KG 1) 4)	Herzogenaurach	DE	100.00
Schaeffler Technologies AG & Co. KG 1) 4)	Herzogenaurach	DE	100.00
Schaeffler Versicherungs-Vermittlungs GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Drei GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Eins GmbH 2)	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100.00
Schaeffler Verwaltungsholding Zwei GmbH 2)	Herzogenaurach	DE	100.00
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100.00
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100.00
WPB Water Pump Bearing GmbH & Co. KG 1) 4)	Herzogenaurach	DE	100.00
II. Foreign (101)			
Schaeffler Middle East FZE	Jebel Ali	AE	100.00
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100.00
Schaeffler Austria GmbH	Berndorf-St. Veit	AT	100.00
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100.00
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100.00
Schaeffler Bulgaria OOD	Sofia	BG	100.00
LuK do Brasil Embreagens Ltda.	Sorocaba	BR	100.00
Schaeffler Brasil Ltda.	Sorocaba	BR	100.00
Schaeffler Belrus OOO	Minsk	BY	100.00
FAG Aerospace Inc.	Stratford	CA	100.00
Schaeffler Canada Inc.	Oakville	CA	100.00
Schaeffler Schweiz GmbH	Romanshorn	CH	100.00
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100.00
Schaeffler (China) Co., Ltd.	Taicang	CN	100.00
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100.00
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100.00
Schaeffler (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.	Athen	GR	100.00
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100.00
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100.00
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100.00
LuK Savaria Kft.	Szombathely	HU	100.00
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100.00
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100.00
Schaeffler Israel Ltd.	Yokneam Illit	IL	100.00
INA Bearings India Private Limited	Pune	IN	100.00
LuK India Private Limited	Hosur	IN	100.00
Schaeffler India Ltd.	Mumbai	IN	51.33
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.	Mexico City	MX	100.00
Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100.00
Schaeffler Mexico Holding, S. de R.L. de C.V.	Irapuato	MX	100.00
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100.00
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100.00
Radine B.V.	Barneveld	NL	100.00
Schaeffler Finance B.V.	Barneveld	NL	100.00
Schaeffler Nederland B.V.	Barneveld	NL	100.00
Schaeffler Nederland Holding B.V.	Barneveld	NL	100.00
LuK Norge AS	Kongsberg	NO	100.00
Schaeffler Norge AS	Oslo	NO	100.00
Schaeffler Peru S.A.C.	Lima	PE	100.00
Schaeffler Philippines Inc.	Makati City	PH	100.00
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100.00
Schaeffler Portugal Unipessoal, Lda.	Caldas da Rainha	PT	100.00
Schaeffler Romania S.R.L.	Brasov	RO	100.00
Schaeffler Manufacturing Rus OOO	Ulyanovsk	RU	100.00
Schaeffler Russland GmbH	Moscow	RU	100.00
Schaeffler Sverige AB	Arlandastad	SE	100.00
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100.00
Schaeffler Slovenija d.o.o.	Maribor	SI	100.00
Schaeffler Kysuce, spol. s r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler Skalica spol. s r.o.	Skalica	SK	100.00
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100.00
Schaeffler (Thailand) Co., Ltd.	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 Holding LLC	Danbury	US	100.00
FAG Interamericana A.G.	Miami	US	100.00
LMC Bridgeport, Inc.	Danbury	US	100.00
LuK Clutch Systems, LLC	Wooster	US	100.00
LuK Transmission Systems LLC	Wooster	US	100.00
LuK USA LLC	Wooster	US	100.00
LuK-Aftermarket Services, LLC	Valley City	US	100.00
Schaeffler Group USA, Inc.	Fort Mill	US	100.00
The Barden Corporation	Danbury	US	100.00
Schaeffler Venezuela, C.A.	Caracas	VE	100.00
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100.00
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100.00
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100.00

B. Associated companies/Joint ventures
I. Germany (3)

Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50.00
Contitech-INA GmbH & Co. KG [4]	Hanover	DE	50.00
PStec Automation and Service GmbH	Niederwerrn	DE	40.00

