**Prospectus dated June 28, 2012**

# Schaeffler Finance B.V.

(*incorporated and registered in the Netherlands as a private limited liability company*)

# SCHAEFFLER GROUP

## *Up to €200,000,000 [ • ]% Senior Secured Notes due 2017, subject to an increase of up to a further €300,000,000*

## *Up to an additional €50,000,000 [ • ]% Senior Secured Notes due 2017 to be issued in an employee offering*

*guaranteed on a senior basis by*

## Schaeffler AG

**and certain subsidiaries of Schaeffler AG**

**Issue price: [ • ]%**

Up to €200,000,000 [ • ]% Senior Secured Notes due 2017 (the "**International Offering Notes**"), subject to an increase of up to a further €300,000,000 in aggregate principal amount of International Offering Notes, will be issued on or about July 4, 2012 (the "**International Offering Issue Date**") by Schaeffler Finance B.V., a private limited company established under the laws of the Netherlands (the "**Issuer**"). Up to an additional €50,000,000 in aggregate principal amount of [ • ]% Senior Secured Notes due 2017 (the "**Employee Offering Notes**" and, together with the International Offering Notes, the "**Notes**") will be issued by the Issuer on or about July 20, 2012 (the "**Employee Offering Issue Date**"). The International Offering Notes and the Employee Offering Notes will constitute a single class of debt securities under the indenture governing the Notes, will be fungible for trading purposes and will have a single ISIN number. The Issuer may redeem the Notes in whole or in part at any time on or after July 1, 2014 at the redemption prices specified herein. Prior to July 1, 2014, the Issuer may redeem the Notes, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium. Prior to July 1, 2014, the Issuer may also redeem at its option up to 40% of the Notes using the proceeds of certain equity offerings. In addition, the Issuer may, at its option, redeem all, but not only some, of the Notes at any time at par plus accrued interest to (but excluding) the date fixed for redemption in the event of certain tax changes as set out in *"Description of the Notes."*

The Notes will be senior obligations of the Issuer. The Notes will rank *pari passu* in right of payment to all of the Issuer's existing and future indebtedness that is not subordinated in right of payment to the Notes and will be senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes. The Notes will have the benefit of an unconditional and irrevocable guarantee (the "**Parent Guarantee**") from Schaeffler AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, registered in the Commercial Register of the Fürth local court (*Amtsgericht*) under HRB 13202, with its registered office in Herzogenaurach, Germany (the "**Parent Guarantor**", "**Schaeffler AG**" or the "**Company**"), and unconditional and irrevocable guarantees from certain of its subsidiaries (the "**Subsidiary Guarantors**" and, together with the Parent Guarantor, the "**Guarantors**"). The Parent Guarantee and the guarantees provided by the Subsidiary Guarantors (the "**Subsidiary Guarantees**" and, together with the Parent Guarantee, the "**Guarantees**") will constitute a senior obligation of the Parent Guarantor and each of the Subsidiary Guarantors, respectively, ranking *pari passu* with all other senior obligations of the Parent Guarantor and each of the Subsidiary Guarantors, respectively, unless such obligations are accorded priority by mandatory provisions of statutory law. Upon issuance, the Notes (together with the Parent Guarantor's and the Issuer's obligations under certain credit facilities described in this Prospectus) will be secured by pledges over certain shares and certain assets held by the Parent Guarantor and the Subsidiary Guarantors as described in this Prospectus (the "**Collateral**").

**All or part of the Collateral may be released or impaired without the consent of the holders under certain circumstances.**

The International Offering Notes are being offered to retail and institutional investors in a public offering in Germany and the Grand Duchy of Luxembourg ("**Luxembourg**") and to institutional investors in private placements in certain jurisdictions outside Germany and Luxembourg (the "**International Offering**"). The Employee Offering Notes are being offered to employees of Schaeffler AG and its subsidiaries in Germany with an existing German employment contract and a permanent residence in Germany (subject to certain exceptions, such as contract workers, expatriots, impatriots and cross-border workers) (the "**Employee Offering**").

This document constitutes a prospectus (the "**Prospectus**") within the meaning of Article 5.3 of Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003 (as amended, *inter alia,* by Directive 2010/73/EU) (the "**Prospectus Directive**"). This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier,* Luxembourg ("**CSSF**") in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities (*Loi du 10 juillet 2005 relative aux prospectus pour valeurs mobilières,* the "**Luxembourg Prospectus Law**"). The CSSF assumes no responsibility for the economic and financial soundness of the transaction contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. This Prospectus will be published in electronic form on the website of the Luxembourg Stock Exchange (the "**LxSE**") (*www.bourse.lu*) and on the website of the Company (*www.schaeffler.com*).

The Issuer has requested the CSSF to provide the competent authority in Germany, the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("**BaFin**"), with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive.

Application has been made to the LxSE for the Notes to be listed on the official list of the LxSE (the "**Official List**") and to be admitted to trading on the LxSE's regulated market. The LxSE's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments.

This Prospectus is drawn up in the English language. In case there is any discrepancy between the English text and the text in German, the English text stands approved for the purposes of approval under the Prospectus (Directive 2003/71/EC) Regulations 2005.

The Notes have been assigned the following security code: ISIN DE000A1G6WT8.

**An investment in the Notes involves certain risks. Prospective investors should consider carefully the factors described under the heading *"Risk Factors"* beginning on page 72.**

*Global Coordinator and Managing Bookrunner for the International Offering*

**Deutsche Bank**

*Joint Bookrunners for the International Offering*

**Barclays** **BayernLB** **Citigroup**

# Responsibility statement

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of its knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer further confirms that (i) this Prospectus contains all information with respect to Schaeffler AG and its subsidiaries and affiliates taken as a whole (the "**Schaeffler Group**") and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer and of the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Schaeffler Group and of the rights attached to the Notes; (ii) the statements contained in this Prospectus relating to the Issuer, the Schaeffler Group and the Notes are in every material respect true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Schaeffler Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

# Notice

The only persons authorized to use this Prospectus in connection with the offering of the Notes are the Issuer, the Parent Guarantor and the Initial Purchasers (as described under *"Subscription, Offer and Sale"* beginning on page 466).

None of Deutsche Bank AG, London Branch (the "**Global Coordinator**"), Barclays Bank PLC, Bayerische Landesbank and Citigroup Global Markets Limited (the "**Joint Bookrunners**" and, together with the Global Coordinator, the "**Initial Purchasers**") has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Initial Purchaser as to the accuracy or completeness of the information contained in this Prospectus.

No person is or has been authorized by the Issuer or the Parent Guarantor to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Parent Guarantor or any Initial Purchaser.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any Initial Purchaser that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Parent Guarantor or the any Initial Purchaser to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Initial Purchasers expressly do not undertake to review the financial

condition or affairs of the Schaeffler Group during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**US Securities Act**"). In the absence of an available exemption from the registration requirements of the US Securities Act, the Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Prospectus, see *"Subscription, Offer and Sale"* beginning on page 466.

The Notes offered hereby are being offered in Switzerland on the basis of a private placement only. This Prospectus does not constitute a prospectus within the meaning of Art. 652a and 1156 of the Swiss Federal Code of Obligations.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Parent Guarantor and the Initial Purchasers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, except as indicated in the *"Subscription, Offer and Sale"* section beginning on page 466, no action has been taken by the Issuer, the Parent Guarantor or the Initial Purchasers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the European Economic Area. See *"Subscription, Offer and Sale"* beginning on page 466.

**IN CONNECTION WITH THIS OFFERING OF NOTES, DEUTSCHE BANK AG, LONDON BRANCH ("STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO STABILIZING OR MAINTAINING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFERING OF THE NOTES AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.**

# Forward-looking statements

This Prospectus contains forward-looking statements and other information that involves risks, uncertainties and assumptions. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions are used to identify forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about the Schaeffler Group's beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of the Parent Guarantor. Forward-looking statements therefore speak only as of the date they are made, and the Schaeffler Group undertakes no obligation to update any of them in light of new information or future events.

By their very nature, forward-looking statements involve risks and uncertainties. These statements are based on the Parent Guarantor's management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, but not limited to, future global economic conditions, changed market conditions affecting the automotive industry, intense competition in the markets in which the Schaeffler Group operates and costs of compliance with applicable laws, regulations and standards, diverse political, legal, economic and other conditions affecting its markets, the cost and availability of adequate insurance coverage and financing, changes in interest rates and other factors beyond its control). Changing factors, risks and uncertainties that could affect the Schaeffler Group include, without limitation:

- changes in global or regional economic conditions that could affect the demand for automobiles and bearing components;
- instability in the social, political and economic conditions in the countries in which the Schaeffler Group operates;
- the risk of accidents, natural disasters or other adverse incidents in the operation of the plants the Schaeffler Group administer or operates;
- increases in raw material prices;
- the need for unexpected capital expenditures;
- changes in government regulations and increases in regulatory burdens in the jurisdictions in which the Schaeffler Group operates, including those pertaining to operational, health, safety and environmental standards;
- increased competition;
- risks associated with the strategic expansion into new geographic markets;
- difficulties in renewing existing or raising additional financing, including financing to fund future capital expenditures, acquisitions and other general corporate activities;
- changes in interest rates and currency fluctuations;
- risks associated with antitrust proceedings;
- threats to its material contracts, whether as a result of litigation, changing regulations, breaches of contract provisions, public policy concerns or any other factors;
- availability of adequate insurance coverage; and
- other risks related to the business, the industry or the regions in which the Schaeffler Group operates.

Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Prospectus speaks only as of the date the statement was made.

All of the forward-looking statements made by the Schaeffler Group herein and elsewhere are qualified in their entirety by the risk factors discussed in *"Risk factors."* These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Prospectus.

The Issuer, the Parent Guarantor and the Initial Purchasers assume no obligation to update any of the forward-looking statements after the date of this Prospectus to conform those statements to actual results, subject to compliance with all applicable laws. The Issuer, the Parent Guarantor and the Initial Purchasers assume no obligation to update any information contained in this Prospectus or to publicly release any revisions to any forward-looking statements to reflect events or circumstances, or to reflect that the Issuer became aware of any such events or circumstances, that occur after the date of this Prospectus.

# Presentation of financial and other information

## Presentation of financial information

The Issuer was incorporated on October 14, 2011 for the purpose of financing transactions, such as the issuance of the Existing Notes (as defined below) and the issuance of the Notes. Consequently, limited historical financial information relating to the Issuer is available, and the financial information incorporated by reference in this Prospectus with respect to the Issuer consists only of the Issuer's audited annual financial statements for the financial year ended December 31, 2011, which were prepared on the basis of generally accepted accounting principles in the Netherlands ("**Dutch GAAP**") and have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft.

The consolidated financial statements of the Company as of and for the years ended December 31, 2010 (which also contain comparative figures for 2009) and December 31, 2011 incorporated by reference in this Prospectus, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**") and have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"). The unaudited condensed consolidated financial statements of the Company as of and for the three months ended March 31, 2012 (which also contain comparative figures for 2011), incorporated by reference in this Prospectus, were prepared in accordance with IFRS as adopted by the EU.

As the Schaeffler Group's legal structure was established on June 28, 2010, the financial data for periods prior to June 28, 2010 has been derived from the consolidated IFRS financial statements of the IHO Group (carve-out). Its operations are presented as if the current legal structure had already existed before June 28, 2010.

Information for the twelve months ended March 31, 2012 is calculated by taking the amounts for the three months ended March 31, 2012 and adding it to the difference between the amounts for the full year ended December 31, 2011 and the three months ended March 31, 2011.

In this Prospectus, references to "2009," "2010" and "2011" refer to the years ended December 31, 2009, 2010 and 2011, respectively. Individual figures (including percentages) appearing in this Prospectus have been rounded according to standard business practice. Figures rounded in this manner may not necessarily add up to the totals contained in a given table. However, actual values, and not the figures rounded according to standard business practice, were used in calculating the percentages indicated in the text. Therefore, in certain cases, the percentage figures appearing in the text may differ from the percentages that would be obtained based on values which have been rounded.

## Non-IFRS financial measures

This Prospectus contains non-IFRS measures and ratios, including EBITDA, EBIT, net debt and leverage and coverage ratios that are not required by, or presented in accordance with, IFRS as adopted by the European Union. The Schaeffler Group presents non-IFRS measures because they are used by management in monitoring its business and because it believes that they and similar measures are frequently used by securities analysts, investors and other interested parties in evaluating companies in the Schaeffler Group's industry. The definitions of the non-IFRS measures as used by Schaeffler Group are included elsewhere in this Prospectus. The non-IFRS measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Schaeffler Group's operating results as reported under IFRS. Non-IFRS measures and ratios such as EBITDA, net debt and leverage and coverage ratios are not measurements of its performance or liquidity under IFRS and should not be considered as alternatives to profit for the year or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

# Currency presentation and definitions

In this Prospectus, all references to "**€**" or "**euro**" refer to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended. All references to "**U.S.$**" and "**U.S. dollars**" are to the lawful currency of the United States of America. The Schaeffler Group publishes its financial statements in euro.

The following tables set forth, the high, low, average and period end Federal Reserve Bank of New York noon buying rates for the euro, expressed in U.S. dollars per euro. The rates below may differ from the actual rates used in the preparation of the Schaeffler Group's financial information appearing in this Prospectus. The Schaeffler Group's inclusion of the exchange rates is not meant to suggest that the euro amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into euro, at any particular rate, if at all.

| Year ended December 31,<br>U.S. dollar per euro | Period end | Average rate[1] | High | Low |
|---|---|---|---|---|
| 2007 | 1.46 | 1.38 | 1.49 | 1.29 |
| 2008 | 1.39 | 1.47 | 1.60 | 1.24 |
| 2009 | 1.43 | 1.40 | 1.51 | 1.25 |
| 2010 | 1.33 | 1.33 | 1.45 | 1.19 |
| 2011 | 1.29 | 1.39 | 1.48 | 1.29 |

| Month<br>U.S. dollar per euro | Period end | Average rate[2] | High | Low |
|---|---|---|---|---|
| January 2012 | 1.32 | 1.29 | 1.32 | 1.27 |
| February 2012 | 1.34 | 1.32 | 1.34 | 1.30 |
| March 2012 | 1.33 | 1.32 | 1.34 | 1.31 |
| April 2012 | 1.32 | 1.32 | 1.33 | 1.31 |
| May 2012 | 1.24 | 1.28 | 1.32 | 1.24 |
| June 2012 (until June 25) 2012 | 1.26 | 1.25 | 1.27 | 1.24 |

(1) The average of the noon buying rates for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of each month during the applicable period.

(2) The average rate for the U.S. dollar is calculated as the average of the noon buying rates for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on each business day for the relevant month-long period, or the period from June 1, 2012 through June 25, 2012.

# Presentation of industry and market data

In this Prospectus, the Schaeffler Group relies on and refer to information regarding its business and the markets in which it operates and competes. Certain economic and industry data, market data and market forecasts set forth in this Prospectus were extracted from market research, governmental and other publicly available information, independent industry publications and reports prepared by industry consultants.

These external sources include:

- Global Industry Analysts: Bearings Report (February 2011);
- IHS Global Insight Automotive (March 2012);
- Oxford Economics (Spring 2012);
- Global Wind Energy Council (March 2012),

among others.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The Schaeffler Group believes that these industry publications, surveys and forecasts, to the extent quoted or referred to herein, are reliable, but it has not independently verified them and it cannot guarantee their accuracy or completeness. While the Schaeffler Group accepts responsibility for accurately summarizing the information from these external sources, and as far as it is aware and able to ascertain no facts have been omitted which would render this information inaccurate or misleading, the Schaeffler Group accepts no further responsibility in respect of such information.

Certain information in this Prospectus, including without limitation, statements regarding the industry in which the Schaeffler Group operates, its position in the industry, its market share and the market shares of various industry participants are based on its internal estimates and analyses and based in part on third-party sources.

The Schaeffler Group cannot assure the investor that its estimates or any of the assumptions underlying its estimates are accurate or correctly reflect the Schaeffler Group's position in the industry. None of the Schaeffler Group's internal surveys or information have been verified by any independent sources. Neither the Schaeffler Group nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this information. All of the information set forth in this Prospectus relating to the operations, financial results or market share of its competitors has been obtained from publicly available information or independent research. Neither the Schaeffler Group nor the Initial Purchasers have independently verified this information and cannot guarantee its accuracy.

Certain market share information and other statements presented herein regarding the Schaeffler Group's position relative to its competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflect its best estimates. The Schaeffler Group has based these estimates upon information obtained from its customers, trade and business organizations and associations and other contacts in its industries.

# Contents

# Summary

*This Summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to the responsible persons in any such member state in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

## Business overview

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. The Schaeffler Group supplies high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 75,000 employees in approximately 50 countries (as of March 31, 2012), the Schaeffler Group is one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2012, it had revenues of approximately €10.9 billion, and EBITDA of approximately €2.2 billion. It believes that it is among the top three manufacturers in each of its core sectors worldwide and has a large presence in rapidly growing emerging markets, such as Asia/Pacific and South America, which together accounted for 28% of its revenues in the twelve months ended March 31, 2012. The Schaeffler Group believes that its industry leading technology platform, high product quality, long-standing and diversified customer relationships, global production and comprehensive product and service offering position it well for future growth.

The Schaeffler Group operates through two main divisions: Automotive and Industrial. Its Automotive Division generated approximately 67% of its revenue in the twelve months ended March 31, 2012, supplying more than 60,000 products to approximately 7,500 customers globally. Its rolling bearings and automotive components and systems are generally engineered for its customers' particular applications and allow its automotive customers to capitalize on megatrends, such as reduced fuel consumption, lower $CO_2$ emissions, optimal safety and quality as well as increased driving pleasure. As a partner for nearly all major global automotive OEMs and for leading Tier 1 suppliers worldwide, the Schaeffler Group offers expertise for the entire drive train, covering engine, transmission and chassis applications for passenger cars and commercial vehicles. On that basis, it divides its Automotive OEM business into three business divisions: Engine, Transmission and Chassis.

The Schaeffler Group's Industrial Division accounted for approximately 32% of its revenue in the twelve months ended March 31, 2012, supplying approximately 90,000 products to approximately 17,000 customers in approximately 60 different industrial sectors. While working closely with its customers, it develops bespoke bearing solutions for numerous tailored applications. The product portfolio ranges from high-speed super-precision bearings of a few millimeters in diameter (*e.g.*, for dentist drills or machine tools) to large heavyweight bearings of over three meters in diameter (*e.g.*, for machine tools, tunnel-drilling machines or wind turbines). Its bearings and related products are used, among others, in power transmission and generation, production machinery, wind power and heavy industries. In aerospace, the Schaeffler Group is a leading manufacturer of precision bearings for airplane and helicopter engines as well as for applications in space travel.

The Schaeffler Group complements its business with a comprehensive aftermarket offering for both of its divisions, which includes the distribution of spare parts and service to customers worldwide. Its aftermarket services are an essential sales support function and also generate

good margins as well as more stable and recurring revenues. In the twelve months ended March 31, 2012, 24% of its total revenue was generated from its aftermarket business.

The Schaeffler Group distributes products throughout its markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Its LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Its INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valvetrains and other precision components. Its FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

The Schaeffler Group has a strong global presence and divides its business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In addition to the traditional core markets in Europe (59% of revenue in the twelve months ended March 31, 2012; including 27% in Germany) and North America (13% of revenue in the twelve months ended March 31, 2012), its business is increasingly significant in key growth markets, such as Asia/Pacific and South America, which together account for 28% of its revenues in the twelve months ended March 31, 2012. Following its integrated *"in the region, for the region"* approach, the Schaeffler Group has built a global manufacturing footprint with a strong regional foothold of its plants worldwide. As of March 31, 2012, it operates 43 plants in Europe, twelve in North America, two in South America and 13 in Asia/Pacific. All Schaeffler Group plants operate at the same high standards of quality and environmental protection and are certified under international standards.

## Competitive strengths

The Schaeffler Group's principal strengths are:

***Leading positions in attractive growth markets***

*Top three positions in core sectors*

The Schaeffler Group holds leading positions across its core sectors and believes each of its business units is positioned among the top three in their respective markets worldwide in terms of market share measured by revenue. Based on its research, the Schaeffler Group believes its Automotive Division is a leader with the Engine, Transmission and Chassis business divisions. Additionally, its Industrial Division holds top three market positions across the broad spectrum of industries it serves. The Schaeffler Group supports OEMs throughout their full product life cycle from taking part in the early stage of product development to providing critical engineering application know-how and is therefore regarded as a key partner.

*Strong aftermarket business*

Schaeffler Group's products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. In the twelve months ended March 31, 2012, aftermarket revenue from replacement parts and services represented approximately 24% of its total revenue. Based on (i) the increasing size of its installed base, (ii) the high service levels associated with most of the equipment in which its products are installed, (iii) the switching costs faced by customers and (iv) its strong positioning in the replacement part market, the Schaeffler Group is well-positioned to grow its revenues from the aftermarket business in the future. At the same time, the aftermarket business has proven to be very resilient and profitable as it produces stable and recurring revenues and profit margins.

*Attractive growth markets*

The Schaeffler Group benefits from the fact that it has a strong footprint in regional markets and sectors that are growing above average. The Schaeffler Group is very well-positioned in key growth markets, in particular in the Asia/Pacific region, where it has been present for decades in

high-growth countries, such as Korea and India. In addition, it has been active in China for approximately 15 years. Furthermore, its key sectors, such as Automotive, Power Transmission, Production Machinery and Aerospace, are expected to grow above GDP forecasts.

In addition to the expected future growth, the Schaeffler Group regards its markets as attractive because of the following characteristics: (i) the requirement of its customers to develop and supply engineered solutions and its expertise to do so and (ii) a preference among automotive and industrial clients for selecting suppliers and partners with extensive industry and engineering experience. Additionally, as its products are critical to the overall performance, safety and durability of the end-product and as its products generally represent only a small percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by its customers are based on quality and technological considerations rather than price alone.

***Well-balanced business portfolio***

*Broad product and application spectrum*

The Schaeffler Group's revenues are diversified across a wide range of bearings and automotive components and systems, generated by thousands of applications for customers across many diverse end-markets. Within its Automotive Division, the Schaeffler Group sells approximately 60,000 components and systems to both OEMs and the aftermarket sector. Within its Industrial Division, it serves customers in approximately 60 different sectors, selling approximately 90,000 components and systems into a diverse range of applications ranging from wind turbines to aerospace engines and tool machines. This high degree of diversification in its businesses as well as the stability of its aftermarket business supports the resilience of its revenues and profitability. Each of these end-markets is influenced by different economic factors, making the Schaeffler Group less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of its market segments.

*Highly-diversified customer base*

The Schaeffler Group's products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. Key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of March 31, 2012, the Schaeffler Group offered its products to approximately 7,500 automotive customers and 17,000 industrial customers in approximately 120 countries worldwide. In the year ended March 31, 2012, its top ten customers represented approximately 54% of automotive revenues (with no single customer representing more than 14%), and approximately 16% of industrial revenues (with no single customer representing more than 5%). The Schaeffler Group believes this diversification mitigates counterparty risk and is broader than that of its peers.

*Strong regional diversification*

The Schaeffler Group has a geographically diversified customer footprint and currently operate production facilities in over 20 countries and sales and marketing offices in approximately 150 locations. Based on the *"in the region, for the region"* strategy, it is in close geographic proximity to its customers. As a result, it is perceived as a local supplier in many markets and its global manufacturing and sales platforms allow the Schaeffler Group to market its products and services to a larger and ever-globalizing customer base. Its position as one of the largest global mechanical components and systems manufacturers further allows the Schaeffler Group to capitalize on the growth opportunities associated with globalization and increasing trade flows while making it less susceptible to market risks in a single country or region. It also benefits from low-cost production (*e.g.*, the Schaeffler Group has an extensive production network in Eastern Europe) and local supply chains while still maintaining its industry-leading quality standards through full control of its operations. Further, the Schaeffler Group is well-positioned in rapidly growing emerging markets with 22% of its revenues being generated from the Asia/Pacific region and 6% from South America in the twelve months ended March 31, 2012.

***Technology, quality and innovation leadership***

*Technology leadership and superior quality*

The Schaeffler Group has a high level of expertise in developing high precision mechanical components and systems, including electronics, software and mechatronics. Its technology leadership is recognized by many of its customers and is one of its key competitive advantages. Many of Schaeffler Group's products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Quality and reliability are the key attributes of its products and services. The Schaeffler Group believes that it achieves failure rates that are significantly lower than the industry average.

Providing superior product quality to its customers is another key success factor of its business model and is paramount to its success. A holistic quality management system in all locations, including all manufacturing plants, worldwide ensures compliance with Schaeffler Group's highest standards that are monitored by means of regular internal audits. With various quality assurance programs, such as "Fit for Quality" and "MOVE" (*"Mehr Ohne Verschwendung"* or "more without waste"), as well as testing and simulation processes, mostly developed in-house, the Schaeffler Group emphasizes its goal of achieving zero-defect quality for the entire supply chain worldwide. The Schaeffler Group has received numerous awards and certifications for its products and services which underline its commitment to the highest industry quality standards. In 2010, for example, the Schaeffler Group was awarded the "Quality Achievement Performance Certificate" by Toyota in Brazil and an award for the "1st Best Bearing Supplier" by Getrag. In 2011, it has received supplier awards from *e.g.* Daimler, Fiat, Goldwind, Great Wall Motors, Motortec, Porsche, Siemens and Volkswagen.

*Outstanding operational excellence*

The Schaeffler Group's manufacturing facilities and processes are among the most efficient in the industry. It focuses on lean manufacturing and continuous improvement and is seen as a reliable partner with a high level of value added for its customers. On average, in the last five years, the Schaeffler Group invested 8% of its annual revenues to open new plants and facilities and acquire new equipment in order to operate state-of-the-art manufacturing plants, simulation processes and testing facilities.

The Schaeffler Group believes that its outstanding know-how in raw materials, such as steel, its proprietary machinery and tool design, its know-how in cold forming technology, its low-cost precision manufacturing processes and its attention to quality and service are competitive advantages that allow it to consistently provide high quality precision products and services. All quality-related work is performed in-house. This allows the Schaeffler Group to ensure that its products maintain a consistently high standard of quality, while its customers benefit from an outstanding price/performance ratio.

*Best-in-class innovation platform*

Innovative, high quality products sold under Schaeffler Group's three globally-recognized brands, INA, LuK and FAG, have formed the backbone of Schaeffler Group's success for many decades. In the financial years 2009, 2010 and 2011, the Schaeffler Group spent approximately 5% of its total revenue on R&D, consistently more than industry peers in percentage of sales (based on its own research), to continuously improve its products and to position it at the forefront of its industry in terms of innovation and quality of design. Most recently, the Schaeffler Group has implemented the world's leading testing facility for large bearings to be used in wind turbines in Schweinfurt, Germany.

As of March 31, 2012, Schaeffler Group's R&D platform comprised nearly 6,000 employees at 40 locations worldwide developing new products, customer product applications, technologies, processes and methods for market-driven solutions. This powerful network of central and regional R&D expertise generated 1,832 new patent applications in 2011, making it the fourth most innovative company in Germany measured by the number of patent applications

submitted (according to the German Patent and Trademark Office (DPMA—*Deutsches Patent- und Markenamt*)). In total, as of March 31, 2012, it held approximately 19,000 patents and patent applications.

***Strong track record and experienced management team***

*Above average growth and sector-leading margins*

The Schaeffler Group has consistently achieved above average market growth and a sector-leading average EBITDA margin of approximately 19% over the past five fiscal years. This is the result of its successful business model which is focused on its leading position in rapidly growing regions and product segments, its broad and high quality product offering, its technology and innovation leadership, its proximity to and entrenchment with its customers and its low cost production. For the same reasons, the Schaeffler Group believes it is well-placed to maintain above average market growth and profitability in the future and is well-positioned to benefit from the megatrends in its industry (see "*—Strategy—Focus on innovative components and systems to drive global industry trends"*).

*Proven ability to preserve cash flow*

The Schaeffler Group has been able to preserve cash in downturns and maintain a high level of profitability through effective working capital and capital expenditures according to cash flow management as well as cost reductions. In the fiscal year 2009, it achieved an EBITDA margin of approximately 15% despite major volume declines in its end-markets. The reduction of capital expenditures according to cash flow by €657 million and the change in working capital of €546 million contributed more than €1 billion improvement to its free cash flow compared to 2008. As a result, the Schaeffler Group generated free cash flow before the investment in Continental AG shares and net interest paid of €1,064 million in 2009. In addition, cost reductions were achieved by reducing headcount in foreign production plants and introducing short-time work in Germany.

*Experienced management team*

The Schaeffler Group's management team has extensive experience in the automotive and industrial sectors and a proven track record of successfully managing global businesses through economic cycles, including the most recent economic downturn. The management team has a demonstrated track record of achieving long-term profitable growth as well as establishing Schaeffler Group as one of the technology, quality and innovation leaders in the industry. It believes the experience of its management team is a distinct competitive advantage and positions it favorably for future growth.

## Strategy

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. It intends to further improve the balance of its revenue structure, streamline its cost structure, improve its cash flow generation and maintain its high level of profitability and growth. To this aim, the key focus areas of Schaeffler Group's strategy are to (i) maintain and build its quality and technology leadership, (ii) further expand into growing regions and business areas, (iii) focus on innovative components and systems to drive the global industry trends, (iv) increase its R&D activities to provide a leading systems offering in the field of mechatronics and (v) increase its cooperation with Continental Group.

***Maintain and build Schaeffler Group's quality and technology leadership***

*Leverage its quality and technology leadership*

Schaeffler Group's goal is to provide its customers with a wide, best-in-class range of products and systems as well as consultation and engineering services. It analyzes new product opportunities carefully by taking into account projected market prices, volumes and

manufacturing costs and by only pursuing new product lines that it believes will achieve its stringent profitability targets. It achieves these targets by focusing on premium segments that require the highest quality standards. In addition, Schaeffler Group continues to stay entrenched with its customers at an early stage in the product development process to satisfy their requirements and maintain its competitive edge.

*Rigorously pursue operational excellence*

The Schaeffler Group intends to keep providing maximum quality to its customers. To this end, it strives to maintain and further reduce its industry-leading low failure rates through investments in best-in-class, highly standardized and fully automated manufacturing facilities with the aim of maintaining the highest quality standards in the industry. At the same time, the Schaeffler Group focuses on further reducing its cost base through efficiency gains in its manufacturing processes that will enable it to supply standard, low-cost and tailor-made products to its customers at an attractive cost/performance balance.

***Further expand in attractive regions and business areas***

*Focus on rapidly growing regions*

The Schaeffler Group continues to expand its international presence in rapidly growing emerging markets, in particular in the Asia/Pacific region and South America, which have become significant growth drivers for the automotive and industrial sectors. Over the last ten years, it has built 16 new manufacturing facilities in emerging market economies. Based on its guiding strategy *"in the region, for the region,"* the Schaeffler Group is placing its facilities in close proximity to its customers. In 2010, the Schaeffler Group initiated a €300 million investment program leading to the establishment of two new manufacturing facilities in China and one in India. In 2011, approximately 30% of its total capital expenditures were spent in the Asia/Pacific region. The Schaeffler Group expects to increase its Asia/Pacific revenue share to approximately 25-30% of its group total by 2014, which will further enhance its regional diversification and revenue stability.

Schaeffler Group's focus on further developing its network of manufacturing facilities in high growth countries has increased its exposure to low cost countries over the last ten years. A significant portion of its production network is now located in low cost countries, such as Slovakia, Hungary, Romania, China, India and Mexico. As it continues to increase its production in high growth and lower cost emerging market countries, the relative labor component of its production cost is likely to decline further over time.

As the Schaeffler Group expands its base in emerging markets, it also seeks to further expand its local content in these regions. It is its goal to continue to provide a comprehensive product and service offering to current and new customers globally. The Schaeffler Group strives to fully globalize its product portfolio and to provide an even broader range of components and systems to each customer.

*Focus on attractive business areas*

The Schaeffler Group seeks to retain and extend its current level of diversification and independence from any particular market by further expanding its activities across sectors. It is also levering its core manufacturing and service competencies in order to diversify into additional component and systems solutions and services.

In addition, the Schaeffler Group intends to expand its aftermarket operations by increasing sales to third-party distributors and maintenance repair operations ("**MRO**") for replacement products and to the service business for customer support. Increasing its aftermarket sales of replacement parts and services will further enhance the continuity and predictability of its revenues and increase profitability. The Schaeffler Group believes that further developing its service business provides considerable new opportunities (*e.g.*, condition monitoring).

***Focus on innovative components and systems to drive global industry trends***

The Schaeffler Group is focused on designing, engineering and manufacturing highly-engineered and value-added components, modules and system solutions that address the key fundamental global trends in the automotive and industrial sectors. The trends that drive its end-markets are, in particular, energy efficiency, renewable energies, mechatronic systems and electric mobility. Schaeffler Group's aim is to define new standards in modern engineering with respect to these major trends that will shape its industry and influence its operations. It believes that actively addressing these key trends reinforces its ability to maintain above-market growth.

*Energy efficiency and renewable energies*

Reducing fuel consumption and, consequently, carbon dioxide ($CO_2$) emissions, is a dominant feature in the automotive industry. The Schaeffler Group therefore intends to broaden its current product and systems portfolio for combustion engines by incorporating new and efficient technologies. Key products and systems, available and engineered innovations for electric mobility, such as eDifferential, eWheel Drive and the hybrid synchron motor will be important for automotive producers as they reduce $CO_2$ emissions.

Harnessing renewable energy is a key part of many countries' plans to address climate change and cut $CO_2$ emissions. The Schaeffler Group's Industrial Division is seeking to capitalize on this trend. It offers a comprehensive product portfolio for wind turbines as well as various bearing solutions for other renewable energy technologies, such as solar and water power. It has positioned its Industrial Division early in new growth areas in order to secure and expand its long-term market share and competitiveness.

*Mechatronic systems and electric mobility*

Mechatronic systems (the combination of mechanical engineering with electronics) are increasingly gaining significance as OEMs seek to integrate components into more complex systems. The Schaeffler Group endeavors to be part of such growth by integrating its mechanical and Continental Group's electronic expertise.

Electric mobility is a megatrend in the automotive industry and various industrial sectors. The Schaeffler Group intends to grow its product portfolio for hybrid or electric mobility solutions with eWheel drive, eDifferential, eMotors and other industrial areas into other areas, such as developing a torque sensor bottom bracket for e-bikes, which will help position itself as a major supplier in this field.

***Increase cooperation with Continental Group***

The Schaeffler Group believes that significant competitive advantages can be obtained from increasing its existing cooperation with Continental Group. Combining its mechanical expertise with Continental Group's know-how in electronic controllers will strengthen its presence in the rapidly growing mechatronic segment and will establish the Schaeffler Group as a leading systems provider in this field.

Furthermore, the Schaeffler Group aims to realize cost synergies by expanding its already existing cooperation agreements with the Continental Group in the area of procurement (see *"Description of the Schaeffler Group—Material contracts—Joint procurement cooperation agreement"*).

## History

***Company history until 2008***

In 1946, brothers Dr. Wilhelm and Dr. Georg Schaeffler established INA (Industrie-Nadellager) in Herzogenaurach, Germany and, in 1965, LuK (Lamellen- und Kupplungsbau) GmbH was founded in Bühl, Germany (in cooperation with INA) which was later managed as a 50/50 joint venture. In 1999, Schaeffler Group took over the 50% from Valeo S.A. After Dr. Georg Schaeffler's death

in 1996, Maria-Elisabeth Schaeffler and son Georg F. W. Schaeffler acquired the family business to continue his life's work. In 2001, INA took over FAG (FAG Kugelfischer AG). Since 2002, INA, FAG and LuK are the main brands owned by Schaeffler Group.

***Acquisition of Continental AG shares and subsequent transactions***

In July 2008, the Schaeffler Group initiated the acquisition of Continental Aktiengesellschaft, a publicly listed stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany with its registered office in Hanover, Germany ("**Continental AG**") (Continental AG, together with its subsidiaries and affiliates, the "**Continental Group**") via a public tender offer. Following the tender offer, the Schaeffler Group owned approximately 88.9% of its share interest. In connection with this tender offer and the subsequent share transfers, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) entered into a €16,610 million term loan and multicurrency revolving credit facility, originally dated July 12, 2008 and as amended on August 7, 2008 and November 27, 2008 (the "**Acquisition Facility**"). In this context, Schaeffler AG entered into an investment agreement with Continental AG, in which the Schaeffler Group agreed to hold a maximum of 49.9% of voting capital stock in Continental AG.

***The Schaeffler Group's reorganization and refinancing measures between 2009 and 2011***

In 2009 and 2010, the IHO Group, with its ultimate parent company IHO, underwent a significant reorganization with the objective of establishing structures suitable for the capital markets. The major milestones of the reorganization included the November 2009 amendment of the Acquisition Facility, which resulted in a framework amendment agreement. In addition, the reorganization included the March 2011 amendment of existing financings consisting of (i) approximately €7,143 million senior term loan and multicurrency revolving facilities incurred by the Company under a euro senior term loan and multicurrency revolving facility agreement originally dated November 20, 2009 (as subsequently amended and restated) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries (the "**Repaid Senior Facilities Agreement**") and (ii) approximately €4,944 million term loan and revolving credit facilities incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under a euro term loan and revolving facilities agreement originally dated November 20, 2009 (as amended up to and restated on July 1, 2011 and as further amended from time to time) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries, with, amongst others, IHO as company (the "**IHO Facilities Agreement**") as well as the October 2011 conversion of Schaeffler Group's parent company Schaeffler GmbH to Schaeffler AG.

***The Schaeffler Group's refinancing measures in 2012***

On January 27, 2012, the Company entered into a syndicated senior term loan and multicurrency revolving credit facilities agreement with an initial aggregate amount of €8,000 million (as amended, the "**New Senior Facilities Agreement**") to, *inter alia,* refinance the Schaeffler Group's senior debt, increase the flexibility under its financial covenants and enhance the maturity profile of its senior indebtedness.

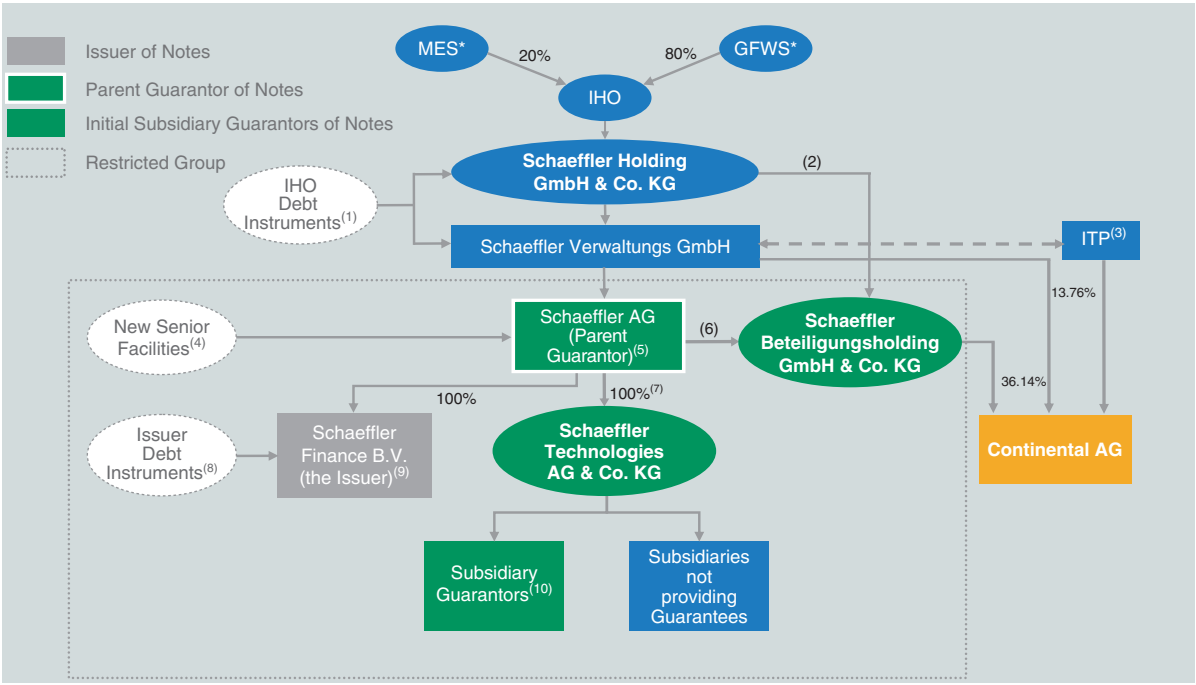
On February 9, 2012, a €2,000 million term loan facility under the New Senior Facilities Agreement was voluntarily cancelled as a result of the placement of the Existing Notes (as defined below).

Concurrently with this cancellation, the Issuer issued €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**Existing Notes**"). The drawings under the New Senior Facilities Agreement and the net proceeds from the issuance and sale of the Existing Notes were used to repay in full the outstanding amounts under the Repaid Senior Facilities Agreement.

The Parent Guarantor is the parent company of Schaeffler Technologies AG & Co. KG, the operational entity of the Schaeffler Group. The ultimate parent company of the Schaeffler Group is INA-Holding Schaeffler GmbH & Co. KG ("**IHO**") which, jointly with its subsidiaries and affiliates, *i.e.*, including any member of the Schaeffler Group, is referred to as the "**IHO Group.**"

## Summary of the Schaeffler Group's corporate and debt structure

The following diagram depicts, in simplified form, the Schaeffler Group's corporate structure and certain debt obligations following the offering of the Notes.




* Maria-Elisabeth Schaeffler ("**MES**") and Georg F. W. Schaeffler ("**GFWS**").

(1) The IHO Debt Instruments (the "**IHO Debt Instruments**") consist of:

- the €250 million IHO Revolving Credit Facility entered into by the Schaeffler Group's indirect parent company Schaeffler Holding GmbH & Co. KG, which was undrawn as of March 31, 2012 and which matures on June 30, 2017,
- the IHO Term Loan Facility due June 30, 2017 entered into by Schaeffler Verwaltungs GmbH, with an outstanding principal amount of €3,029 million as of March 31, 2012, and
- the IHO Zero Bond (carrying value as of March 31, 2012: €1,854 million; terminal value as per April 1, 2018: €3,293 million) issued by Schaeffler Verwaltungs GmbH.

The IHO Debt Instruments contain certain undertakings, including a financial covenant that relies upon the financial performance of the Schaeffler Group, and are structurally subordinated to the financial indebtedness of the Parent Guarantor and its subsidiaries. For a detailed description of the IHO Debt Instruments, please see *"Description of other Indebtedness—IHO Debt Instruments."*

(2) Schaeffler Holding GmbH & Co. KG holds its partnership interest in Schaeffler Beteiligungsholding GmbH & Co. KG indirectly through the following entities:

- Schaeffler Holding GmbH & Co. KG is the sole shareholder of Schaeffler Familienholding Eins GmbH and of Schaeffler Familienholding Zwei GmbH.
- Schaeffler Familienholding Eins GmbH is the general partner (*Komplementär*) and Schaeffler Familienholding Zwei GmbH is the limited partner (*Kommanditist*) of Schaeffler Familienholding Drei GmbH & Co. KG.
- Schaeffler Familienholding Drei GmbH & Co. KG is the general partner (*Komplementär*) of Schaeffler Beteiligungsholding GmbH & Co. KG. The partnership interests in each of Schaeffler Familienholding Drei GmbH & Co. KG and Schaeffler Beteiligungsholding GmbH & Co. KG will form part of the Collateral securing the Notes, the New Senior Facilities Agreement and certain hedging obligations.

  Other than Schaeffler Beteiligungsholding GmbH & Co. KG, none of these entities will form part of the restricted group, and they will therefore not be subject to the restrictive covenants under the indenture governing the Notes.

(3) Independent Third Party Banks ("**ITP**") hold 10.39% of Continental AG shares as of March 31, 2012. Schaeffler Group is restricted by an Investment Agreement with Continental AG not to hold more than 49.99%. For more details, please see *"Description of the Schaeffler Group—Material contracts—Investment Agreement."*

(4) On January 27, 2012, the Parent Guarantor and certain subsidiaries of the Parent Guarantor entered into the New Senior Facilities Agreement, comprising (i) a €2.0 billion term loan facility ("**Facility A**") which was voluntarily cancelled by the Company on February 9, 2012 as a result of the placement of the Existing Notes; (ii) a €3.0 billion term loan facility ("**Facility B**") which has been fully drawn and which matures on January 27, 2015; (iii) a term loan facility with an initial

aggregate amount of €2.0 billion (**"Facility C"**, together with Facility A and Facility B, the **"Term Loan Facilities"**) due January 27, 2017 which has been fully drawn and which was replaced with a €600 million term loan facility (**"Facility C1"**) and a €1.4 billion term loan facility converted into a €450 million term loan facility and a US$1,275 million term loan facility (**"Facility C2"**); and (iv) a €1.0 billion multicurrency revolving credit facility (the **"Revolving Facility"** together with the Term Loan Facilities, the **"Facilities"**) of which €100.0 million, and an additional €49.5 million under ancillary facilities, were drawn as of March 31, 2012, with two one-year extension options subject to approval by the lenders. The New Senior Facilities Agreement constitutes senior obligations by the Parent Guarantor and is guaranteed by the Subsidiary Guarantors and Schaeffler Iberia, S.L.U. (*Spain*) and is secured by the same Collateral that secures the Notes and the Guarantees (except for the assignment of the Notes Proceeds Loan (as defined below)). For a detailed description of the New Senior Facilities Agreement, please see *"Description of other Indebtedness—New Senior Facilities Agreement."*

(5) The Parent Guarantor will provide an unconditional and irrevocable senior guarantee for the benefit of the Notes.