II. Foreign (2)

Eurings Zrt.	Debrecen	HU	37.00
Colinx, LLC	Greenville	US	20.00

C. Unconsolidated entities
I. Germany (4)

autinity systems GmbH [3] [5] [6]	Chemnitz	DE	33.34
afr-consulting GmbH [3] [5]	Chemnitz	DE	100.00
Schaeffler Consulting GmbH [3]	Herzogenaurach	DE	100.00
Schaeffler Bio-Hybrid GmbH [3]	Herzogenaurach	DE	100.00

II. Foreign (1)

Schaeffler SR d.o.o. [3]	Belgrade	RS	100.00

[1] Exemption under section 264b HGB.
[2] Exemption under section 264 (3) HGB.
[3] The company is insignificant to the results of operations, financial position, and net assets of the Schaeffler Group as at the reporting date.
[4] Schaeffler AG or another consolidated entity is the general partner.
[5] The company was acquired on October 04, 2017.
[6] The company holds 66.66% as treasury shares.

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

Members of the Supervisory Board

Georg F. W. Schaeffler (Chairman), Maria-Elisabeth Schaeffler-Thumann (Deputy Chairperson), Jürgen Wechsler* (Deputy Chairman), Prof. Dr. Hans-Jörg Bullinger, Dr. Holger Engelmann, Prof. Dr. Bernd Gottschalk, Andrea Grimm* (since April 08, 2017), Norbert Lenhard*, Dr. Siegfried Luther, Dr. Reinold Mittag*, Barbara Resch*, Stefanie Schmidt*, Dirk Spindler*, Robin Stalker, Jürgen Stolz*, Salvatore Vicari*, Dr. Otto Wiesheu, Prof. KR Ing. Siegfried Wolf, Jürgen Worrich*, Prof. Dr.-Ing. Tong Zhang

The following member left the Supervisory Board in 2017

Yvonne Münch* (until March 07, 2017)

Supervisory Board committees

Mediation committee

Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Maria-Elisabeth Schaeffler-Thumann, and Jürgen Wechsler

Executive committee

Georg F. W. Schaeffler (Chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

Audit committee

Dr. Siegfried Luther (Chairman), Dr. Reinold Mittag, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

Nomination committee

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

Members of the Board of Managing Directors

Klaus Rosenfeld (Chief Executive Officer), Prof. Dr.-Ing. Peter Gutzmer (Deputy CEO and Chief Technology Officer), Dietmar Heinrich (Chief Financial Officer; since August 01, 2017), Oliver Jung (Chief Operating Officer), Prof. Dr. Peter Pleus (CEO Automotive OEM), Corinna Schittenhelm (Chief Human Resources Officer), Michael Söding (CEO Automotive Aftermarket; since January 01, 2018), Dr. Stefan Spindler (CEO Industrial), Matthias Zink (CEO Automotive OEM)

The following member left the Board of Managing Directors in 2017

Dr. Ulrich Hauck (Chief Financial Officer; until July 31, 2017)

* Employee representative.

5.12 Preparation of consolidated financial statements

The Board of Managing Directors of Schaeffler AG prepared the consolidated financial statements on February 19, 2018, 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, 2018

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Oliver Jung

Prof. Dr. Peter Pleus

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, 2017 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 31, 2017 to December 31, 2017, 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 31, 2017 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which are 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, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, 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 non-financial statement and the corporate governance statement 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 31, 2017 to December 31, 2017. 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 Restructuring Provisions

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.12.

The risk to the financial statements Schaeffler AG recognized restructuring provisions of EUR 46 million in its consolidated financial statements as of December 31, 2017.

Restructuring provisions must be recorded if certain criteria for recognition are met under IFRS. The recognition criteria and valuation are largely based on assessments and assumptions from legal representatives. Therefore there exists a risk to the financial statements that the criteria for the recognition of restructuring provisions have not been met or that they are assessed incorrectly.

Our audit approach Our audit procedures included an assessment of whether the criteria for recognition of the restructuring provisions were met as of December 31, 2017. In this respect, we reviewed the restructuring plan of the Executive Board, Group Accounting and the Head of Financial Strategy, Processes and Infrastructure, and also reviewed relevant Executive Board Meetings minutes. In addition, we reviewed corporate communications and the minutes of discussions with the employee representatives, as well as the minutes of each Supervisory Board meeting.