(6) Schaeffler AG is the sole limited partner (*Kommanditist*) of its wholly-owned subsidiary, Schaeffler Beteiligungsholding GmbH & Co. KG.

(7) Held directly and indirectly.

(8) The Schaeffler Finance B.V. debt instruments (the **"Issuer Debt Instruments"**) consist of:
- the Existing Notes; and
- the Notes offered hereby.

The net proceeds from the offering of the Notes will be on-lent by the Issuer to the Parent Guarantor under one or more intercompany loans (together, the **"Notes Proceeds Loan"**). The Parent Guarantor will use the proceeds of the Notes Proceeds Loan to repay in part outstanding amounts under the New Senior Facilities Agreement (see *"Use of proceeds"*). The Notes Proceeds Loan will be assigned by the Issuer to secure the obligations of the Issuer under the Notes and the Existing Notes.

(9) The Issuer is a wholly-owned subsidiary of the Parent Guarantor.

(10) Upon issuance of the Notes, certain subsidiaries of the Parent Guarantor, the Subsidiary Guarantors, will provide unconditional and irrevocable guarantees for the benefit of the Notes. With the exception of Schaeffler Iberia, S.L.U. (*Spain*), which only guarantees the obligations of the Parent Guarantor under the New Senior Facilities Agreement, the Subsidiary Guarantors are identical with the guarantors under the New Senior Facilities Agreement. The Existing Notes are guaranteed by the same Guarantors as the Notes. For more details, please see *"Description of the Notes—Note Guarantees."*

# Subsidiary Guarantee coverage

As of and for the twelve months ended March 31, 2012, the Subsidiary Guarantors represented the following percentages of the consolidated Schaeffler Group:

| | |
|---|---|
| Total Assets | 76.1% |
| Revenue | 69.0% |
| Consolidated EBITDA | 72.9% |

# Trading update and recent developments

## April and May results

For the period from April 1, 2012 to May 31, 2012, compared to the period from April 1, 2011 to May 31, 2011:

- The Schaeffler Group generated revenue of €1,854 million in the period from April 1, 2012 to May 31, 2012 in comparison to €1,805 million in the period from April 1, 2011 to May 31, 2011.
- The consolidated EBITDA for that period was €343 million (2011: €386 million).
- EBIT amounted to €243 million, compared to €292 million in 2011. The free cash flow was €63 million in comparison to €35 million in 2011.
- The Automotive Division generated revenue of €1,266 million (2011: €1,190 million), which contributed 68% to total group sales. The Industrial Division generated revenue of €580 million (2011: €589 million), which contributed 31% to total group sales.

The preliminary financial results presented above are derived from internal management accounts and are subject to financial closing procedures. These procedures have not been completed. Accordingly, these results may change and those changes may be material.

## Litigation update

On November 8, 2011, the EU Commission conducted an inspection of the Company concerning possible infringements of EU competition law in the automotive and industrial bearings sectors. The U.S. Department of Justice served a grand jury subpoena on the Company's U.S. subsidiary on November 9, 2011 and commenced its own investigation concerning possible antitrust law infringements in these sectors. The Japanese Fair Trade Commission sent an initial request for information to the Company's Japanese subsidiary on November 30, 2011, followed by subsequent requests for information. The Company is conducting an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors and is cooperating with the competition authorities in the context of these investigations. On May 23 and 31, 2012, purported class action lawsuits were filed by Florida plaintiffs in the U.S. District Court for the Eastern District of Michigan against Schaeffler AG and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants.

# Summary of the Offering

## Summary in respect of the Notes

The following is a brief summary of certain terms of the offering of the Notes and may not contain all the information that is important to the investor. For additional information regarding the Notes, see "*Description of the Notes*" and "*Description of other Indebtedness—Security Pooling and Intercreditor Agreement.*"

| | |
|---|---|
| **Issuer** | Schaeffler Finance B.V., Barneveld, the Netherlands, a private limited liability corporation organized under the laws of the Netherlands. |
| **Company and Parent Guarantor** | Schaeffler AG, Herzogenaurach, Germany, a stock corporation (*Aktiengesellschaft*) organized under the laws of Germany. |
| **Notes offered** | Up to €200,000,000 [ • ]% Senior Secured Notes due 2017 (the "**International Offering Notes**"), subject to an increase of up to a further €300,000,000 in aggregate principal amount of International Offering Notes; and<br><br>up to an additional €50,000,000 [ • ]% Senior Secured Notes due 2017 (the "**Employee Offering Notes**" and, together with the International Offering Notes, the "**Notes**").<br><br>The International Offering Notes and the Employee Offering Notes will constitute a single class of debt securities under the indenture governing the Notes, will be fungible for trading purposes and will have a single ISIN number. |
| **Offering** | The offering consists of (i) a public offering to retail and institutional investors in Germany and Luxembourg and private placements to institutional investors in certain jurisdictions outside Germany and Luxembourg of the International Offering Notes (the "**International Offering**") and (ii) an offering to employees of the Schaeffler Group with an existing German employment contract and a permanent residence in Germany (subject to certain exceptions, such as contract workers, expatriots, impatriots and cross-border workers) (the "**Eligible Employees**") of the Employee Offering Notes (the "**Employee Offering**"). |
| **Pricing Date** | Expected to be on or about June 29, 2012 (the "**Pricing Date**"). |
| **Issue price** | [ • ]%.<br><br>The principal amount of International Offering Notes, the issue price of the Notes, the interest rate on the Notes, the specific maturity date and the specific interest payment dates for the Notes will be announced in a notice, which will be filed with the CSSF and published on the website of the LxSE (*www.bourse.lu*) and the website of the Company (*www.schaeffler.com*) on or after the Pricing Date and prior to the |

| | |
|---|---|
| | International Offering Issue Date (as defined below) (the "**Pricing Notice**"). |
| **Maturity date** | July 1, 2017. |
| **Interest rate and payment dates** | The Notes will bear interest at a rate of [ • ]% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2012. Interest on the Notes will accrue from the Issue Date. |
| **International Offering Issue Date and Closing Date** | The International Offering Notes will be issued and delivery of the International Offering Notes is expected to be made on or about July 4, 2012 (the "**International Offering Issue Date**" and "**International Offering Closing Date**"). |
| **Employee Offering Issue Date** | The Employee Offering Notes will be issued on or about July 20, 2012 (the "**Employee Offering Issue Date**"). |
| **Employee Offering Settlement** | The purchase price of the Employee Offering Notes (equal to the Issue Price) will be deducted from the respective Eligible Employees' accounts specified in the purchase order form on or about July 16, 2012. Employee Offering Notes allocated to Eligible Employees in the Employee Offering are expected to be delivered to the respective Eligible Employees' securities deposit accounts notified to the Settlement Agent for the Employee Offering (i) if the deposit account is notified to the Settlement Agent for the Employee Offering on or prior to July 13, 2012, on or about July 20, 2012, or (ii) if the deposit account is notified to the Settlement Agent for the Employee Offering after July 13, 2012, approximately one week after such notification is received by the Settlement Agent for the Employee Offering. Deposit account details must be notified to the Settlement Agent for the Employee Offering no later than July 20, 2012. |
| **Form and Denomination** | The Notes will be issued in global form in denominations of €1,000, maintained in book-entry form. |
| **Principal amount of Notes to be issued** | The aggregate principal amount of International Offering Notes to be issued will be announced in the Pricing Notice. The principal amount of the Employee Offering Notes will be announced on the website of the Company (*www.schaeffler.com*) on or about July 20, 2012. |
| **International Offering Offer Period** | June 28, 2012 to June 29, 2012, subject to shortening or extension. |
| **Employee Offering Offer Period** | July 3, 2012 to July 13, 2012. Purchase orders from Eligible Employees must be received by the Settlement Agent by no later than 12:00 noon CET on July 13, 2012. |

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| **Initial Purchasers for the International Offering** | Deutsche Bank AG, London Branch, Barclays Bank PLC, Bayerische Landesbank and Citigroup Global Markets Limited. |
| **Settlement Agent for the Employee Offering** | Deutsche Bank AG, London Branch.<br><br>With respect to the Employee Offering, Deutsche Bank AG, London Branch will act solely as settlement agent and none of the Initial Purchasers will purchase as principal or underwrite any Employee Offering Notes. The Employee Offering is made solely by the Parent Guarantor. |
| **Ranking of the Notes** | The Notes:<br><br>• will be general senior obligations of the Issuer;<br><br>• will be structurally subordinated to any indebtedness of the Issuer's subsidiaries that are not Guarantors;<br><br>• will be effectively subordinated to any existing and future indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of property and assets securing such indebtedness;<br><br>• will rank *pari passu* in right of payment with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes; and<br><br>• will rank senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes. |
| **Parent Guarantee and Subsidiary Guarantees** | The Notes will have the benefit of unconditional and irrevocable guarantees of the Parent Guarantor and the Subsidiary Guarantors (as defined below and, together with the Parent Guarantor, the "**Guarantors**"). Adjusted for intercompany effects, the Guarantors in the aggregate represented 72.9% of the Parent Guarantor's consolidated EBITDA and 69.0% of the Parent Guarantor's consolidated revenue for the twelve months ended March 31, 2012 and held 77.3% of the Parent Guarantor's consolidated total assets as of March 31, 2012. The total assets of the Issuer and the Guarantors have been calculated on an unconsolidated basis and have been adjusted by subtracting intercompany effects and goodwill.<br><br>The Guarantee of each Guarantor:<br><br>• will be a general senior obligation of the relevant Guarantor;<br><br>• will be structurally subordinated to all existing and future indebtedness of any of such Guarantor's subsidiaries that are not Subsidiary Guarantors; |

- will be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property or assets that do not secure such Guarantee, to the extent of the value of the property and assets securing such indebtedness;
- will rank *pari passu* in right of payment with all existing and future indebtedness of such Guarantor that is not subordinated in right of payment to such Guarantee;
- will rank senior in right of payment to all existing and future indebtedness of such Guarantor that is subordinated in right of payment to such Guarantee; and
- will be effectively senior to all of such Guarantor's existing and future unsecured indebtedness to the extent of the assets securing such Guarantee.

A Subsidiary Guarantee (including Subsidiary Guarantees in effect on the Issue Date) will be automatically and unconditionally released under certain circumstances, including upon the release of all other guarantees given by the relevant Subsidiary Guarantor with respect to indebtedness of the Issuer or any Guarantor, subject to certain conditions and exceptions. In addition, the validity and enforceability of the Subsidiary Guarantees will be subject to certain limitations. See *"Risk factors—Risks related to the Guarantees and the Collateral"* and *"Description of the Notes."*

The indenture governing the Notes to be entered into on the Issue Date (the "**Indenture**"), will provide that, for so long as the Security Pooling and Intercreditor Agreement (as defined below) (or any additional security pooling and intercreditor agreement) is in effect, on or after the occurrence of an enforcement action under the Security Pooling and Intercreditor Agreement (as defined below), all payments in respect of any Guarantee may only be made to the General Security Trustee (and the Trustee and, subject to the terms of the Indenture, the holders of the Notes may make demands or claims under any Guarantee only to the effect that such payments be made to the General Security Trustee) for application pursuant to the Security Pooling and Intercreditor Agreement (as defined below) or any additional security pooling and intercreditor agreement, as the case may be.

**Security** . . . . . Subject to the terms of the security documents and a security pooling and intercreditor agreement, dated January 27, 2012 (as amended, the "**Security Pooling and Intercreditor Agreement**"), the obligations of the Issuer under the Notes, and the obligations of the

Guarantors in respect of the Guarantee under the Indenture, will be secured by:

- pledges over the capital stock of the Issuer (the "**Issuer Share Pledge**"), each Subsidiary Guarantor, Schaeffler Iberia S.L.U. (*Spain*), each restricted subsidiary through which shares in any Subsidiary Guarantor or Schaeffler Iberia S.L.U. (*Spain*) are held, Schaeffler Familienholding Drei GmbH & Co. KG (*Germany*), Schaeffler Immobilien AG & Co. KG (*Germany*) and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung (*Germany*);
- pledges over all capital stock in Continental AG owned by the Parent Guarantor and its restricted subsidiaries;
- pledges over certain of the Parent Guarantor's and the restricted subsidiaries' (present and future) cash-pool accounts;
- pledges over, or security assignments of, certain intra-group loan receivables of the Parent Guarantor and its restricted subsidiaries, including of the Note Proceeds Loan (the "**Proceeds Loan Assignment**"); and
- pledges over, or security assignments of, certain accounts receivables.

The liens securing the Notes will be effectively *pari passu* with the first priority liens securing obligations outstanding under the Issuer's €800,000,000 7.75% senior secured notes due 2017, $600,000,000 7.75% senior secured notes due 2017, €400,000,000 8.75% senior secured notes due 2019 and $500,000,000 8.50% senior secured notes due 2019 issued on February 09, 2012 (together, the "**Existing Notes**"), a senior term loan and multicurrency revolving credit facilities agreement entered into by the Company, the Subsidiary Guarantors and Schaeffler Iberia S.L.U. (*Spain*) dated January 27, 2012 (as amended by an amendment agreement dated February 20, 2012, the "**New Senior Facilities Agreement**") and certain hedging obligations under the terms of the Security Pooling and Intercreditor Agreement that provides that any proceeds received from enforcement of the security documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Security Pooling and Intercreditor Agreement, including the Existing Notes and indebtedness under the New Senior Facilities Agreement and certain hedging obligations.

The liens constituting the Collateral will be released in certain circumstances, including upon the release of all liens (other than permitted liens (except for permitted

collateral liens)) over such Collateral, subject to certain conditions and exceptions.

See *"Description of the Notes—Security."*

The Security Pooling and Intercreditor Agreement restricts the ability of the Trustee and holders of the Notes to instruct the Security Trustees to take enforcement action. The relevant Security Trustee will act only upon the instruction of an Instructing Group (as defined below). A resolution to instruct the relevant Security Trustee to act under the Security Pooling and Intercreditor Agreement will be passed if the total principal amount of notes that are subject to the Security Pooling and Intercreditor Agreement (initially, the Notes and the Existing Notes) and the total amount of commitments under facilities agreements that are subject to the Security Pooling and Intercreditor Agreement (initially, the New Senior Facilities Agreement), in each case, that vote (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and the total amount of commitments under facilities agreements that vote (or are deemed to have voted) against the resolution. In calculating votes, the General Security Trustee will convert into euro votes representing notes or commitments denominated in currencies other than euro. Any decision, instruction or consent that is required pursuant to the Security Pooling and Intercreditor Agreement to be made by resolution in the foregoing manner is referred to as a decision, instruction or consent of the "**Instructing Group**." See *"Risk factors—Risks related to the Guarantees and the Collateral—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances," "Description of other indebtedness—Security Pooling and Intercreditor Agreement—Enforcement of Transaction Security," "—Decisions of the Instructing Group"* and *"Description of the Notes—Security—Enforcement of security."*

**Optional redemption** . . . . . The Notes will be redeemable at the Issuer's option, in whole or in part, at any time on or after July 1, 2014, at the redemption prices set forth in this Prospectus, together with accrued and unpaid interest, if any, to the date of redemption.

At any time prior to July 1, 2014, the Issuer may redeem some or all of the Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest plus a "make-whole" premium at any time.

In addition, prior to July 1, 2014, the Issuer may redeem at its option up to 40% of the original

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| | principal amount of the Notes, with proceeds of certain equity offerings.<br><br>See *"Description of the Notes—Optional redemption."* |
| **Optional redemption for tax reasons** . . . . . | The Issuer may also redeem the Notes at any time, in whole but not in part, for reasons of taxation, if as a result of any change in, or amendment to, the laws or regulations (including any amendment to, or change in, an official interpretation or application of such laws or regulations) of the relevant taxing jurisdiction in respect of the Issuer or, as applicable, the Parent Guarantor affecting taxation or the obligation to pay duties of any kind, the Issuer or, as the case may be, the Parent Guarantor, will become obligated to pay Additional Amounts. See *"Description of the Notes—Redemption for changes in Taxes."* |
| **Additional amounts** . . . . . | Any payments made by the Issuer or any Guarantor with respect to the Notes or any Note Guarantees will be made without withholding or deduction for taxes in (1) any jurisdiction in which the Issuer or any Guarantor is then incorporated or organized, engaged in business for tax purposes or otherwise resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction of any Paying Agent or any political subdivision thereof or therein (each, a Tax Jurisdiction) unless required by law. If the Issuer is required by law to withhold or deduct for taxes of the relevant Tax Jurisdiction with respect to a payment to the holders of the Notes or any Note Guarantees, the Issuer will pay the additional amounts necessary so that the net amount received by the holders of the Notes or any Note Guarantees after the withholding is not less than the amount that they would have received in the absence of the withholding, subject to certain exceptions. See *"Description of the Notes—Additional Amounts."* |
| **Change of Control** . . . . . | Upon the occurrence of certain change of control events, the Issuer will be required to offer to repurchase the Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repurchase. See *"Description of the Notes—Repurchase at the option of the Holders—Change of Control."* |
| **Certain covenants** . . . . . | The Indenture will limit, among other things, the Schaeffler Group's ability to:<br><br>• incur or guarantee additional indebtedness and issue certain preferred stock;<br><br>• pay dividends on, redeem or repurchase the Company's capital stock; |

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| | • make certain restricted payments and investments, including dividends or other distributions with regard to the shares of the Company or its restricted subsidiaries;<br>• create or incur certain liens;<br>• enter into agreements that restrict the Schaeffler Group's subsidiaries' ability to pay dividends;<br>• transfer or sell assets;<br>• merge or consolidate with other entities;<br>• enter into certain transactions with affiliates; and<br>• impair the security interests for the benefit of the holders of the Notes.<br>Each of the covenants is subject to a number of important exceptions and qualifications. See *"Description of the Notes—Certain covenants*. |
| **Selling Restrictions** . . . . . | The Notes and the Guarantees have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold outside the United States only pursuant to Regulation S under the US Securities Act and in compliance with applicable laws and regulations. See *"Subscription, Offer and Sale"* beginning on page 466. |
| **Public Offer** . . . . . | The Notes may be offered to the public in Germany and Luxembourg. For provisions and restrictions relating to offers of Notes to the public in the European Economic Area, see *"Subscription, Offer and Sale"*. |
| **Use of proceeds** . . . . . | Repayment in part of outstanding amounts under the New Senior Facilities Agreement and fees and expenses. |
| **Listing and Admission to Trading** . . . . | Application has been made to the LxSE for the Notes to be listed on the Official List and admitted to trading on its regulated market. |
| **Listing Agent** . . . . . | Deutsche Bank Luxembourg S.A. |
| **Governing law for the Notes, the Guarantees and the Indenture** . . . . . | New York. |
| **Governing law for the Security Pooling and Intercreditor Agreement** . . . . . | England. |
| **Governing law for the Security Documents** . . . . . | Austria, Brazil, England, France, Germany, Hong Kong, Hungary, Romania, Slovakia, Spain, Switzerland and the State of New York. |
| **Trustee** . . . . . | Deutsche Trustee Company Limited. |
| **Luxembourg Registrar, Transfer Agent and Paying Agent** . . . . . | Deutsche Bank Luxembourg S.A. |

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| **Principal Paying Agent** . . . . . | Deutsche Bank AG, London Branch. |
| **General Security Trustee** . . . . . | Deutsche Bank Luxembourg S.A. |
| **Continental Shares Security Trustee** . . | Commerzbank Aktiengesellschaft, Luxembourg Branch. |
| **Risk factors**. . . . . | Investing in the Notes involves substantial risks. The investor should carefully consider all the information in this Prospectus, and, in particular, the investor should evaluate the specific risk factors set forth in the *"Risk factors"* section in this Prospectus before making a decision whether to invest in the Notes. |

# Summary of the risk factors

## Risks related to the Issuer

The Issuer is a special purpose vehicle and a wholly-owned subsidiary of the Parent Guarantor. The Issuer has no operational business on its own. The ability to fulfill its payment obligations under the Notes depends on the Parent Guarantor's financial position and results of operations as well as the distribution of profits generated by the Parent Guarantor's subsidiaries.

## Risks related to the Notes

The Notes may not be a suitable investment for all investors.

The interests of the Company's shareholders may be inconsistent with investors' interests.

The Notes will be structurally subordinated to indebtedness of non-guarantor subsidiaries and, to the extent of the limitations on enforceability of Subsidiary Guarantees, also to indebtedness of Subsidiary Guarantors that is not subject to such limitations.

The Notes and the Guarantees will be effectively subordinated to the Schaeffler Group's debt to the extent such debt is secured by assets that are not also securing the Notes.

Despite the Schaeffler Group's high level of indebtedness, the Parent Guarantor and its subsidiaries will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with its substantial indebtedness.

Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Issuer may not be able to redeem or repurchase such Notes.

The New Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement will restrict the Schaeffler Group's ability to repay the Notes or make certain amendments to the Notes.

The Schaeffler Group may not be able to generate sufficient cash flows to meet its debt service obligations.

The Issuer is a financing vehicle for the Schaeffler Group, has no material assets or sources of revenue except for claims against the Parent Guarantor resulting from intercompany loans and relies on distributions from the Parent Guarantor's subsidiaries to service its debt obligations and repay the Notes.

There is no active public trading market for the Notes and an active trading market for the Notes may not develop.

The transfer of the Notes will be restricted, which may adversely affect the value of the Notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

The Notes will be held in book-entry form and therefore the investor must rely on the procedures of the relevant clearing system to exercise any rights and remedies.

Certain covenants may be suspended upon the occurrence of a change in the ratings of the Notes.

The price at which Eligible Employees will be able to subscribe for Notes in the Employee Offering may be higher than the price at which they could have purchased Notes in the market.

## Risks related to the Guarantees and the Collateral

Most of the shares in the Schaeffler Group subsidiaries which serve as collateral are tainted for German tax purposes, which could adversely affect the value of the Collateral.

The proceeds from the enforcement of the Guarantees and the Collateral may not be sufficient to satisfy the obligations under the Notes.

Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.

Under local law, claims of Holders may not have a first priority ranking pari passu with existing secured indebtedness, including indebtedness under the New Senior Facilities Agreement and the Existing Notes, and investors must rely on the Security Pooling and Intercreditor Agreement to achieve a first priority lien in the Collateral.

The Collateral will not be granted to the Holders directly, and, accordingly, the ability of the Security Trustees to enforce the Collateral is subject to uncertainty under local law.

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees and the Collateral may adversely affect their validity and enforceability.

Local insolvency laws may not be as favorable to the investor as the bankruptcy or insolvency laws of the jurisdiction with which the investor is familiar and may preclude Holders from recovering payments due on the Notes.

Any Subsidiary Guarantee and any Collateral may be released or impaired without consent of the Holders, and under certain circumstances the Notes could become unsecured and lose the benefit of all Subsidiary Guarantees.

Not all assets will be included in the Collateral.

There may not be sufficient Collateral to pay all or any of the Notes.

The Issuer and the other security providers will have control over the Collateral, and the sale of particular assets could reduce the pool of assets securing the Notes.

It may be difficult to realize the value of the Collateral.

The Guarantees and the Collateral might be challenged or voidable in insolvency proceedings.

The investor's rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Enforcement of the Guarantees across multiple jurisdictions may be difficult.

Enforcement of the Collateral across multiple jurisdictions may be difficult.

## Risks related to the markets in which the Schaeffler Group operates

The Schaeffler Group is exposed to substantial risks associated with the performance of the global economy and the Eurozone debt crisis.

The Schaeffler Group operates in a cyclical industry.

Schaeffler Group's business environment is characterized by intense competition, which could reduce its revenue or put continued pressure on its sales prices.

Schaeffler Group's efforts to expand in certain markets are subject to a variety of business, economic, legal and political risks.

The Schaeffler Group is exposed to risks associated with market trends and developments.

## Risks related to the Schaeffler Group's business operations

The Schaeffler Group depends on large OEM and Tier 1 suppliers for the sale of its products.

The Schaeffler Group depends on a limited number of key suppliers for certain products.

The Schaeffler Group is exposed to fluctuations in prices of raw materials and energy.

The Schaeffler Group may not be able to successfully execute its growth strategy of expanding in rapidly growing emerging markets.

The Schaeffler Group's future business success depends on its ability to maintain the high quality of its products.

The Schaeffler Group may be unable to maintain its technological leadership.

The Schaeffler Group depends on its ability to secure sufficient funding for its R&D efforts.

The Schaeffler Group's operations depend on qualified executives and key employees.

The Schaeffler Group's business could be adversely impacted by strikes and other labor disputes.

The Schaeffler Group's operations rely on complex IT systems and networks.

The Schaeffler Group could be adversely affected by property loss and unforeseen business interruption.

## Risks related to the Schaeffler Group's financial position

The Schaeffler Group's high leverage and debt service obligations could have a material adverse effect on its business and may make it difficult for it to service its debt, including the Notes, and operate its business.

The Schaeffler Group is exposed to risks associated with the financing arrangements at the level of its parent companies.

Due to the Schaeffler Group's high level of debt, it faces potential liquidity risks.

The Schaeffler Group is exposed to a number of risks associated with the New Senior Facilities Agreement.

Existing debt obligations contain, and future debt obligations are likely to contain, restrictive covenants and change of control provisions.

The Schaeffler Group is exposed to risks in connection with its share interest in Continental AG.

The Schaeffler Group is exposed to risks associated with changes in currency exchange rates and hedging.

The Schaeffler Group is exposed to risks in connection with interest rate changes and associated hedging.

The Schaeffler Group may have to repay investment grants and subsidies, or previously awarded investment grants may not be disbursed in part or at all.

The Schaeffler Group is exposed to risks in connection with its pension commitments.

## Legal, taxation and environmental risks

The Schaeffler Group is subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.

The Schaeffler Group is exposed to warranty and product liability claims.

The Schaeffler Group could be unsuccessful in adequately protecting its intellectual property and technical expertise.

There is a risk that the Schaeffler Group infringes intellectual property rights of third parties.

The Schaeffler Group might not have validly acquired employee inventions or could possibly fail to validly acquire them in the future.

The Schaeffler Group may incur additional costs as a result of industry collective bargaining agreements applicable to its German employees.

The Schaeffler Group is subject to risks from legal, administrative and arbitration proceedings.

Almost all shares in the Schaeffler Group companies (not including the shares in Continental AG) and certain shares in other IHO Group companies are tainted for German tax purposes.

The Schaeffler Group could be subject to tax risks attributable to previous tax assessment periods.

The Company is affected by the German interest barrier rules.

The Schaeffler Group could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.

The Schaeffler Group could become subject to additional burdensome environmental or safety regulations and additional regulation could adversely affect demand for its products and services.

## Risks related to the Subsidiary Guarantors

The business of each of Egon von Ruville GmbH (*Germany*), FAG Aerospace GmbH & Co. KG (*Germany*), FAG Kugelfischer GmbH (*Germany*), IAB Holding GmbH (*Germany*), IAB Verwaltungs GmbH (*Germany*), INA Beteiligungsverwaltungs GmbH (*Germany*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Germany*), LuK GmbH & Co. KG (*Germany*), LuK Vermögensverwaltungsgesellschaft mbH (*Germany*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Germany*), Schaeffler Technologies AG & Co. KG (*Germany*), WPB Water Pump Bearing GmbH & Co. KG (*Germany*), Schaeffler Austria GmbH (*Austria*), Schaeffler Brasil Ltda. (*Brazil*), Schaeffler France SAS (France), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Hungary*), S.C. Schaeffler Romania S.R.L. (*Romania*), INA Kysuce, a.s. (*Slovakia*), INA SKALICA spol. s r.o. (*Slovakia*), LuK (UK) Limited (*United Kingdom*), Schaeffler (UK) Limited (*United Kingdom*), Schaeffler Automotive Aftermarket (UK) Ltd. (*United Kingdom*), The Barden Corporation (UK) Ltd. (*United Kingdom*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) and Schaeffler Group USA Inc. (*Delaware, USA*) (the **Subsidiary Guarantors**) and, as a result, the value of each of the Subsidiary Guarantees, are exposed to a number of risks that are similar to the risks affecting the Schaeffler Group as a whole. These risks may materially adversely affect each of the Subsidiary Guarantors' net assets, financial position and results of operations and the ability to fulfill each of the Subsidiary Guarantors' obligations under the Subsidiary Guarantees.

Each of the Subsidiary Guarantors (except for Schaeffler Beteiligungsholding GmbH & Co. KG, with respect to which Schaeffler AG is the limited partner (100%) and Schaeffler Familienholding Drei GmbH & Co. KG is the general partner) is a wholly-owned subsidiary of the Parent Guarantor. Accordingly, the risks listed above with respect to the Schaeffler Group apply also to each of the Subsidiary Guarantors with regard to their respective businesses.

Individual financial information for each of the Subsidiary Guarantors is neither included nor incorporated by reference in this Prospectus as financial statements on an individual basis are not published. The consolidated financial statements of the Company, however, contain financial information for the Schaeffler Group which includes each of the Subsidiary Guarantors.

## Summary of general information on the Issuer

Schaeffler Finance B.V. was incorporated on October 14, 2011 for an indefinite period of time under the laws of the Netherlands. It is registered at the Dutch Commercial Register. Schaeffler Finance B.V.'s registration number is 53761790.

Schaeffler Finance B.V.'s registered office is located at Gildeweg 31, 3771 NB Barneveld, The Netherlands. Its phone number is +31 (0)342—403288.

Schaeffler Finance B.V. is incorporated as a private limited liability company under the laws of the Netherlands.

The Issuer has been established as a special purpose vehicle for the purpose of financing transactions, such as the issuance of the Existing Notes and the issuance of the Notes.

The authorized share capital of Schaeffler Finance B.V. as of December 31, 2011 amounts to €90,000, divided into 90,000 shares of €1.00 nominal value each. The issued capital of Schaeffler Finance B.V. as of December 31, 2011 amounts to €18,000, divided into 18,000 shares with a nominal value of €1.00 each, all of which are fully paid up.

Due to the issuance of the Existing Notes, the Issuer's indebtedness is approximately €2,000 million as of March 31, 2012.

## Summary of general information on the Parent Guarantor

Schaeffler AG (until October 13, 2011, Schaeffler GmbH and, until June 28, 2010, Schaeffler Verwaltung Zwei GmbH) was founded on September 29, 2009 and is registered in the Commercial Register of the Fürth Local Court (*Amtsgericht*) under HRB 13202. The Parent Guarantor's registered office is Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

Pursuant to Section 2 of the Parent Guarantor's Articles of Association, the Issuer is a management holding company which pools other companies under a uniform leadership. The Parent Guarantor may set up subsidiaries and may incorporate, form or acquire other companies.

## Summary of general information on the Subsidiary Guarantors

Schaeffler AG and its subsidiaries, including the Subsidiary Guarantors, operate through two main divisions: Automotive and Industrial. The Automotive Division generated approximately 67% of its revenue in the twelve months ended March 31, 2012, supplying more than 60,000 products to approximately 7,500 customers globally. The Industrial Division accounted for approximately 32% of its revenue in the twelve months ended March 31, 2012, supplying approximately 90,000 products to approximately 17,000 customers in approximately 60 different industrial sectors.

The following entities are initial Subsidiary Guarantors:

Egon von Ruville GmbH (*Germany*), FAG Aerospace GmbH & Co. KG (*Germany*), FAG Kugelfischer GmbH (*Germany*), IAB Holding GmbH (*Germany*), IAB Verwaltungs GmbH (*Germany*), INA Beteiligungsverwaltungs GmbH (*Germany*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Germany*), LuK GmbH & Co. KG (*Germany*), LuK Vermögensverwaltungsgesellschaft mbH (*Germany*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Germany*), Schaeffler Technologies AG & Co. KG (*Germany*), WPB Water Pump Bearing GmbH & Co. KG (*Germany*), Schaeffler Austria GmbH (*Austria*), Schaeffler Brasil Ltda. (*Brazil*), Schaeffler France SAS (France), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Hungary*), S.C. Schaeffler Romania S.R.L. (*Romania*), INA Kysuce, a.s. (*Slovakia*), INA SKALICA spol. s r.o. (*Slovakia*), LuK (UK) Limited (*United Kingdom*), Schaeffler (UK) Limited (*United Kingdom*), Schaeffler Automotive Aftermarket (UK) Ltd. (*United Kingdom*), The Barden Corporation (UK) Ltd. (*United Kingdom*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) and Schaeffler Group USA Inc. (*Delaware, USA*) (the **Subsidiary Guarantors**).

# Summary consolidated financial information

*The following tables present the Schaeffler Group's summary financial information and should be read in conjunction with the audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and the unaudited condensed consolidated financial statements as of and for the three-month periods ended March 31, 2012 and 2011, which are all incorporated by reference in this Prospectus, and the section entitled "Management's discussion and analysis of the Schaeffler Group's financial condition and results of operations." The summary financial information provided below was derived from the consolidated financial statements. These financial statements were prepared in accordance with IFRS as adopted by the EU. The Schaeffler Group's consolidated financial statements as of and for the years ended December 31, 2011 and 2010 were audited by KPMG which were issued an unqualified audit opinion. The condensed consolidated financial statements as of and for the three-month periods ended March 31, 2012 and 2011, which were prepared in accordance with IFRS as adopted by the EU, have not been audited. The information below is not necessarily indicative of the results of future operations.*

## Selected Income Statement Data

| | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| **in € million** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(unaudited)** | | **(unaudited)** |
| **Revenue** | **7,336** | **9,495** | **10,694** | **2,697** | **2,858** | **10,855** |
| Cost of sales | (5,552) | (6,506) | (7,463) | (1,835) | (1,973) | (7,601) |
| **Gross profit** | **1,784** | **2,989** | **3,231** | **862** | **885** | **3,254** |
| R&D expenses | (384) | (467) | (495) | (121) | (147) | (521) |
| Selling expenses | (526) | (645) | (725) | (173) | (191) | (743) |
| Administrative expenses | (405) | (366) | (408) | (101) | (127) | (434) |
| Other income | 458 | 375 | 330 | 61 | 27 | 296 |
| Other expenses | (481) | (377) | (244) | (56) | (46) | (234) |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| Financial result | (1,520) | (1,159) | (409) | 105 | (74) | (588) |
| **EBT**[(1)] | **(1,074)** | **350** | **1,280** | **577** | **327** | **1,030** |
| Income taxes | (125) | (277) | (378) | (136) | (88) | (330) |
| **Net income** | **(1,199)** | **73** | **902** | **441** | **239** | **700** |

## Selected Balance Sheet Data

| in € million | As of December 31, 2009 | 2010 | 2011 | As of March 31, 2012 |
|---|---|---|---|---|
| | | | | (unaudited) |
| ***Assets*** | | | | |
| Intangible assets | 618 | 575 | 553 | 554 |
| Property, plant and equipment | 3,129 | 3,041 | 3,328 | 3,392 |
| Investments in equity-accounted investees | 5,472 | 5,252 | 4,772 | 4,908 |
| Remaining non-current assets | 511 | 463 | 481 | 520 |
| **Total non-current assets** | **9,730** | **9,331** | **9,134** | **9,374** |
| Inventories | 1,162 | 1,482 | 1,562 | 1,603 |
| Trade receivables | 1,144 | 1,443 | 1,607 | 1,885 |
| Cash and cash equivalents | 350 | 733 | 397 | 291 |
| Remaining current assets | 222 | 355 | 289 | 296 |
| **Total current assets** | **2,878** | **4,013** | **3,855** | **4,075** |
| **Total assets** | **12,608** | **13,344** | **12,989** | **13,449** |
| ***Shareholders' equity and liabilities*** | | | | |
| **Total shareholders' equity**[(2)] | **2,852** | **3,341** | **1,714** | **1,617** |
| Provisions for pensions and similar obligations | 1,120 | 1,111 | 1,217 | 1,282 |
| Financial debt | 6,420 | 6,413 | 7,168 | 7,155 |
| Remaining non-current liabilities | 707 | 768 | 636 | 725 |
| **Total non-current liabilities** | **8,247** | **8,292** | **9,021** | **9,162** |
| Financial debt | 61 | 64 | 317 | 300 |
| Trade payables | 425 | 729 | 873 | 976 |
| Remaining current liabilities | 1,023 | 918 | 1,064 | 1,394 |
| **Total current liabilities** | **1,509** | **1,711** | **2,254** | **2,670** |
| **Total shareholders' equity and liabilities** | **12,608** | **13,344** | **12,989** | **13,449** |

## Selected Cashflow Statement Data

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| ***Operating activities*** | | | | | | |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| Depreciation, amortization and impairments | 657 | 588 | 554 | 141 | 148 | 561 |
| **EBITDA**[3] | **1,103** | **2,097** | **2,243** | **613** | **549** | **2,179** |
| Change in working capital[4] | 546 | (227) | (150) | (285) | (223) | (88) |
| Net interest paid[5] | (678) | (634) | (673) | (169) | (164) | (668) |
| Income taxes paid | (161) | (298) | (238) | (70) | (54) | (222) |
| Other operating cash flow adjustments[6] | (213) | (48) | (98) | 36 | 29 | (105) |
| **Cash flows from operating activities** | **597** | **890** | **1,084** | **125** | **137** | **1,096** |
| ***Investing activities*** | | | | | | |
| Capital expenditures according to cash flow[7] | (321) | (361) | (773) | (120) | (250) | (903) |
| Investment in Continental AG shares[8] | (1,786) | 0 | 0 | 0 | 0 | 0 |
| Proceeds from disposals and other[9] | 110 | 37 | 8 | 6 | 6 | 8 |
| **Cash used in investing activities** | **(1,997)** | **(324)** | **(765)** | **(114)** | **(244)** | **(895)** |
| ***Financing activities*** | | | | | | |
| Net issuance/repayment of loans[10] | 1,900 | (80) | (29) | 43 | 159 | 87 |
| Dividends paid to Schaeffler Verwaltungs GmbH | (592) | (134) | (400) | (400) | 0 | 0 |
| Other financing cash flows[11] | (145) | 14 | (217) | (17) | (157) | (357) |
| **Cash used in financing activities** | **1,163** | **(200)** | **(646)** | **(374)** | **2** | **(270)** |
| **Net increase/decrease in cash and cash equivalents** | **(237)** | **366** | **(327)** | **(363)** | **(105)** | **(69)** |
| Effects of foreign exchange rate changes on cash and cash equivalents | 2 | 17 | (9) | (12) | (1) | 2 |
| **Cash and cash equivalents at the end of the operating period** | **350** | **733** | **397** | **358** | **291** | **291** |

## Other Financial and Operating Data

| in € million (except where otherwise stated) | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (unaudited) | | (unaudited) |
| ***Other financial information*** | | | | | | |
| Revenue | 7,336 | 9,495 | 10,694 | 2,697 | 2,858 | 10,855 |
| *Revenue growth* | — | *29.4%* | *12.6%* | — | *6.0%*[12] | *8.2%*[13] |
| EBIT | 446 | 1,509 | 1,689 | 472 | 401 | 1,618 |
| *EBIT margin* | *6.1%* | *15.9%* | *15.8%* | *17.5%* | *14.0%* | *14.9%* |
| EBITDA[3] | 1,103 | 2,097 | 2,243 | 613 | 549 | 2,179 |
| *EBITDA margin*[3] | *15.0%* | *22.1%* | *21.0%* | *22.7%* | *19.2%* | *20.1%* |
| Capital expenditures according to cash flow[7] | (321) | (361) | (773) | (120) | (250) | (903) |
| Working capital (at end of period)[14] | 1,881 | 2,196 | 2,296 | 2,420 | 2,512 | 2,512 |
| Free cash flow[15] | (1,400) | 566 | 319 | 11 | (107) | 201 |
| Free cash flow before investment in Continental AG shares[15] | 386 | 566 | 319 | 11 | (107) | 201 |
| Free cash flow before investment in Continental AG shares and net interest paid[15] | 1,064 | 1,200 | 992 | 180 | 57 | 869 |
| Net financial debt (at end of period)[16] | 6,131 | 5,711 | 6,668 | 6,108 | 6,884 | 6,884 |
| ***Other operating information*** | | | | | | |
| Number of employees (at the end of period) | 61,536 | 67,509 | 74,031 | 69,517 | 74,948 | 74,948 |

| in € million (except where otherwise stated) | Twelve Months Ended March 31, 2012 (unaudited) |
|---|---|
| ***Pro forma financial information*** | |
| *Pro forma* gross secured debt (at end of period)[17] | 7,175 |
| *Pro forma* gross financial debt (at end of period)[18] | 7,178 |
| *Pro forma* cash and cash equivalents[19] | 283 |
| *Pro forma* net financial debt (at end of period)[20] | 6,895 |
| *Pro forma* net interest paid[21] | 545 |
| Ratio of *Pro forma* gross secured debt to EBITDA (at end of period) | 3.3x |
| Ratio of *Pro forma* net financial debt to EBITDA (at end of period) | 3.2x |
| Ratio of EBITDA to *pro forma* net interest paid | 4.0x |

## Selected Segment[22] Information

***Automotive Division***

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| **Revenue** | **4,743** | **6,325** | **7,160** | **1,821** | **1,938** | **7,274** |
| *Revenue growth* | *—* | *33.4%* | *13.2%* | *—* | *6.4%[3]* | *—* |
| **Gross profit** | **1,058** | **1,842** | **1,951** | **526** | **533** | **1,957** |
| **EBIT** | **283** | **990** | **1,074** | **301** | **245** | **1,018** |
| Depreciation, amortization and impairments | 424 | 401 | 375 | 101 | 103 | 399 |
| **EBITDA** | **707** | **1,391** | **1,449** | **402** | **348** | **1,417** |
| *Gross profit margin* | *22.3%* | *29.1%* | *27.2%* | *28.9%* | *27.5%* | *26.9%* |
| *EBIT margin* | *6.0%* | *15.7%* | *15.0%* | *16.5%* | *12.6%* | *14.0%* |
| *EBITDA margin* | *14.9%* | *22.0%* | *20.2%* | *22.1%* | *18.0%* | *19.5%* |

***Industrial Division***

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| **Revenue** | **2,513** | **3,002** | **3,462** | **856** | **905** | **3,512** |
| *Revenue growth* | *—* | *19.5%* | *15.3%* | *—* | *5.7%* | *—* |
| **Gross profit** | **726** | **1,147** | **1,280** | **336** | **352** | **1,297** |
| **EBIT** | **163** | **519** | **615** | **171** | **156** | **600** |
| Depreciation, amortization and impairments | 233 | 187 | 179 | 40 | 45 | 162 |
| **EBITDA** | **396** | **706** | **794** | **211** | **201** | **762** |
| *Gross profit margin* | *28.9%* | *38.2%* | *37.0%* | *39.3%* | *38.9%* | *36.9%* |
| *EBIT margin* | *6.5%* | *17.3%* | *17.8%* | *20.0%* | *17.2%* | *17.1%* |
| *EBITDA margin* | *15.8%* | *23.5%* | *22.9%* | *24.6%* | *22.2%* | *21.7%* |

(1) Earnings before taxes.

(2) Including non-controlling interests.