Subsequently, we inquired of the Management Board and Corporate Accounting as to the assumptions underlying the valuation of the restructuring provisions. In doing so, we assessed the restructuring plan in terms of locations, functions, number of employees, as well as expenditures and timing of implementation, and recalculated the provisions based on the documentation provided using the estimates derived from personnel data.

Our conclusions The criteria for recognition of restructuring provisions were met. The assumptions used by management in the valuation of the restructuring provisions are appropriate.

First-time Presentation of Sale of Receivables

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.5.

The risk to the financial statements Schaeffler AG introduced an asset-backed commercial paper program during 2017. As of December 31, 2017, they have sold and partially de-recognized trade receivables with a nominal value of EUR 150 million. In our opinion, this issue is of particular importance since the relevant IFRS regulations are complex and discretionary. Risks to the financial statements relate to the assessment of the de-recognition criteria, as well as the underlying assumptions. There is also the risk that the related disclosures in the notes of the consolidated financial statements are inadequate.

Our audit approach In order to ensure an accurate presentation of the asset-backed commercial paper program, we first assessed the structure of the program itself and then assessed the de-recognition criteria and the underlying assumptions. We involved KPMG financial and treasury management specialists to assist the audit team in these assessments. Finally, we evaluated whether the presentation and related disclosures in the notes are appropriate.

Our conclusions We found the de-recognition criteria and the assumptions used by management to be appropriate. The disclosures related to the asset-backed commercial paper program are also appropriate.

Completeness and Valuation of Provisions for Compliance Investigations

For the Company's accounting and valuation methods used, please refer to Note 1.3. The valuation principles are described in Note 4.12.

The risk to the financial statements As of December 31, 2017, Schaeffler AG recorded provisions of EUR 55 million for potential claims in connection with ongoing investigations into antitrust violations and compliance cases.

A provision for compliance violations should be recognized when the entity has a present obligation as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and for which a reliable estimate can be made. The amount of the provision to be recognized is determined by using the best estimate. The recognition and valuation of the compliance provisions is therefore based on discretionary assessments of the Executive Board.

There exists a risk for the consolidated financial statements that the provisions are not complete.

Our audit approach In order to assess the appropriateness of the provisions, we obtained explanations for the estimates from the entity's external legal counsel, management, and in-house legal counsel. In particular, we performed the following:

- Assessed the likelihood of the claim by inspecting underlying documents; inquired of legal representatives, corporate accounting, corporate compliance, and in-house legal counsel; as well as obtained legal confirmations from Schaeffler AG's external counsel.
- Examined correspondence from relevant authorities, as well as evaluated underlying documents and protocols; and
- Assessed the reasonableness of the critical assumptions and the methodology of the calculation.

Our conclusions The assessments and assumptions made by management are sufficiently documented and substantiated. The assumptions made by management are appropriate.

Other Information

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

- the non-financial statement and the corporate governance statement, 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 control 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, 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 German 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 any significant 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 about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on April 26, 2017. We were engaged by the supervisory board on June 22, 2017. We have been the group auditor 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 financial statements audits at subsidiaries. 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 consolidated information of the Management Report of Schaeffler AG as well as performed statutory or contractual audits; for example: audits in accordance with the EEG, EMIR audits in accordance with section 20 WpHG and confirmations of compliance with contractual conditions. 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, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Alt-Scherer Wirtschaftsprüferin	gez. Koeplin Wirtschaftsprüfer

Responsibility statement by the company's legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Herzogenaurach, February 19, 2018

Schaeffler Aktiengesellschaft
The Board of Managing Directors

Klaus Rosenfeld
Chief Executive Officer

Prof. Dr.-Ing. Peter Gutzmer

Dietmar Heinrich

Oliver Jung

Prof. Dr. Peter Pleus

Corinna Schittenhelm

Michael Söding

Dr. Stefan Spindler

Matthias Zink