(3) The Schaeffler Group defines EBITDA (Earnings before interest, taxes, depreciation, amortization and impairments) as the aggregate of (i) EBIT and (ii) depreciation and amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA reported is not necessarily comparable to the performance figures published by other companies as EBITDA or the like. The following is a reconciliation of Net Income to EBITDA for the periods below:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| **Net Income** | **(1,199)** | **73** | **902** | **441** | **239** | **700** |
| Income taxes | 125 | 277 | 378 | 136 | 88 | 330 |
| Interest expense | 968 | 861 | 773 | 15 | 242 | 1,000 |
| Interest income | (39) | (51) | (40) | (14) | (32) | (58) |
| Share of net income (loss) of equity-accounted investees | 591 | 349 | (324) | (106) | (136) | (354) |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| Depreciation, amortization and impairments | 657 | 588 | 554 | 141 | 148 | 561 |
| **EBITDA** | **1,103** | **2,097** | **2,243** | **613** | **549** | **2,179** |

(4) The following table sets forth the change in working capital:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Changes in: | | | | | | |
| Inventories | 573 | (257) | (80) | (91) | (54) | (43) |
| Trade receivables | 73 | (241) | (153) | (295) | (290) | (148) |
| Trade payables | (100) | 271 | 83 | 101 | 121 | 103 |
| **Change in working capital** | **546** | **(227)** | **(150)** | **(285)** | **(223)** | **(88)** |

(5) The following table sets forth the Schaeffler Group's net interest paid:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Interest paid | (686) | (644) | (686) | (171) | (166) | (681) |
| Interest received | 8 | 10 | 13 | 2 | 2 | 13 |
| **Net interest paid** | **(678)** | **(634)** | **(673)** | **(169)** | **(164)** | **(668)** |

(6) The following table sets forth the Schaeffler Group's other operating cash flow adjustments:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Gains/losses on disposal of assets | 0 | (2) | 0 | (1) | (1) | 0 |
| Other non-cash items | (1) | (3) | 2 | (21) | (19) | 4 |
| Change in: | | | | | | |
| Provisions for pensions and similar obligations | (59) | (55) | (61) | (7) | (8) | (62) |
| Other assets, liabilities and provisions | (153) | 12 | (39) | 65 | 57 | (47) |
| **Other operating cash flow adjustments** | **(213)** | **(48)** | **(98)** | **36** | **29** | **(105)** |

(7) Capital expenditures according to cash flow include intangible assets and PP&E. The following table sets forth the Schaeffler Group's capital expenditures according to cash flow:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Capital expenditures on intangible assets | (51) | (21) | (15) | (4) | (9) | (20) |
| Capital expenditures on property, plant and equipment | (270) | (340) | (758) | (116) | (241) | (883) |
| **Capital expenditures according to cash flow** | **(321)** | **(361)** | **(773)** | **(120)** | **(250)** | **(903)** |

(8) The following table sets forth the Schaeffler Group's investment in Continental AG shares:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Investment in equity-accounted investees thereof Continental AG | (3,898) | 0 | 0 | 0 | 0 | 0 |
| Acquisition / disposal of cash settled swaps | 2,112 | 0 | 0 | 0 | 0 | 0 |
| **Investment in Continental AG shares** | **(1,786)** | **0** | **0** | **0** | **0** | **0** |

(9) The following table sets forth the Schaeffler Group's proceeds from disposals and other:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Proceeds from disposals of intangible assets and property, plant and equipment | 50 | 25 | 11 | 6 | 7 | 12 |
| Investments in equity-accounted investees excluding investment in Continental AG shares | (7) | (4) | (10) | (1) | (1) | (10) |
| Other investing activities | 67 | 16 | 7 | 1 | 0 | 6 |
| **Proceeds from disposals and other** | **110** | **37** | **8** | **6** | **6** | **8** |

(10) The following table sets forth the Schaeffler Group's net issuance/repayment of loans:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Receipts from loans | 2,150 | 3 | 13 | 53 | 170 | 130 |
| Repayments of loans | (250) | (83) | (42) | (10) | (11) | (43) |
| **Net issuance/repayment of loans** | **1,900** | **(80)** | **(29)** | **43** | **159** | **87** |

(11) The following table sets forth the Schaeffler Group's other financing cash flows:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Dividends paid to non-controlling interests | (1) | (1) | (1) | 0 | 0 | (1) |
| Acquisition in stages | 0 | 0 | 0 | 0 | (13) | (13) |
| Receipts/payments from other financing activities | (144) | 15 | (216) | (17) | (144) | (343) |
| **Other financing cash flows** | **(145)** | **14** | **(217)** | **(17)** | **(157)**(*) | **(357)** |

(*) Related cash outflows (€163 million) have been paid before January 27, 2012, and were therefore not subject to the restricted payment covenant under the Existing Notes or the Notes. See "*Description of the Notes.*"

(12) Defined as revenue growth in the three months ended March 31, 2012 relative to the three months ended March 31, 2011.

(13) Defined as revenue growth in the twelve months ended March 31, 2012 relative to the twelve months ended March 31, 2011.

(14) The following table sets forth the Schaeffler Group's working capital:

| in € million | As of December 31, 2009 | 2010 | 2011 | As of March 31, 2011 | 2012 |
|---|---|---|---|---|---|
| | | | | (unaudited) | |
| Inventories | 1,162 | 1,482 | 1,562 | 1,537 | 1,603 |
| Trade receivables | 1,144 | 1,443 | 1,607 | 1,706 | 1,885 |
| Trade payables | (425) | (729) | (873) | (823) | (976) |
| **Working capital** | **1,881** | **2,196** | **2,296** | **2,420** | **2,512** |

(15) The following table sets forth our free cash flow before investment in Continental AG shares and net interest paid:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Cash flows from operating activities | 597 | 890 | 1,084 | 125 | 137 | 1,096 |
| Cash used in investing activities | (1,997) | (324) | (765) | (114) | (244) | (895) |
| **Free cash flow** | **(1,400)** | **566** | **319** | **11** | **(107)** | **201** |
| Investment in Continental AG shares | 1,786 | 0 | 0 | 0 | 0 | 0 |
| **Free cash flow before investment in Continental AG shares** | **386** | **566** | **319** | **11** | **(107)** | **201** |
| Net interest paid | 678 | 634 | 673 | 169 | 164 | 668 |
| **Free cash flow before investment in Continental AG shares and net interest paid** | **1,064** | **1,200** | **992** | **180** | **57** | **869** |

(16) The following table sets forth our net financial debt:

| in € million | As of December 31, 2009 | 2010(*3) | 2011 | As of March 31, 2011 | As of March 31, 2012 |
|---|---|---|---|---|---|
| | | | | (unaudited) | (unaudited) |
| Financial debt—non-current | 6,420 | 6,413 | 7,168 | 6,411 | 7,155 |
| Financial debt—current | 61 | 64 | 317 | 71 | 300 |
| **Financial debt** | **6,481** | **6,477** | **7,485** | **6,482** | **7,455** |
| Shareholder loans(*1) | – | 33 | 420 | 16 | 280 |
| **Financial debt(*2)** | **6,481** | **6,444** | **7,065** | **6,466** | **7,175** |
| Cash and cash equivalents | (350) | (733) | (397) | (358) | (291) |
| **Net financial debt(*2)** | **6,131** | **5,711** | **6,668** | **6,108** | **6,884** |

(*1) Shareholder loans refers to the Special Receivables Loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent company Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. The shareholder loans are subordinated in right of payment to the Notes and the New Senior Facilities Agreement by operation of the Security Pooling and Intercreditor Agreement. For further details, please refer to *"Related parties transactions and major shareholders of the Parent Guarantor—Special Receivables Loan"* and *"Description of other indebtedness—Special Receivables Loan."*

(*2) Excludes the shareholder loans.

(*3) As presented in the annual report 2011 which is incorporated by reference in this Prospectus.

(17) *Pro forma* gross secured debt is gross secured debt (including the annuity loan and short-term debt to credit institutions), as adjusted to give *pro forma* effect to the issuance of assumed €300 million in aggregate principal amount of Notes and its application, together with €8 million of cash on the balance sheet, to repay in part outstanding amounts under the New Senior Facilities Agreement (together, the "**Transactions**"), as if the Transactions had occurred on March 31, 2011. The amount reflects assumed gross proceeds from the issuance of the Notes of €300 million.

(18) *Pro forma* gross financial debt is the financial debt as adjusted to give *pro forma* effect to the Transactions as if the Transactions occurred on March 31, 2011. Pro forma financial debt includes the annuity loan, among others, and excludes shareholder loans.

(19) *Pro forma* cash and cash equivalents represent cash and cash equivalents as adjusted to give *pro forma* effect to the Transactions as if they occurred on March 31, 2012.

(20) *Pro forma* net financial debt represents *pro forma* financial debt less *pro forma* cash and cash equivalents.

(21) *Pro forma* net interest paid is defined as the accumulated net interest paid for the twelve months ended March 31, 2012, as adjusted to give *pro forma* effect to the Transactions (assuming the issuance of €300 million aggregate principal amount of Notes), the issuance of the Existing Notes, drawings of €5,104 million under the New Senior Facilities Agreement and the application of the net proceeds therefrom to repay in full outstanding amounts under the Repaid Facilities Agreement, as if such transactions had occurred on March 31, 2011. The actual accumulated net interest paid for the twelve months ended March 31, 2012 (€668 million) is adjusted by deducting the interest payment of €324 million relating to the Repaid Senior Facilities Agreement and by adding interest payments of €398 million relating to the New Senior Facilities Agreement, the Notes and the Existing Notes. Furthermore, transaction costs of €40 million have been deducted from net interest paid. Moreover, the Schaeffler Group has adjusted the net interest paid for the restructuring of the Schaeffler Group's hedging portfolio to optimize the maturity profile, hedged interest rate level and hedging volume in the amount of €155 million (including close-out payments).

(22) The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information in the Schaeffler Group's annual reports and interim financial reports is comparable, prior year information is also presented using the current year's customer structure. The segment information for the three months and the twelve months ended March 31, 2012 and 2011 contained in this Prospectus is based on the segment reporting in the interim financial report for the three months ended March 31, 2012. The segment information for 2011 and 2010 contained in this Prospectus is based on the segment reporting in the annual report 2011 and the segment information for 2009 is based on the segment reporting in the annual report 2010. In this regard, the 2009 segment information is not fully comparable to the 2010 and 2011 segment information.

# Summary (German Translation)
# Zusammenfassung

*Diese Zusammenfassung ist als Einleitung zu diesem Prospekt zu lesen, und jede Anlageentscheidung hinsichtlich der Schuldverschreibungen sollte auf Grundlage des gesamten Prospekts getroffen werden. Nach Umsetzung der maßgeblichen Bestimmungen der Prospektrichtlinie in allen Mitgliedstaaten des Europäischen Wirtschaftsraums können diejenigen Personen, die in einem dieser Mitgliedstaaten die Verantwortung für diese Zusammenfassung, einschließlich ihrer Übersetzung, übernommen haben, nur dann zivilrechtlich haftbar gemacht werden, wenn diese irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird. Für den Fall, dass vor einem Gericht in einem Mitgliedstaat des Europäischen Wirtschaftsraums Ansprüche aufgrund der in diesem Prospekt enthaltenen Angaben geltend gemacht werden, könnte der Kläger in Anwendung der einzelstaatlichen Rechtsvorschriften des Mitgliedstaates, in dem die Ansprüche geltend gemacht werden, die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben.*

## Übersicht der Geschäftsaktivitäten

Die Schaeffler Gruppe zählt zu den weltweit führenden Anbietern von technologisch hochentwickelten Komponenten und Systemen, die für Ihre Kunden mit hoher Wertschöpfung verbunden sind. Die Schaeffler Gruppe vertreibt ihre Produkte und Leistungen an eine Vielzahl von Automobil- und Industriekunden. Mit rund 75.000 Mitarbeitern in ca. 50 Ländern (Stand: 31. März 2012) ist die Schaeffler Gruppe eines der größten europäischen Industrieunternehmen in Familienbesitz. In den zwölf Monaten, die zum 31. März 2012 enden, erwirtschaftete das Unternehmen Umsätze von ca. € 10,9 Mrd. und ein EBITDA von ca. € 2,2 Mrd. Die Schaeffler Gruppe geht davon aus, dass sie in jedem ihrer Kernbereiche zu den drei führenden Herstellern weltweit zählt. Das Unternehmen verfügt über eine starke Präsenz in schnell wachsenden Märkten, z.B. wie der Region Asien/Pazifik und Südamerika, auf die insgesamt 28 % der Umsätze der Gruppe in den zwölf Monaten, die zum 31. März 2012 enden, entfielen. Die Schaeffler Gruppe ist davon überzeugt, dass sie aufgrund ihrer branchenführenden Technologieplattform, der hohen Qualität ihrer Produkte, den langjährigen Beziehungen zu einem breit gefächerten Kundenstamm, des globalen Produktionsnetzwerkes und ihres umfassenden Produkt- und Dienstleistungsangebots für zukünftiges Wachstum gut aufgestellt ist.

Die Schaeffler Gruppe teilt ihr Geschäft in zwei Sparten: Automotive und Industrie. Mit der Sparte Automotive, die in den zwölf Monaten, die zum 31. März 2012 enden, über 60.000 Produkte an ca. 7.500 Kunden weltweit lieferte, erwirtschaftete die Gruppe etwa 67 % ihres Umsatzes. Die von der Sparte Automotive produzierten Fahrzeugkomponenten, -module und -systeme werden hauptsächlich für spezielle Kundenanwendungen entwickelt und ermöglichen es Automobilherstellern an Megatrends, wie beispielsweise verringertem Kraftstoffverbrauch, reduzierten $CO_2$-Emissionen, optimaler Sicherheit und Qualität sowie mehr Fahrspaß zu partizipieren. Als Partner nahezu aller Automobilhersteller und führender Automobilzulieferer weltweit bietet die Schaeffler Gruppe ausgeprägte Fachkompetenz für den kompletten Antriebsstrang. Ihre Expertise erstreckt sich dabei auf Produkte und Anwendungen für Motor, Getriebe und Fahrwerk in Pkws und Nutzfahrzeugen. Auf dieser Grundlage gliedert die Gruppe das OEM-Geschäft in der Sparte Automotive in drei Geschäftsbereiche: Motor, Getriebe und Fahrwerk.

Die Sparte Industrie lieferte in den zwölf Monaten, die zum 31. März 2012 enden, über 90.000 Produkte an ca. 17.000 Kunden aus etwa 60 verschiedenen Industriebranchen. Mit der Sparte Industrie erwirtschaftete die Gruppe etwa 32 % ihres Umsatzes. In enger Zusammenarbeit mit ihren Kunden entwickelt die Sparte Industrie kundenspezifische Lagerlösungen für zahlreiche maßgeschneiderte Anwendungen. Das Produktportfolio reicht von Hochgeschwindigkeits-Hochpräzisionslagern mit wenigen Millimetern Durchmesser (z. B. für Dentalbohrer oder Werkzeugmaschinen) bis hin zu Großlagern mit einem Durchmesser von über drei Metern (z. B.

für Tunnelbohrmaschinen oder Windkraftanlagen). Die von dieser Sparte hergestellten Lager und damit verwandten Produkte kommen u.a. im Bereich Antriebstechnik, bei Produktionsmaschinen und Windkraftanlagen sowie in der Schwerindustrie zum Einsatz. Im Bereich Luft- und Raumfahrt ist die Schaeffler Gruppe ein führender Hersteller von Hochpräzisionslagern für Triebwerke von Flugzeugen und Hubschraubern sowie für Raumfahrtanwendungen.

Die Schaeffler Gruppe ergänzt ihr Geschäft mit einem umfassenden Aftermarket-Angebot für ihre beiden Sparten, das auch das Ersatzteil- und Servicegeschäft mit Kunden in der ganzen Welt umfasst. Mit den Aftermarket-Dienstleistungen wird der Vertrieb wesentlich unterstützt, zudem werden bei guten Margen stabile Umsätze erzielt. In den zwölf Monaten, die zum 31. März 2012 enden, wurden 24 % des Gesamtumsatzes der Gruppe im Aftermarket-Geschäft erzielt.

Die Schaeffler Gruppe vertreibt ihre Produkte in ihren jeweiligen Märkten im Wesentlichen unter den drei weltweit renommierten Produktmarken LuK, INA und FAG, die über verschiedene Vertriebskanäle qualitativ hochwertige Produkte für das Premium- sowie das Volumensegment liefern. Die Marke LuK umfasst u. a. Kupplungs- und Automatisierungssysteme, Zweimassenschwungräder und Drehmomentwandler. Die Marke INA deckt Wälz- und Gleitlager, Linearführungen, Motorenkomponenten und -systeme wie Nockenwellenverstellsysteme oder variable Ventilsteuerungen sowie weitere Präzisionsteile ab. Die Marke FAG steht für eine große Bandbreite von Wälzlagern und Hochpräzisionslagern.

Die Schaeffler Gruppe verfügt über eine starke globale Präsenz und gliedert ihre Geschäftsaktivitäten in fünf Regionen: Deutschland, Europa (ohne Deutschland), Asien/Pazifik, Nordamerika und Südamerika. Neben den traditionellen Kernmärkten Europa (59 % des Umsatzes für die zwölf Monate, die zum 31. März 2012 enden, wobei 27 % auf Deutschland entfielen) und Nordamerika (13 % des Umsatzes für die zwölf Monate, die zum 31. März 2012 enden) gewinnt das Geschäft in wichtigen Wachstumsmärkten zunehmend an Bedeutung, beispielsweise in der Region Asien/Pazifik und in Südamerika, auf die insgesamt 28 % des Umsatzes für die zwölf Monate, die zum 31. März 2012 enden, entfielen. Entsprechend ihrem Leitbild „*in der Region, für die Region*" hat die Schaeffler Gruppe einen weltweit integrierten Entwicklungs- und Produktionsverbund mit einer starken regionalen Verankerung etabliert. Zum 31. März 2012 verfügte die Gruppe über 43 Betriebe in Europa, zwölf in Nordamerika, zwei in Südamerika und 13 in der Region Asien/Pazifik. Alle Produktionsstätten der Schaeffler Gruppe arbeiten unter Anwendung der gleichen hohen Qualitäts- und Umweltstandards und sind nach internationalen Richtlinien zertifiziert.

## Wettbewerbsvorteile

Die wichtigsten Stärken der Schaeffler Gruppe sind:

***Führende Stellung in attraktiven Wachstumsmärkten***

*In den Kerngeschäftsfeldern unter den Top 3*

Die Schaeffler Gruppe verfügt in ihren Kerngeschäftsfeldern über führende Positionen. Sie geht davon aus, dass sie in ihren Geschäftseinheiten gemessen am Umsatz zu den drei führenden Herstellern auf dem jeweils relevanten Markt gehört. Das Unternehmen geht davon aus, dass es in der Sparte Automotive mit den Bereichen Motor, Getriebe und Fahrwerk sowie in der Sparte Industrie mit den verschiedenen Branchen, die es beliefert, zu den drei führenden Herstellern zählt. Die Schaeffler Gruppe unterstützt Erstausrüster („**OEM**") über die gesamte Lebensdauer eines Produkts, von der Beteiligung an den ersten Schritten der Produktentwicklung bis hin zur Bereitstellung von essentiellem Know-how im Bereich Maschinenbauanwendungen, und wird deshalb als wichtiger Partner ihrer Kunden betrachtet.

*Starkes Aftermarket-Geschäft*

Die Produkte der Schaeffler Gruppe sind normalerweise integrierte Bestandteile von Plattformen, die mehrere Jahre lang im Einsatz sind und daher ständige Aftermarket-Betreuung erfordern. In den zwölf Monaten, die zum 31. März 2012 enden, machten die Aftermarket-Umsätze aus Ersatzteilen und Serviceleistungen etwa 24 % des Gesamtumsatzes aus. Angesichts (i) der wachsenden vorhandenen Basis, (ii) des hohen Service-Levels bei den meisten Anwendungen, in denen die Produkte der Firma eingebaut sind, (iii) der Umstellungskosten, denen Kunden potenziell ausgesetzt sind, und (iv) der starken Position im Ersatzteilmarkt ist die Schaeffler Gruppe gut aufgestellt, um ihre Umsätze aus dem Aftermarket-Geschäft in der Zukunft weiter zu steigern. Gleichzeitig hat das Aftermarket-Geschäft sich als sehr robust und profitabel erwiesen, da es für stabile Umsätze und Gewinnmargen sorgt.

*Attraktive Wachstumsmärkte*

Die Schaeffler Gruppe profitiert davon, dass sie seit Jahren in den regionalen Märkten und Branchen tätig ist, die überdurchschnittlich stark wachsen. In den wichtigsten Wachstumsmärkten ist das Unternehmen hervorragend positioniert. Dies gilt insbesondere für die Region Asien/Pazifik, wo sie seit Jahrzehnten in wachstumsstarken Ländern, wie z. B. Korea und Indien vertreten ist. Zudem ist sie seit etwa 15 Jahren in China aktiv. Es wird erwartet, dass das Wachstum der wichtigsten Geschäftsbereiche- und branchen der Gruppe, wie z. B. Automotive, Antriebstechnik, Produktionsmaschinen und Luft- und Raumfahrt, die BIP-Prognose übersteigen wird.

Zusätzlich zum erwarteten künftigen Wachstum betrachtet die Schaeffler Gruppe die Märkte, auf denen sie tätig ist, auch aufgrund der folgenden Merkmale als attraktiv: (i) der Bedarf ihrer Kunden an der Entwicklung und Bereitstellung ausgefeilter Lösungen sowie die dafür erforderliche und vorhandene Fachkompetenz der Gruppe und (ii) die Tatsache, dass Kunden in den Bereichen Automotive und Industrie Zulieferer und Partner bevorzugen, die über umfangreiche Fachkenntnisse in den jeweiligen Branchen verfügen. Dazu kommt, dass die Produkte der Gruppe für die Gesamtleistung, Sicherheit und Langlebigkeit des Endprodukts unerlässlich sind und dass ihre Produkte im Allgemeinen nur einen kleinen Prozentanteil der Gesamtkosten des Endprodukts ausmachen, so dass die wichtigsten Kaufkriterien der Kunden insbesondere auf Qualitäts- und technologischen Überlegungen beruhen und nicht allein auf dem Preis.

***Ausgewogenes Geschäftsportfolio***

*Breites Produkt- und Anwendungsspektrum*

Die Umsätze der Schaeffler Gruppe erstrecken sich auf eine breite Palette von Wälzlagern sowie Fahrzeugkomponenten und -systeme, die durch eine Vielzahl von Anwendungen für Kunden auf den verschiedensten Endmärkten generiert werden. In der Sparte Automotive verkauft die Schaeffler Gruppe über 60.000 Komponenten und Systeme an OEM und Aftermarket-Kunden. Innerhalb der Sparte Industrie bedient sie Kunden in etwa 60 verschiedenen Branchen und verkauft über 90.000 Komponenten und Systeme für eine Vielzahl von Anwendungen, die von Windturbinen über Luft- und Raumfahrtausrüstung bis hin zu Werkzeugmaschinen reichen. Die hohe Diversifikation der Geschäftsaktivitäten sowie die Stabilität des Aftermarket-Geschäfts sichern die Nachhaltigkeit der Umsätze und der Rentabilität. Jeder dieser Endmärkte wird von verschiedenen Wirtschaftsfaktoren beeinflusst, was die Schaeffler Gruppe bei ungünstigen Veränderungen in den mikroökonomischen Bedingungen oder Fluktuationen eines bestimmten wirtschaftlichen Parameters in einem der Marktsegmente weniger anfällig macht.

*Sehr breit gefächerter Kundenstamm*

Die Produkte der Schaeffler Gruppe werden an OEM, direkte und indirekte Zulieferer, Aftermarket-Händler und Dienstleister in den verschiedensten Sektoren vertrieben. Zu den

wichtigsten Kunden gehören führende OEM in der weltweiten Fahrzeugindustrie sowie führende OEM in den Industriesektoren. Bis zum 31. März 2012 wurden die Produkte der Schaeffler Gruppe an ca. 7.500 Kunden aus der Fahrzeugindustrie und an ca. 17.000 Industriekunden in etwa 120 Ländern weltweit verkauft. In den 12 Monaten, die zum 31. März 2012 enden, machten ihre zehn größten Kunden etwa 54 % des Umsatzes aus dem Bereich Automotive aus (wobei kein einziger Kunde mehr als 14 % ausmachte) und etwa 16 % des Umsatzes aus dem Bereich Industrie (wobei kein einziger Kunden mehr als 5 % ausmachte). Die Schaeffler Gruppe geht davon aus, dass diese breite Aufstellung risikomindernd und umfangreicher als das Spektrum vergleichbarer Firmen ist.

*Starke regionale Aufstellung*

Die Schaeffler Gruppe hat eine geographisch breit gestreute Kundenbasis und betreibt derzeit Produktionsstätten in über 20 Ländern und Verkaufs- und Marketingbüros an etwa 150 Standorten. Basierend auf dem Leitbild „*in der Region, für die Region*" legt die Gruppe besonderen Wert auf Kundennähe. Folglich wird sie auf vielen Märkten als lokaler Zulieferer wahrgenommen. Dank des globalen Fertigungs- und Vertriebsverbunds kann die Schaeffler Gruppe ihre Produkte und Serviceleistungen an einen größeren und zunehmend globalisierteren Kundenstamm vermarkten. Ihre Stellung als einer der größten globalen Hersteller für mechanische Komponenten und Systeme ermöglicht es der Schaeffler Gruppe darüber hinaus, von den Wachstumsmöglichkeiten, die mit der Globalisierung und zunehmenden weltweiten Handelsströmen verbunden sind, zu profitieren und gleichzeitig weniger anfällig für Marktrisiken in einzelnen Ländern oder Regionen zu sein. Die Gruppe profitiert außerdem von kostengünstigen Produktionsstandorten (z. B. hat die Schaeffler Gruppe ein ausgedehntes Produktionsnetzwerk in Osteuropa) und lokalen Zulieferungen. Sie hält dabei ihre branchenführenden Qualitätsstandards durch eine hohe Integration ihrer Aktivitäten aufrecht. Darüber hinaus ist die Schaeffler Gruppe gerade auf den schnell wachsenden und aufstrebenden Märkten gut aufgestellt: in den zwölf Monaten, die zum 31. März 2012 enden, wurden 22 % der Umsatzerlöse in der Region Asien/Pazifik und 6 % in Südamerika generiert.

***Führend in Technologie, Qualität und Innovation***

*Führende Technologie und hochwertige Qualität*

Die Schaeffler Gruppe verfügt über eine hohe Kompetenz in der Entwicklung von hochpräzisen mechanischen Komponenten und Systemen einschließlich Elektronik, Software und Mechatronik. Ihre technologische Führungsposition wird von vielen Kunden geschätzt und zählt zu ihren wichtigsten Wettbewerbsvorteilen. Viele der Produkte der Schaeffler Gruppe sind erfolgskritisch für die Leistung, Langlebigkeit und Sicherheit der Geräte, in denen sie verbaut und verwendet werden. Qualität und Zuverlässigkeit sind die wichtigsten Attribute für Produkte und Serviceleistungen sind. Die Schaeffler Gruppe geht davon aus, dass ihre Fehlerquote deutlich unter dem Branchendurchschnitt liegt.

Ein weiterer wichtiger Erfolgsfaktor für das Geschäftsmodell der Schaeffler Gruppe ist das Angebot an qualitativ hochwertigen Produkten für ihre Kunden. Ein ganzheitliches Qualitätsmanagementsystem an allen Standorten einschließlich aller Fertigungsanlagen weltweit gewährleistet die Einhaltung der höchsten Standards der Schaeffler Gruppe, die in regelmäßigen internen Prüfungen überwacht werden. Mit verschiedenen Qualitätssicherungsprogrammen wie z. B. „Fit for Quality" und „MOVE" („*Mehr Ohne VErschwendung*") sowie Test- und Simulationsverfahren, von denen die meisten intern entwickelt werden, untermauert die Schaeffler Gruppe ihr Ziel, weltweit höchste Qualität mit „Null Fehlern" über die gesamte Lieferkette hinweg zu erreichen. Die Schaeffler Gruppe wurde mit zahlreichen Preisen und Zertifikaten für ihre Produkte und Serviceleistungen ausgezeichnet, was ihren hohen Qualitätsstandard innerhalb der Branche unterstreicht. 2010 erhielt die Schaeffler Gruppe beispielsweise von Toyota in Brasilien das „Quality Achievement Performance Certificate" sowie von Getrag einen Preis für den „1st Best Bearing Supplier". In 2011 gab es

Preise und Auszeichnungen beispielsweise von Daimler, Fiat, Goldwind, Great Wall Motors, Motortec, Porsche, Siemens und Volkswagen.

*Herausragende operative Exzellenz*

Die Produktionstätten und Fertigungsverfahren der Schaeffler Gruppe zählen zu den effizientesten der Branche. Die Gruppe fokussiert sich auf möglichst effiziente Produktionsverfahren, welche kontinuierlich verbessert werden. Sie wird von ihren Kunden als verlässlicher Partner angesehen, der hohen Mehrwert schafft. In den letzten fünf Jahren investierte die Schaeffler Gruppe im Durchschnitt 8 % ihrer Jahresumsätze in die Errichtung neuer Anlagen und Werke sowie in die Anschaffung neuer Maschinen und Werkzeuge, um die Modernität ihrer Fertigungsanlagen, Simulationsverfahren und Testeinrichtungen sicherzustellen.

Die Schaeffler Gruppe geht davon aus, dass ihr herausragendes Know-how über Rohstoffe wie Stahl, die eigenen Maschinen- und Werkzeugdesigns, ihre Fachkompetenz in der Metallumformtechnik, ihre kostengünstigen Präzisionsfertigungsprozesse sowie die konsequente Verbesserung von Qualität und Service Wettbewerbsvorteile sind, durch die sie konstant hochwertige Präzisionsprodukte und Serviceleistungen anbieten kann. Alle qualitätsrelevanten Arbeiten werden im eigenen Haus durchgeführt. So stellt die Schaeffler Gruppe einen gleichbleibend hohen Qualitätsstandard ihrer Produkte sicher und ermöglicht ihren Kunden ein hervorragendes Preis-Leistungs-Verhältnis.

*Erstklassige Innovationsplattform*

Seit mehreren Jahrzehnten bilden innovative, hochwertige Produkte, die unter den drei weltweit anerkannten Marken der Schaeffler Gruppe INA, LuK und FAG verkauft werden, die Basis für den Erfolg. In den Geschäftsjahren 2009, 2010 und 2011 investierte die Schaeffler Gruppe etwa 5 % ihres Gesamtumsatzes in Forschung & Entwicklung (F&E). Dieser prozentuale Umsatzanteil liegt konstant über dem, was vergleichbare Firmen investieren. So verbessert die Schaeffler Gruppe kontinuierlich ihre Produkte und nimmt einen führenden Platz bei Innovation und Design ein. Ende 2011 eröffnete die Schaeffler Gruppe in Schweinfurt den weltweit führenden Prüfungsstand für große Wälzlager, die in Windturbinen eingesetzt werden.

Zum 31. März 2012 beschäftigte die Schaeffler Gruppe knapp 6.000 F&E-Mitarbeiter an 40 Standorten weltweit, die neue Produkte, maßgeschneiderte Produktanwendungen, Technologien, Verfahren und Methoden für marktgerechte Lösungen entwickeln. Dieses starke Netzwerk aus zentraler und regionaler Forschungs- und Entwicklungskompetenz brachte im Jahre 2011 1.832 neue Patentanmeldungen hervor. Damit gehört die Schaeffler Gruppe, gemessen an der Zahl eingereichter Patentanmeldungen (laut DPMA—Deutsches Patent- und Markenamt), zu den vier innovativsten Unternehmen in Deutschland. Zum 31. März 2012 zählte das Unternehmen etwa 19.000 Patente und Patentanmeldungen.

***Starke Erfolgsbilanz und erfahrenes Managementteam***

*Überdurchschnittliches Wachstum und führende Gewinnmargen im Sektor*

Die Schaeffler Gruppe hat in den letzten fünf Jahren ein konstant überdurchschnittliches Marktwachstum sowie eine in ihrer Branche führende EBITDA-Marge von etwa 19 % erwirtschaftet. Dieses Ergebnis resultiert aus dem erfolgreichen Geschäftsmodell der Schaeffler Gruppe, das sich durch die führende Stellung in schnell wachsenden Regionen und Produktsegmenten, ein breites und hochwertiges Produktangebot, die technologische und innovative Vorreiterrolle, die Nähe und Verbindung zum Kunden sowie hoch effiziente Produktion auszeichnet. Auf dieser Basis geht die Schaeffler Gruppe davon aus, dass sie auch weiterhin gut positioniert ist, um auch in Zukunft ein überdurchschnittliches Marktwachstum und eine hohe Ergebnisqualität zu erreichen sowie von den Megatrends in der Branche zu profitieren (siehe *„Strategie—Konzentration auf innovative Komponenten und Systeme, um*

*globale Industrietrends voranzutreiben"* (*Strategy—Focus on innovative components and systems to drive global industry trends*)).

*Erwiesene Fähigkeit positiven Cashflow zu erwirtschaften*

Die Schaeffler Gruppe war durch konsequente Kostensenkungen sowie durch effektives Management ihres Umlaufvermögens und der Investitionsaufwendungen in der Lage, auch beim Konjunkturrückgang im Jahr 2009 einen positiven Cashflow und ein positives operatives Ergebnis zu erwirtschaften. Trotz großer Volumenrückgänge auf ihren Endmärkten erreichte die Gruppe im Geschäftsjahr 2009 eine EBITDA-Marge von etwa 15 %. Durch die Reduzierung der Belegschaft in ausländischen Produktionsstandorten sowie die Einführung von Kurzarbeit in Deutschland konnten deutliche Kostensenkungen erzielt werden. Die Reduktion der Investitionen um € 657 Mio. und die Veränderung des Umlaufvermögens um € 546 Mio. führten zu einer Verbesserung des freien Cashflows über eine Milliarde € gegenüber 2008. Folglich generierte die Schaeffler Gruppe in 2009 einen freien Cashflow (vor dem Beteiligungsergebnis der Continental AG und Netto-Zinskosten) von € 1.064 Mio.

*Erfahrenes Managementteam*

Das Managementteam der Schaeffler Gruppe hat jahrzehntelange Erfahrung im Automobil- und Industriezuliefergeschäft. Es hat bewiesen, ein globales Geschäft erfolgreich durch Wirtschaftszyklen hindurch steuern zu können. Das Managementteam kann auf eine Erfolgsgeschichte zurückblicken, in der es langfristig profitables Wachstum erzielte und die Schaeffler Gruppe zu einer der führenden Firmen in den Bereichen Technologie, Qualität und Innovation in ihrer Branche machte. Die Gruppe hält die Erfahrung ihres Managementteams für einen deutlichen Wettbewerbsvorteil und eine gute Ausgangsbedingung für künftiges Wachstum.

## Strategie

Die Schaeffler Gruppe zählt zu den weltweit führenden Anbietern von technologisch hochentwickelten Komponenten und Systemen mit hoher Wertschöpfung für die Automobilbranche und einer Vielzahl von Industriesektoren. Die Schaeffler Gruppe beabsichtigt, ihrer Umsatzstruktur weiter zu diversifizieren, ihre Kostenstruktur noch effizienter zu gestalten, die Cashflow-Generierung zu verbessern und bei Aufrechterhaltung der hohen Ergebnisqualität weiter überdurchschnittlich zu wachsen. Die wichtigsten Elemente der Strategie der Schaeffler Gruppe zum Erreichen dieser Ziele sind (i) der Erhalt und Ausbau der führenden Stellung in Qualität und Technologie, (ii) eine weitere Expansion in wachsenden Regionen und Geschäftsbereichen, (iii) die Fokussierung auf innovative Komponenten und Systeme, um die globalen Branchentrends mitzugestalten, (iv) der weitere Ausbau der Forschungs- und Entwicklungsaktivitäten, um führende Systeme im Bereich Mechatronik anbieten zu können und (v) der weitere Ausbau der Kooperation mit der Continental Gruppe.

***Erhalt und Ausbau der Führungsposition bei Qualität und Technologie***

*Ausbau der Führungsposition bei Qualität und Technologie*

Das Ziel der Schaeffler Gruppe ist es, ihren Kunden eine breite Palette von erstklassigen Produkten und Systemen sowie umfassende Beratungs- und Ingenieurdienstleistungen zu bieten. Neue Produktideen werden sorgfältig geprüft, dabei werden Marktpreise, Stückzahl und Herstellungskosten berücksichtigt. Neue Produktideen werden nur dann weiterverfolgt, wenn die strengen Rentabilitätsziele nachhaltig erreicht werden können. Diese Ziele werden sowohl durch die Konzentration auf Premiumsegmente, welche die Einhaltung höchster Qualitätsstandards erfordert, als auch im Volumengeschäft erreicht. Zudem arbeitet die Schaeffler Gruppe bereits in der Frühphase des Produktentwicklungsprozesses sehr eng mit ihren Kunden zusammen, um deren Anforderungen gerecht zu werden und sich einen Wettbewerbsvorteil zu verschaffen.

*Streben nach operativer Exzellenz*

Die Schaeffler Gruppe beabsichtigt ihren Kunden auch weiterhin maximale Qualität zu bieten. Sie strebt deshalb danach, die branchenführend niedrigen Fehlerquoten weiter zu senken, indem sie in hochwertige, in hohem Maß standardisierte und automatisierte Fertigungsanlagen investiert. Gleichzeitig ist die Schaeffler Gruppe bestrebt ihre Kostenbasis durch kontinuierliche Effizienzoptimierung in ihren Fertigungsprozessen weiter zu verbessern. Dadurch können eine breite Palette von Standard- und maßgeschneiderten Produkten und Systemen mit einem attraktiven Preis- Leistungsverhältnis angeboten werden.

***Expansion in attraktiven Regionen und Geschäftsbereichen***

*Konzentration auf schnell wachsende Märkte*

Die Schaeffler Gruppe beabsichtigt ihre internationale Präsenz in schnell wachsenden, aufstrebenden Märkten weiter auszubauen. Dies gilt insbesondere für die Region Asien/Pazifik und Südamerika, die zu wichtigen Wachstumstreibern für die Sparten Automotive und Industrie geworden sind. In den letzten zehn Jahren hat die Gruppe 16 neue Produktionsstätten in Wachstumsregionen errichtet. Basierend auf dem Leitbild „*in der Region, für die Region*" errichtet die Schaeffler Gruppe ihre Produktionsstätten möglichst in unmittelbarer Nähe zu ihren Kunden. 2010 startete die Schaeffler Gruppe ein Investitionsprogramm mit einem Volumen von € 300 Mio. in der Region Asien/Pazifik. Im Zuge dieses Programms sind bereits zwei neue Werke in China und ein neues Werk in Indien im Bau. 2011 fielen etwa 30 % des Gesamtinvestitionsaufwands auf die Region Asien/Pazifik. Die Schaeffler Gruppe rechnet bis 2014 mit einer Steigerung des Umsatzanteils der Region Asien/Pazifik am Gesamtumsatz der Schaeffler Gruppe auf etwa 25-30 %. Dies wird die Diversifikation des Umsatzes weiter verbessern.

Der Ausbau der Fertigungsanlagen in Ländern mit starkem Wirtschaftswachstum hat dazu geführt, dass die Präsenz der Schaeffler Gruppe in Niedriglohnländern in den letzten zehn Jahren gesteigert werden konnte. Ein beträchtlicher Anteil des Produktionsnetzwerks befindet sich in Niedriglohnländern, wie z. B. der Slowakei, Ungarn, Rumänien, China, Indien und Mexiko. Mit dem weiteren Ausbau der Produktion in Niedriglohnländern mit hohem Wachstum wird der relative Arbeitskostenanteil der Produktionskosten mit der Zeit weiter sinken.

Parallel zu der Erhöhung des Marktanteils in den aufstrebenden Wachstumsmärkten soll der lokale Fertigungsanteil in diesen Regionen weiter ausgebaut werden. Ziel ist es, auf dieser Basis ein wettbewerbsfähiges Produkt- und Serviceangebot für aktuelle und neue Kunden weltweit anzubieten.

*Konzentration auf attraktive Geschäftsbereiche*

Die Schaeffler Gruppe versucht, die regionale und divisionale Diversifikation ihrer Umsätze aufrechtzuerhalten und weiter zu verbessern, indem sie ihre Aktivitäten in allen Regionen und Geschäftsfeldern weiter ausdehnt. Gleichzeitig verstärkt das Unternehmen seine Kernkompetenzen in der Fertigung und im Service, um sich mit zusätzlichen Komponenten- und Systemlösungen sowie Serviceleistungen breiter aufzustellen.

Zusätzlich plant die Schaeffler Gruppe, ihre Aftermarket-Aktivitäten zu verstärken, indem sie die Verkäufe an Drittanbieter sowie die Wartungs- und Reparaturaktivitäten („**MRO**") für Ersatzteile und die Kundenbetreuung im Servicebereich weiter steigert. Die Steigerung der Aftermarket-Umsätze mit Ersatzteilen und Serviceleistungen wird die Stabilität der Umsatzerlöse weiter erhöhen und die Ergebnisqualität absichern.

***Konzentration auf innovative Komponenten und Systeme um globale Industrietrends voranzutreiben***

Die Schaeffler Gruppe konzentriert sich zusätzlich auf die Entwicklung, Konstruktion und Produktion von hochkomplexen Komponenten, Modulen und Systemlösungen mit hohem

Wertschöpfungsanteil, die die wichtigsten globalen Trends im Automobil- und Industriegeschäft adressieren. Zu diesen Trends, die die Absatzmärkte der Gruppe maßgeblich beeinflussen, gehören insbesondere die Themen Energieeffizienz, erneuerbare Energien, mechatronische Systeme und Elektromobilität. Das Ziel der Schaeffler Gruppe ist es, in Bezug auf diese Trends neue Standards zu setzen, die die Branche nachhaltig beeinflussen werden. Sie geht davon aus, dass eine aktive Gestaltung dieser Trends überdurchschnittliche Wachstumsmöglichkeiten verspricht.

*Energieeffizienz und erneuerbare Energien*

Die Reduktion des Brennstoffverbrauchs und folglich auch der Kohlendioxid- ($CO_2$-)Emissionen sind wichtige Themen für die Automobilindustrie. Deshalb beabsichtigt die Schaeffler Gruppe ihr aktuelles Produkt- und Systemportfolio für Verbrennungsmotoren durch weitere und effiziente Technologien zu ergänzen. Wichtige Produkte und Systeme, bereits entwickelte Innovationen für elektronische Mobilität wie z. B. eDifferential, eWheel Drive und Technologien, die die wirtschaftliche und effiziente Gestaltung von Hybridantrieben ermöglichen, verringern die $CO_2$-Emissionen und werden für die Fahrzeughersteller zunehmend an Bedeutung gewinnen.

Die Nutzbarmachung erneuerbarer Energien ist ein wesentlicher Bestandteil in den Plänen vieler Staaten zur Reduzierung von $CO_2$-Emissionen als Reaktion auf den Klimawandel. Die Sparte Industrie der Schaeffler Gruppe hat diese Trends aufgegriffen. Sie bietet ein umfassendes Produktportfolio für Windturbinen sowie verschiedene Wälzlagerlösungen für andere erneuerbare Energietechnologien wie Solarenergie und Wasserkraft an. Die Sparte Industrie ist hervorragend in neuen Wachstumsfeldern positioniert und sichert sich damit auf lange Sicht Marktanteile und ihre Wettbewerbsfähigkeit.

*Mechatronische Systeme und Elektromobilität*

Mechatronische Systeme (eine Kombination aus Mechanik und Elektronik) gewinnen immer mehr an Bedeutung, da Automobilhersteller Komponenten in immer komplexere Systeme integrieren wollen. Die Schaeffler Gruppe möchte an diesem Wachstum teilhaben, indem sie ihre Kompetenz bei mechanischen Komponenten und Systemen und das komplementäre Fachwissen der Continental Gruppe im Bereich Elektronik miteinander verbindet.

Elektromobilität ist ein Megatrend in der Automobilindustrie und anderen Industriesektoren. Die Schaeffler Gruppe plant, ihr Produktportfolio für Hybrid- oder Elektromobilitätslösungen mit eWheel Drive, eDifferential und anderen Lösungen auf weitere Industriebereiche auszubauen. Ein Beispiel dafür ist die Entwicklung eines Drehmoment-Sensor-Tretlagers für Elektroräder.

***Verstärkte Zusammenarbeit mit der Continental Gruppe***

Die Schaeffler Gruppe beabsichtigt ihre Wettbewerbsposition durch die Verstärkung der bereits bestehenden Zusammenarbeit mit der Continental Gruppe weiter zu verbessern. Durch die Kombination ihrer mechanischen Kompetenz mit dem Fachwissen der Continental Gruppe im Bereich elektronische Steuerungen könnte die Präsenz der Gruppe im schnell wachsenden Mechatroniksegment gestärkt werden und die Schaeffler Gruppe sich als führender Systemanbieter in diesem Bereich etablieren.

Außerdem will die Schaeffler Gruppe von Kostensynergien profitieren, indem sie bereits bestehende Kooperationsverträge mit der Continental Gruppe im Bereich Beschaffung ausweitet (siehe „*Beschreibung der Schaeffler Gruppe—Wesentliche Verträge—Kooperationsvertrag zur gemeinsamen Beschaffung*“).

## Geschichte

***Firmengeschichte bis 2008***

Im Jahr 1946 gründeten die Brüder Dr. Wilhelm und Dr. Georg Schaeffler die Industrie-Nadellager GmbH (INA) mit Sitz in Herzogenaurach. Im Jahr 1965 entstand die LuK GmbH (Lamellen- und Kupplungsbau) in Bühl (in Kooperation mit INA), die später als 50/50 Gemeinschaftsunternehmen mit der Valeo S.A. geführt wurde. 1999 übernahm die Schaeffler Gruppe den 50%-Anteil von Valeo S.A. Nach dem Tod von Dr. Georg Schaeffler 1996 übernahmen Maria-Elisabeth Schaeffler und Sohn Georg F. W. Schaeffler das Familienunternehmen, um sein Lebenswerk fortzusetzen. 2001 übernahm INA die FAG Kugelfischer AG (FAG). Seit 2002 sind INA, FAG und LuK die Hauptmarken der Schaeffler Gruppe.

***Kauf von Aktien der Continental AG und nachfolgende Transaktionen***

Im Juli 2008 startete die Schaeffler Gruppe ein öffentliches Übernahmeangebot, um die Aktien der Continental Aktiengesellschaft, einer börsennotierten, dem Recht der Bundesrepublik Deutschland unterliegenden Gesellschaft mit Hauptsitz in Hannover („**Continental AG**", zusammen mit deren Tochterunternehmen und Partnern die „**Continental Gruppe**") zu erwerben. Nach dem Übernahmeangebot besaß die Schaeffler Gruppe etwa 88,9 % der Firmenanteile. In Verbindung mit diesem Angebot und den darauf folgenden Aktientransfers nahm die Schaeffler KG (jetzt Schaeffler Holding GmbH & Co. KG) einen Langzeitkredit über € 16.610 Mio. sowie eine revolvierende Kreditlinie auf, mit dem Originaldatum 12. Juli 2008, geändert am 7. August 2008 und am 27. November 2008 (der „**Akquisitionskredit**"). In diesem Zusammenhang schloss die Schaeffler AG eine Investorenvereinbarung mit der Continental AG ab, die unter anderem besagt, dass die Schaeffler Gruppe nur maximal 49,9 % des stimmberechtigten Grundkapitals der Continental AG besitzen darf.

***Reorganisation der Schaeffler Gruppe und Refinanzierungsmaßnahmen zwischen 2009 und 2011***

In den Jahren 2009 und 2010 wurde eine umfassende Reorganisation der IHO Gruppe, deren Obergesellschaft die IHO ist und zu der die Schaeffler Gruppe gehört, durchgeführt um für die Schaeffler Gruppe kapitalmarktfähige Strukturen zu schaffen. Die wesentlichen Meilensteine der Reorganisation waren u. a. die Anpassung des Akquisitionskredits im November 2009, die zu einer Rahmen-Änderungsvereinbarung führte. Im Zuge der Reorganisation erfolgte in einem weiteren Schritt außerdem im März 2011 eine Änderung bestehender Finanzierungen, und zwar (i) Senior Laufzeitdarlehens- und revolvierender Mehrwährungs-Fazilitäten über ca. € 7.143 Mio., die von dem Unternehmen im Rahmen eines ursprünglich am 20. November 2009 geschlossenen Vertrags über ein Senior-Euro-Laufzeitdarlehen und revolvierende Mehrwährungs-Kreditfazilitäten (in seiner nachträglich geänderten und neu gefassten Form) (der "**Abgelöster Senior-Darlehensvertrag**") für die Schaeffler Holding GmbH & Co. KG und bestimmte ihrer Tochtergesellschaften aufgenommen wurden und (ii) Laufzeitdarlehens- und revolvierender Kreditfazilitäten über ca. € 4.944 Mio., die von der Schaeffler Verwaltungs GmbH und der Schaeffler Holding GmbH & Co. KG im Rahmen eines ursprünglich am 20. November 2009 geschlossenen Vertrags über ein Euro-Laufzeitdarlehen und revolvierende Fazilitäten (in seiner bis zum 1. Juli 2011 geänderten und am 1. Juli 2011 neugefassten Form sowie in seiner jeweils geänderten Fassung) (der "**Vertrag über IHO-Fazilitäten**") u. a. mit IHO als Gesellschaft für die Schaeffler Holding GmbH & Co. KG und bestimmte ihrer Tochtergesellschaften aufgenommen wurden, sowie die Umwandlung der Schaeffler GmbH—der Muttergesellschaft der Schaeffler Guppe—in die Schaeffler AG im Oktober 2011.

***Refinanzierungsmaßnahmen der Schaeffler Gruppe im Jahr 2012***

*Am 27. Januar 2012 schloss das Unternehmen mit acht Banken einen Vertrag über ein syndiziertes Senior-Laufzeitdarlehen und revolvierende Mehrwährungs-Kreditfazilitäten mit*

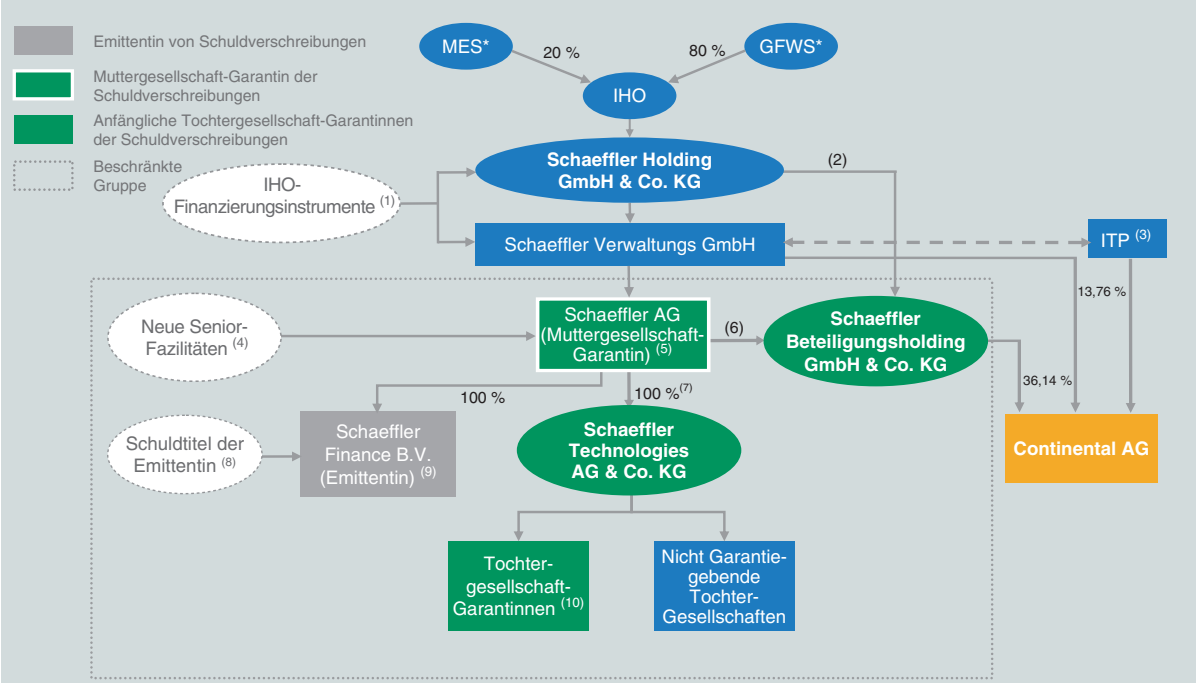
*einem Gesamtbetrag von ursprünglich € 8.000 Mio. (in seiner jeweils geänderten Fassung der* **„Neue Senior-Darlehensvertrag"**) zur Refinanzierung der Senior-Verbindlichkeiten der Schaeffler Gruppe, zur Erhöhung der Flexibilität in Bezug auf die Financial Covenants der Gruppe und zur Verbesserung des Fälligkeitsprofils der Senior-Verbindlichkeiten der Gruppe.

Am 9. Februar 2012 wurde eine Laufzeitdarlehensfazilität über € 2.000 Mio. im Rahmen des Neuen Senior-Darlehensvertrags aufgrund der Platzierung der Bestehenden Schuldverschreibungen (nachstehend definiert) freiwillig beendet. Gleichzeitig mit dieser Beendigung hat die Emittentin vier besicherte Senior-Schuldverschreibungen mit unterschiedlichen Laufzeiten und Währungen begeben: (i) besicherte Senior-Schuldverschreibungen fällig 2017 mit einem Gesamtnennbetrag von € 800.000.000, (ii) besicherte Senior-Schuldverschreibungen fällig 2017 mit einem Gesamtnennbetrag von $ 600.000.000, (iii) besicherte Senior-Schuldverschreibungen fällig 2019 mit einem Gesamtnennbetrag von € 400.000.000 und (iv) besicherte Senior-Schuldverschreibungen fällig 2019 mit einem Gesamtnennbetrag von $ 500.000.000 (zusammen die **„Bestehenden Schuldverschreibungen"**) begeben. Die Inanspruchnahmen im Rahmen des Neuen Senior-Darlehensvertags und die Nettoerlöse aus der Begebung und dem Verkauf der Bestehenden Schuldverschreibungen wurden zur vollständigen Rückzahlung der im Rahmen des Abgelösten Senior-Darlehensvertrags ausstehenden Beträge verwendet.

Die Muttergesellschaft-Garantin ist die Muttergesellschaft der Schaeffler Technologies AG & Co. KG, der operativen Einheit der Schaeffler Gruppe. Die Obergesellschaft der Schaeffler Gruppe ist die INA-Holding Schaeffler GmbH & Co. KG (**„IHO"**), die zusammen mit ihren Tochtergesellschaften und verbundenen Unternehmen, d. h. einschließlich aller Gesellschaften der Schaeffler Gruppe, als die **„IHO Gruppe"** bezeichnet wird.

# Zusammenfassung der Unternehmens- und Schuldenstruktur der Schaeffler Gruppe

Die nachstehende Übersicht enthält eine vereinfachte Darstellung der Unternehmensstruktur und der Verschuldung der Schaeffler Gruppe.




* Maria-Elisabeth Schaeffler („**MES**") und Georg F. W. Schaeffler („**GFWS**").

(1) Die IHO-Finanzierungsinstrumente (die „**IHO-Finanzierungsinstrumente**") umfassen:

- die von der mittelbaren Muttergesellschaft der Schaeffler Gruppe, der Schaeffler Holding GmbH & Co. KG, vereinbarte Revolvierende IHO-Kreditfazilität über € 250 Mio., die zum 31. März 2012 nicht in Anspruch genommen war und deren Endfälligkeitstermin der 30. Juni 2017 ist;
- die von der Schaeffler Verwaltungs GmbH vereinbarte IHO-Laufzeitdarlehensfazilität fällig am 30. Juni 2017 mit einem ausstehenden Kapitalbetrag von € 3.029 Mio. zum 31. März 2012, und
- die von der Schaeffler Verwaltungs GmbH begebene IHO-Nullkuponanleihe (Buchwert zum 31. März 2012: € 1.854 Mio., Restwert zum 1. April 2018: € 3.293 Mio.).

Die IHO-Finanzierungsinstrumente beinhalten bestimmte Verpflichtungserklärungen und Financial Covenant, denen das finanzielle Ergebnis der Schaeffler Gruppe zugrunde liegt. Sie sind strukturell nachrangig gegenüber den Finanzverbindlichkeiten der Muttergesellschaft-Garantin und ihrer Tochtergesellschaften. Eine nähere Beschreibung der IHO-Finanzierungsinstrumente kann dem Abschnitt *"Beschreibung der sonstigen Verbindlichkeiten—IHO-Finanzierungsinstrumente" (Description of other Indebtedness—IHO Debt Instruments)* entnommen werden.

(2) Die Schaeffler Holding GmbH & Co. KG hält ihren Kommanditanteil an der Schaeffler Beteiligungsholding GmbH & Co. KG indirekt durch die folgenden Gesellschaften:

- Die Schaeffler Holding GmbH & Co. KG ist die alleinige Gesellschafterin der Schaeffler Familienholding Eins GmbH und der Schaeffler Familienholding Zwei GmbH.
- Die Schaeffler Familienholding Eins GmbH ist Komplementärin und die Schaeffler Familienholding Zwei GmbH ist Kommanditistin der Schaeffler Familienholding Drei GmbH & Co. KG.
- Die Schaeffler Familienholding Drei GmbH & Co. KG ist Komplementärin der Schaeffler Beteiligungsholding GmbH & Co. KG. Die Gesellschaftsanteile an der Schaeffler Familienholding Drei GmbH & Co. KG und der Schaeffler Beteiligungsholding GmbH & Co. KG dienen neben anderen Vermögenswerten als Sicherheiten für die Schuldverschreibungen, den Neuen Senior-Darlehensvertrag und bestimmte Absicherungsverpflichtungen.

  Mit Ausnahme der Schaeffler Beteiligungsholding GmbH & Co. KG gehört keines dieser Unternehmen der beschränkten Gruppe an und unterliegt somit auch nicht den vertragsmäßigen Beschränkungen im Rahmen des Anleihevertrags (*Indenture*).

(3) Zum 31. März 2012 wurden 10,39 % der Aktien der Continental AG von Unabhängigen Drittbanken *(Independent Third Party Banks)* („**ITP**") gehalten. Aufgrund einer Investorenvereinbarung mit der Continental AG darf die Schaeffler Gruppe höchstens 49,99 % der Aktien der Continental AG halten. Eine nähere Beschreibung kann dem Abschnitt *"Beschreibung der Schaeffler Gruppe—Wesentliche Verträge—Investorenabkommen"* (*Description of the Schaeffler Group—Material contracts—Investment Agreement*) entnommen werden.

(4) Am 27. Januar 2012 haben die Muttergesellschaft-Garantin und bestimmte Tochtergesellschaften der Muttergesellschaft-Garantin den Neuen Senior-Darlehensvertrag abgeschlossen, der (i) eine Laufzeitdarlehensfazilität über € 2,0 Mrd. („**Fazilität A**") vorsieht, die von dem Unternehmen am 9. Februar 2012 aufgrund der Platzierung der Bestehenden Schuldverschreibungen freiwillig beendet wurde; (ii) eine Laufzeitdarlehensfazilität über € 3,0 Mrd. („**Fazilität B**") vorsieht, die vollständig in Anspruch genommen wurde und am 27. Januar 2015 fällig wird; (iii) eine Laufzeitdarlehensfazilität über einen anfänglichen Gesamtbetrag von € 2,0 Mrd. („**Fazilität C**", zusammen mit Fazilität A und Fazilität B die „**Laufzeitdarlehensfazilitäten**") vorsieht, die am 27. Januar 2017 fällig wird, vollständig in Anspruch

genommen wurde und eine Laufzeitdarlehensfazilität über € 600 Mio. („**Fazilität C1**") sowie eine Laufzeitdarlehensfazilität über € 1,4 Mrd., die in eine Laufzeitdarlehensfazilität über € 450 Mio. und eine Laufzeitdarlehensfazilität über $ 1.275 Mio. umgewandelt wurde („**Fazilität C2**"), umfasst; sowie (iv) eine revolvierende Mehrwährungs-Kreditfazilität über € 1,0 Mrd. (die „**Revolvierende Fazilität**" zusammen mit den Laufzeitdarlehensfazilitäten die „**Fazilitäten**") vorsieht, von der € 100,0 Mio. sowie ein weiterer Betrag von € 49,5 Mio. im Rahmen weiterer Fazilitäten am 31. März 2012 in Anspruch genommen wurden und die vorbehaltlich der Zustimmung der Darlehensgeber eine zweimalige Option auf Verlängerung um jeweils ein Jahr vorsieht. Der Neue Senior-Darlehensvertrag begründet Senior-Verpflichtungen der Muttergesellschaft-Garantin und wird von den Tochtergesellschaft-Garantinnen und der Schaeffler Iberia, S.L.U. (*Spanien*) garantiert und wird durch dieselbe Sicherheiten besichert wie die Schuldverschreibungen und die Garantien (mit Ausnahme der Abtretung des Schuldverschreibungserlösdarlehens (wie nachstehend definiert)). Eine nähere Beschreibung des Neuen Senior-Darlehensvertrag kann dem Abschnitt *"Beschreibung anderer Verbindlichkeiten—Neuer Senior-Darlehensvertrag" (Description of other Indebtedness—New Senior Facilities Agreement*) entnommen werden.

(5) Die Muttergesellschaft-Garantin wird eine unbedingte und unwiderrufliche Senior-Garantie zugunsten der Schuldverschreibungen abgeben.

(6) Die Schaeffler AG ist die alleinige Kommanditistin ihrer 100%igen Tochtergesellschaft Schaeffler Beteiligungsholding GmbH & Co. KG.

(7) Unmittelbar und mittelbar gehalten.

(8) Die Schuldtitel der Schaeffler Finance B.V. („**Schuldtitel der Emittentin**") umfassen:
- die Bestehenden Schuldverschreibungen; und
- die vorliegend angebotenen Schuldverschreibungen.

Die Nettoerlöse aus dem Angebot der Schuldverschreibungen werden von der Emittentin im Rahmen eines oder mehrerer Konzerndarlehen (zusammen das „**Schuldverschreibungserlösdarlehen**") an die Muttergesellschaft-Garantin weiterverliehen. Die Muttergesellschaft-Garantin wird die im Zusammenhang mit dem Schuldverschreibungserlösdarlehen erhaltenen Erlöse zur Rückzahlung eines Teils der im Rahmen des Neuen Senior-Darlehensvertrag ausstehenden Beträge verwenden (siehe „*Erlösverwendung*" (*Use of proceeds*)). Das Schuldverschreibungserlösdarlehen wird von der Emittentin zu Besicherung der Verbindlichkeiten der Emittentin aus den Schuldverschreibungen und den Bestehenden Schuldverschreibungen abgetreten.

(9) Die Emittentin ist eine 100%ige Tochtergesellschaft der Muttergesellschaft-Garantin.

(10) Bei Begebung der Schuldverschreibungen werden bestimmte Tochtergesellschaften der Muttergesellschaft-Garantin, die Tochtergesellschaft-Garantinnen, unbedingte und unwiderrufliche Garantien zugunsten der Schuldverschreibungen abgeben. Mit Ausnahme der Schaeffler Iberia, S.L.U. (*Spanien*), die nur für die Verbindlichkeiten der Muttergesellschaft-Garantin aus dem Neuen Senior-Darlehensvertrag garantiert, sind die Tochtergesellschaft-Garantinnen die gleichen Garantinnen wie im Rahmen des Neuen Senior-Darlehensvertrag. Die Garantinnen für die Bestehenden Schuldverschreibungen sind die gleichen wie für die Schuldverschreibungen. Eine nähere Beschreibung kann dem Abschnitt „*Beschreibung der Schuldverschreibungen—Die Schuldverschreibungs-Garantien" (Description of the Notes—Note Guarantees*) entnommen werden.

# Tochtergesellschafts-Garantiedeckung

*Zum 31. März 2012 und für die zwölf Monate, die zum 31. März 2012 enden, machten die Tochtergesellschaft-Garantinnen den folgenden prozentualen Anteil an der konsolidierten Schaeffler Gruppe aus:*

| | |
|---|---|
| Bilanzsumme | 76,1 % |
| Umsatzerlöse | 69,0 % |
| Konsolidiertes EBITDA | 72,9 % |

# Trading Update und jüngste Entwicklungen

## April und Mai Ergebnis

Für den Zeitraum vom 1. April 2012 bis zum 31. Mai 2012 verglichen mit dem Zeitraum vom 1. April 2011 bis zum 31. Mai 2011:

- Die Schaeffler Gruppe erwirtschaftete im Zeitraum vom 1. April 2012 bis zum 31. Mai 2012 Umsatzerlöse von € 1.854 Mio. nach Umsatzerlösen von € 1.805 Mio. im Zeitraum vom 1. April 2011 bis zum 31. Mai 2011.
- Das konsolidierte EBITDA für diesen Zeitraum betrug € 343 Mio. (2011: € 386 Mio.).
- Das EBIT betrug in diesem Zeitraum € 243 Mio. nach € 292 Mio. im vergleichbaren Zeitraum des Jahres 2011. Der Free Cash Flow betrug € 63 Mio. im Vergleich zu € 35 Mio. im Jahr 2011.
- Die Sparte Automotive erwirtschaftete Umsatzerlöse in Höhe von € 1.266 Mio. (2011: € 1.190 Mio.), die 68 % des Gesamtumsatzes der Gruppe ausmachten. Die Sparte Industrie erzielte Umsatzerlöse in Höhe von € 580 Mio. (2011: € 589 Mio.), die 31 % des Gesamtumsatzes der Gruppe ausmachten.

Die oben genannten vorläufigen Ergebnisgrößen ergeben sich aus internen Unterlagen und waren nicht Teil der Abschlusserstellung und des Prüfungsprozesses. Da das entsprechende Verfahren noch nicht abgeschlossen ist, kann sich das Ergebnis noch ändern. Die Änderungen können dabei auch materieller Natur sein.

## Jüngste Entwicklungen im Zusammenhang mit Rechtsstreitigkeiten

Am 8. November 2011 erfolgte eine Untersuchung des Unternehmens durch die Europäische Kommission wegen möglicher Verstöße gegen das europäische Wettbewerbsrecht in den Bereichen Lager für die Automobilbranche und die Industrie. Am 9. November 2011 hat das US-Justizministerium der US-Tochter des Unternehmens eine Vorladung vor eine Grand Jury zugestellt und eigene Untersuchungen wegen möglicher Verletzungen kartellrechtlicher Bestimmungen in den genannten Bereichen eingeleitet. Die japanische Wettbewerbsbehörde hat am 30. November 2011 ein erstes Auskunftsersuchen an die japanische Tochter des Unternehmens gerichtet, weitere Ersuche folgten. Das Unternehmen führt derzeit eine interne Untersuchung wegen des Vorwurfs von Fehlverhalten in den Bereichen Lager für die Automobilbranche sowie für die Industrie durch und arbeitet in diesem Zusammenhang eng mit den Wettbewerbsbehörden zusammen. Am 23. und 31. Mai 2012 erhoben Kläger aus Florida in diesem Zusammenhang jeweils Sammelklage vor dem US-Distriktgericht für Ost-Michigan gegen die Schaeffler AG und weitere Beklagte. Die Kläger verlangen dreifachen Schadensersatz in unbestimmter Höhe, die Erstattung der Anwaltskosten und den Erlass einer gerichtlichen Verfügung gegen die Beklagten.

# Zusammenfassung des Angebots

## Zusammenfassung des Angebots in Bezug auf die Schuldverschreibungen

Es folgt eine zusammenfassende Darstellung bestimmter Bedingungen des Angebots der Schuldverschreibungen, die jedoch nicht notwendigerweise sämtliche für den Anleger relevanten Informationen enthält. Weitere Informationen zu den Schuldverschreibungen sind dem Abschnitt „*Beschreibung der Schuldverschreibungen*" (*Description of the Notes*) und „*Beschreibung anderer Verbindlichkeiten—Sicherheitenpool- und Gläubigervereinbarung*" (*Description of other Indebtedness—Security Pooling and Intercreditor Agreement*) zu entnehmen.

| | |
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| **Emittentin (*Issuer*)** . . . . . | Schaeffler Finance B.V., Barneveld, Niederlande, eine dem Recht der Niederlande unterliegende Gesellschaft mit beschränkter Haftung. |
| **Unternehmen und Muttergesellschaft-Garantin (*Parent Guarantor*)** . . . . . | Schaeffler AG, Herzogenaurach, Deutschland, eine dem deutschem Recht unterliegende Aktiengesellschaft. |
| **Angebotene Schuldverschreibungen** . . . . . | Bis zu € 200.000.000 [ • ] % Besicherte Schuldverschreibungen fällig 2017 (die „**International Angebotenen Schuldverschreibungen**"), vorbehaltlich einer Erhöhung des Gesamtnennbetrags der International Angebotenen Schuldverschreibungen von bis zu € 300.000.000; und.<br><br>in einem zusätzlichen Betrag von bis zu € 50.000.000 [ • ] % Besicherte Senior-Schuldverschreibungen fällig 2017 (die „**Mitarbeiter-Schuldverschreibungen**" und zusammen mit den International Angebotenen Schuldverschreibungen die „**Schuldverschreibungen**").<br><br>Die International Angebotenen Schuldverschreibungen und die Mitarbeiter-Schuldverschreibungen werden eine einzige Schuldtitelklasse im Rahmen des Anleihevertrags bilden, zu Handelszwecken fungibel sein und eine einzige ISIN haben. |
| **Angebot** . . . . . | Das Angebot besteht aus (i) einem öffentlichen Angebot an Privatanleger und institutionelle Anleger in Deutschland und Luxemburg sowie aus Privatplatzierungen von International Angebotenen Schuldverschreibungen (das „**Internationale Angebot**") an institutionelle Anleger in bestimmten Ländern außerhalb Deutschlands und Luxemburgs, und (ii) einem Angebot an Mitarbeiter der Schaeffler Gruppe mit bestehendem deutschen Arbeitsvertrag und ständigem Wohnsitz in Deutschland (vorbehaltlich bestimmter Ausnahmen, wie z.B. Leiharbeiter, Expatriates, Impatriates und Grenzgänger) (die „**Berechtigten Mitarbeiter**") über Mitarbeiter-Schuldverschreibungen (das „**Mitarbeiterangebot**"). |
| **Preisfestsetzungstag** . . . . . | Erwartungsgemäß am oder um den 29. Juni 2012 (der „**Preisfestsetzungstag**"). |
| **Emissionspreis** . . . . . | [ • ] %. |

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| | Der Nennbetrag der International Angebotenen Schuldverschreibungen, der Emissionspreis der Schuldverschreibungen, der auf die Schuldverschreibungen zahlbare Zinssatz, der bestimmte Fälligkeitstag und die bestimmten Zinszahlungstage der Schuldverschreibungen werden in einer Mitteilung bekanntgegeben, die bei der *Commission de Surveillance du Secteur Financier* (CSSF) eingereicht und auf der Internetseite der Luxemburger Börse („**LxSE**") (*www.bourse.lu*) und der Internetseite des Unternehmens (*www.schaeffler.com*) am oder nach dem Preisfestsetzungstag und vor dem Emissionstag des Internationalen Angebots (wie nachstehend definiert) veröffentlicht wird (die „**Preisfestsetzungsmitteilung**"). |
| **Fälligkeitsdatum** . . . . . | 1. Juli 2017. |
| **Zinssatz und Zahlungstage** . . . . . | Die Schuldverschreibungen werden mit [ • ]% p.a. verzinst, wobei die Zinsen halbjährlich nachträglich am 15. Mai und 15. November eines jeden Jahres, beginnend am 15. November 2012, zahlbar sind. Der Zinslauf der Schuldverschreibungen beginnt am Tag der Begebung. |
| **Tag der Begebung und Tag des Settlements des Internationalen Angebots** . . . . . | Die International Angebotenen Schuldverschreibungen werden am oder um den 4. Juli 2012 begeben und voraussichtlich auch geliefert (der „**Tag der Begebung des Internationalen Angebots**" und der „**Settlement Tag des Internationalen Angebots**"). |
| **Tag der Begebung der Mitarbeiter-Schuldverschreibungen** . . . . . | Die Mitarbeiter-Schuldverschreibungen werden am oder um den 20. Juli 2012 begeben (der „**Tag der Begebung der Mitarbeiter-Schuldverschreibungen**"). |
| **Abwicklung der Mitarbeiter-Schuldverschreibungen** . . . . . | Der (dem Emissionspreis entsprechende) Kaufpreis der Mitarbeiter-Schuldverschreibungen wird am oder um den 16. Juli 2012 von den im Kaufauftragsformular angegebenen Konten der jeweiligen Berechtigten Mitarbeiter abgebucht. Die den Berechtigten Mitarbeitern im Rahmen des Mitarbeiterangebots zugeteilten Mitarbeiter-Schuldverschreibungen werden voraussichtlich zu den folgenden Zeitpunkten an die der Abwicklungsstelle für das Mitarbeiterangebot mitgeteilten Wertpapier-Depotkonten der jeweiligen Berechtigten Mitarbeiter geliefert: (i) sofern das Depotkonto der Abwicklungsstelle für das Mitarbeiterangebot am oder vor dem 13. Juli 2012 mitgeteilt wird, am oder um dem 20. Juli 2012, oder (ii) sofern das Depotkonto der Abwicklungsstelle für das Mitarbeiterangebot nach dem 13. Juli 2012 mitgeteilt wird, ca. eine Woche nach Eingang dieser Mitteilung bei der Abwicklungsstelle für das Mitarbeiterangebot. Die Angaben zum Depotkonto sind der Abwicklungsstelle für die Mitarbeiter- |

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| | Schuldverschreibungen bis spätestens 20. Juli 2012 mitzuteilen. |
| **Form und Stückelung** . . . . . | Die Schuldverschreibungen werden als Globalurkunde in einer Stückelung von € 1.000 begeben und in buchmäßiger Form geführt. |
| **Nennbetrag der zu begebenden Schuldverschreibungen** . . . . . | Der Gesamtnennbetrag der zu begebenden International Angebotenen Schuldverschreibungen wird in der Preisfestsetzungsmitteilung bekanntgegeben. Der Nennbetrag der Mitarbeiter-Schuldverschreibungen wird am oder um den 16. Juli 2012 auf der Internetseite des Unternehmens (*www.schaeffler.com*) bekanntgegeben. |
| **Angebotszeitraum für das Internationale Angebot** . . . . . | 28. Juni 2012 bis 29. Juni 2012, vorbehaltlich einer Verkürzung oder Verlängerung. |
| **Angebotszeitraum für das Mitarbeiterangebot** . . . . . | 3. Juli 2012 bis 13. Juli 2012. Kaufaufträge von Berechtigten Mitarbeitern müssen bis spätestens 12:00 Uhr MEZ am 13. Juli 2012 bei der Abwicklungsstelle eingegangen sein. |
| **Anfängliche Erwerber für das Internationale Angebot** . . . . . | Deutsche Bank AG, London Branch, Barclays Bank PLC, Bayerische Landesbank und Citigroup Global Markets Limited. |
| **Abwicklungsstelle für das Mitarbeiterangebot** . . . . . | Deutsche Bank AG, London Branch.<br><br>In Bezug auf das Mitarbeiterangebot handelt Deutsche Bank AG, London Branch ausschließlich als Abwicklungsstelle, und keiner der Anfänglichen Erwerber wird Mitarbeiter-Schuldverschreibungen auf eigene Rechnung erwerben oder übernehmen. Das Mitarbeiter-Angebot erfolgt ausschließlich von der Muttergesellschaft-Garantin. |
| **Rang der Schuldverschreibungen** . . . . | Die Schuldverschreibungen:<br><br>• begründen allgemeine Senior-Verpflichtungen der Emittentin;<br><br>• sind strukturell nachrangig gegenüber den Verbindlichkeiten derjenigen Tochtergesellschaften der Emittentin, die keine Garantinnen sind;<br><br>• sind faktisch nachrangig gegenüber allen bestehenden und künftigen Verbindlichkeiten der Emittentin, die durch Vermögensgegenstände besichert sind, die nicht zur Besicherung der Schuldverschreibungen dienen, und zwar in der Höhe des Wertes der Vermögensgegenstände, die diese Verbindlichkeiten besichern;<br><br>• sind gleichrangig mit allen bestehenden und künftigen Verbindlichkeiten der Emittentin, die |

gegenüber den Schuldverschreibungen nicht nachrangig sind; und

- sind vorrangig vor allen bestehenden und künftigen Verbindlichkeiten der Emittentin, die gegenüber den Schuldverschreibungen nachrangig sind.

**Muttergesellschafts-Garantie (*Parent Guarantee*) und Tochtergesellschafts-Garantien (*Subsidiary Guarantees*)** . . .

Die Schuldverschreibungen sind besichert durch vollumfängliche und unwiderrufliche Garantien der Muttergesellschaft-Garantin sowie der Tochtergesellschaft-Garantinnen (wie nachfolgend definiert und zusammen mit der Muttergesellschaft-Garantin die „**Garantinnen**" (*Guarantors*)). Bereinigt um konzerninterne Effekte erzielten die Garantinnen in den zwölf Monaten, die zum 31. März 2012 enden, zusammen 72,9 % des konsolidierten EBITDA sowie 69,0 % der konsolidierten Umsatzerlöse der Muttergesellschaft-Garantin, und ihr gemeinsamer Anteil an der Konzernbilanzsumme belief sich zum 31. März 2012 auf 77,3 %. Die Bilanzsummen der Emittentin und der Garantinnen wurden auf nicht konsolidierter Basis berechnet und durch Abzug von konzerninternen Effekten sowie des Goodwill bereinigt.

Die Garantie jeder Garantin:

- begründet eine allgemeine Senior-Verpflichtung der betreffenden Garantin;
- ist strukturell nachrangig gegenüber allen bestehenden und künftigen Verbindlichkeiten derjenigen Tochtergesellschaften der betreffenden Garantin, die keine Tochtergesellschaft-Garantinnen sind;
- sind faktisch nachrangig gegenüber allen bestehenden und künftigen Verbindlichkeiten der betreffenden Garantin, die durch Vermögensgegenstände besichert sind, die nicht zur Besicherung der betreffenden Garantie dienen, und zwar in der Höhe des Wertes der Vermögensgegenstände, die diese Verbindlichkeiten besichern;
- sind gleichrangig mit allen bestehenden und künftigen Verbindlichkeiten der betreffenden Garantin, die gegenüber der betreffenden Garantie nicht nachrangig sind;
- sind vorrangig vor allen bestehenden und künftigen Verbindlichkeiten der betreffenden Garantin, die gegenüber der betreffenden Garantie nachrangig sind; und
- sind faktisch vorrangig vor allen bestehenden und künftigen unbesicherten Verbindlichkeiten der

betreffenden Garantin, und zwar in Höhe der Vermögensgegenstände, die die betreffende Garantie besichern.

Vorbehaltlich bestimmter Voraussetzungen und Ausnahmeregelungen werden Tochtergesellschafts-Garantien (einschließlich Tochtergesellschafts-Garantien, die am Tag der Begebung wirksam bestehen) unter bestimmten Umständen, darunter die Freigabe aller anderen von der betreffenden Tochtergesellschaft-Garantin gestellten Garantien für Verbindlichkeiten der Emittentin oder einer Garantin, automatisch und unbedingt freigegeben. Zudem gelten für die Wirksamkeit und Durchsetzbarkeit der Tochtergesellschafts-Garantien bestimmte Beschränkungen. Siehe dazu die Abschnitte „*Risikofaktoren—Risiken in Bezug auf die Garantien und die Sicherheiten*" (*Risk factors—Risks related to the Guarantees and the Collateral*) und „*Beschreibung der Schuldverschreibungen*" (*Description of the Notes*).

Der Anleihevertrag (der „**Anleihevertrag**") (*Indenture*), der am Begebungstag abgeschlossen wird, sieht vor, dass, solange die Sicherheitenpool- und Gläubigervereinbarung (*Security Pooling and Intercreditor Agreement*) (wie nachstehend definiert) (bzw. eine etwaige zusätzliche Sicherheitenpool- und Gläubigervereinbarung) wirksam besteht, sämtliche Zahlungen auf eine Garantie bei oder nach Eintritt einer Verwertungsmaßnahme gemäß der Sicherheitenpool- und Gläubigervereinbarung (wie nachstehend definiert) nur an den Allgemeinen Sicherheitentreuhänder (*General Security Trustee*) erfolgen können (und der Treuhänder (*Trustee*) sowie vorbehaltlich der Bestimmungen des Anleihevertrags die Gläubiger der Schuldverschreibungen im Zusammenhang mit Forderungen oder Ansprüchen aus einer Garantie nur verlangen können, dass solche Zahlungen an den Allgemeinen Sicherheitentreuhänder geleistet werden) und sodann gemäß der Sicherheitenpool- und Gläubigervereinbarung (wie nachstehend definiert) (bzw. einer etwaigen zusätzlichen Sicherheitenpool- und Gläubigervereinbarung) verwendet werden.

**Besicherung** . . . . . Vorbehaltlich der Bestimmungen der Sicherheitendokumente und einer Sicherheitenpool- und Gläubigervereinbarung vom 27. Januar 2012 (in der jeweils geltenden Fassung, die „**Sicherheitenpool- und Gläubigervereinbarung**") sind die Verpflichtungen der Emittentin aus den Schuldverschreibungen sowie die Verpflichtungen der Garantinnen aus der Garantie im Rahmen des Anleihevertrags wie folgt besichert:

- durch Pfandrechte am Grundkapital der Emittentin (die "**Emittenten-Anteilsverpfändung**"), jeder

Tochtergesellschafts-Garantin, der Schaeffler Iberia S.L.U. (*Spanien*), jeder von Beschränkungen betroffenen Tochtergesellschaft, über die Anteile an einer Tochtergesellschaft-Garantin oder an der Schaeffler Iberia S.L.U. (*Spanien*) gehalten werden, der Schaeffler Familienholding Drei GmbH & Co. KG (*Deutschland*), Schaeffler Immobilien AG & Co. KG (*Deutschland*) und die Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung (*Deutschland*);

- durch Pfandrechte am gesamten Grundkapital der Continental AG, welches von der Muttergesellschaft-Garantin und ihren von Beschränkungen betroffenen Tochtergesellschaften gehalten wird;
- durch Pfandrechte an bestimmten (derzeitigen und künftigen) Cashpool-Konten der Muttergesellschaft-Garantin und der von Beschränkungen betroffenen Tochtergesellschaften;
- durch Pfandrechte an oder eine Sicherungsabtretung von bestimmten konzerninternen Darlehensforderungen der Muttergesellschaft-Garantin und ihrer von Beschränkungen betroffenen Tochtergesellschaften, einschließlich Forderungen aus dem Schuldverschreibungserlösdarlehen (*Note Proceeds Loa*n) (die ,,**Erlösdarlehensabtretung**" (*Proceeds Loan Assignment*)); und
- durch Pfandrechte an oder eine Sicherungsabtretung von bestimmten Forderungsbeständen.

Die Pfandrechte, durch die die Schuldverschreibungen besichert sind, werden faktisch gleichrangig sein mit den erstrangigen Pfandrechten zur Besicherung ausstehender Verpflichtungen aus von der Emittentin begebenen 7.75 % besicherten Senior-Schuldverschreibungen fällig 2017 mit einem Gesamtnennbetrag von € 800.000.000, 7.75 % besicherten Senior-Schuldverschreibungen fällig 2017 mit einem Gesamtnennbetrag von $ 600.000.000, 8.75 % besicherten Senior-Schuldverschreibungen fällig 2019 mit einem Gesamtnennbetrag von € 400.000.000 und 8.50 % besicherten Senior-Schuldverschreibungen fällig 2019 mit einem Gesamtnennbetrag von $ 500.000.000 ausgegeben am 9. Februar 2012 (zusammen die ,,**Bestehenden Schuldverschreibungen**" (*Existing Notes*)) sowie mit einem Kreditvertrag über ein Senior-Laufzeitdarlehen und revolvierende Mehrwährungs-Kreditfazilitäten vom 27. Januar 2012 zwischen dem Unternehmen, den Tochtergesellschaft-Garantinnen und der Schaeffler Iberia S.L.U. (*Spanien*) (in der durch eine Änderungsvereinbarung vom 20. Februar 2012 geänderten Fassung, der ,,**Neue Senior-Darlehensvertrag**" (*New Senior Facilities Agreement*)) und bestimmten Hedging-Verpflichtungen

gemäß den Bestimmungen der Sicherheitenpool- und Gläubigervereinbarung, die vorsieht, dass etwaige Erlöse aus einer Durchsetzung der Sicherheitendokumente zu gleichen Teilen und im gleichen Verhältnis zwischen den Gläubigern der Schuldverschreibungen und etwaigen Verbindlichkeiten aufzuteilen sind, die jetzt oder künftig der Sicherheitenpool- und Gläubigervereinbarung unterliegen, einschließlich der Bestehenden Schuldverschreibungen und etwaiger sonstiger Verbindlichkeiten aus dem Neuen Senior-Darlehensvertrag und bestimmten Hedging-Verpflichtungen.

Vorbehaltlich bestimmter Bedingungen und Ausnahmeregelungen werden die die Sicherheiten (*Collateral*) bildenden Sicherungsrechte unter bestimmten Umständen freigegeben, darunter bei Freigabe aller Sicherungsrechte (mit Ausnahme der zulässigen Sicherungsrechte) an diesen Sicherheiten.

Siehe dazu den Abschnitt ,,*Beschreibung der Schuldverschreibungen—Besicherung*" (*Description of the Notes—Security*).

Die Sicherheitenpool- und Gläubigervereinbarung schränkt die Fähigkeit des Treuhänders und der Gläubiger der Schuldverschreibungen zur Erteilung von Weisungen an die Sicherheitentreuhänder (*Security Trustees*) bezüglich der Einleitung von Verwertungsmaßnahmen ein. Der jeweilige Sicherheitentreuhänder handelt ausschließlich auf Weisung einer Weisungserteilenden Gruppe (*Instructing Group*) (wie nachstehend definiert). Ein Beschluss zur Erteilung von Weisungen an den jeweiligen Sicherheitentreuhänder in Bezug auf Maßnahmen im Rahmen der Sicherheitenpool- und Gläubigervereinbarung ist gefasst, wenn der Gesamtnennbetrag von Schuldverschreibungen, die der Sicherheitenpool- und Gläubigervereinbarung unterliegen (also zunächst die Schuldverschreibungen und die Bestehenden Schuldverschreibungen), und der Gesamtbetrag von Zusagen aus Kreditverträgen, die der Sicherheitenpool- und Gläubigervereinbarung unterliegen (also zunächst der Neue Senior-Darlehensvertrag), der für den Beschluss gestimmt hat (oder eine entsprechende Stimmabgabe als erfolgt gilt), größer ist als der Gesamtnennbetrag von Schuldverschreibungen und der Gesamtbetrag von Zusagen aus Kreditverträgen, der gegen den Beschluss gestimmt hat (oder eine entsprechende Stimmabgabe als erfolgt gilt). Bei der Berechnung der Stimmen rechnet der Allgemeine Sicherheitentreuhänder Stimmen, die in Bezug auf Schuldverschreibungen oder Zusagen abgegeben werden, die auf andere Währungen als den Euro lauten, in Euro um. Jede

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| | Entscheidung, Weisung oder Zustimmung, bei der gemäß der Sicherheitenpool- und Gläubigervereinbarung eine Beschlussfassung in der vorstehend beschriebenen Weise erforderlich ist, wird als Entscheidung, Weisung oder Zustimmung der **Weisungserteilenden Gruppe** bezeichnet. Siehe dazu die Abschnitte „*Risikofaktoren—Risiken in Bezug auf die Garantien und die Sicherheiten—Eine Weisung zur Verwertung der Sicherheiten kann von den Gläubigern nur unter bestimmten eingeschränkten Umständen erteilt werden*" (*Risk factors—Risks related to the Guarantees and the Collateral—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances*), „*Beschreibung anderer Verbindlichkeiten—Sicherheitenpool- und Gläubigervereinbarung—Verwertung der Transaktionssicherheiten*" (*Description of other indebtedness—Security Pooling and Intercreditor Agreement—Enforcement of Transaction Security*), „*Beschreibung der sonstigen Verbindlichkeiten—Sicherheitenpool- und Gläubigervereinbarung—Entscheidungen der Weisungserteilenden Gruppe*" (*Description of other indebtedness—Security Pooling and Intercreditor Agreement—Decisions of the Instructing Group*) und „*Beschreibung der Schuldverschreibungen—Besicherung—Verwertung der Sicherheiten*" (*Description of the Notes—Security—Enforcement of security*). |
| **Freiwillige Rückzahlung** . . . . . | Die Emittentin kann die Schuldverschreibungen ab dem 1. Juli 2014 jederzeit insgesamt oder teilweise zu dem in diesem Prospekt festgelegten Rückzahlungspreis zuzüglich der bis zum Zeitpunkt der Rückzahlung angefallenen und nicht gezahlten Zinsen freiwillig zurückzahlen.<br><br>Die Emittentin kann die Schuldverschreibungen vor dem 1. Juli 2014 jederzeit teilweise oder insgesamt zu einem Preis in Höhe von 100 % des Nennbetrags zuzüglich aufgelaufener und nicht gezahlter Zinsen sowie zuzüglich eines Ausgleichsbetrags zurückzahlen.<br><br>Darüber hinaus kann die Schaeffler Gruppe vor dem 1. Juli 2014 nach ihrer Wahl bis zu 40 % des ursprünglichen Nennbetrags der Schuldverschreibungen unter Verwendung des Erlöses aus bestimmten Aktienangeboten zurückzahlen.<br><br>Siehe dazu den Abschnitt „*Beschreibung der Schuldverschreibungen—Freiwillige Rückzahlung*" (*Description of the Notes—Optional Redemption*). |
| **Freiwillige Rückzahlung aus steuerlichen Gründen** . . . . . | Die Emittentin kann die Schuldverschreibungen darüber hinaus jederzeit insgesamt, aber nicht teilweise aus steuerlichen Gründen zurückzahlen, wenn die Emittentin bzw. die Muttergesellschaft-Garantin infolge einer |

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| | Änderung oder Ergänzung der Gesetze oder Vorschriften der für die Emittentin bzw. die Muttergesellschaft-Garantin in steuerlicher Hinsicht maßgeblichen Rechtsordnung (einschließlich einer Ergänzung oder Änderung in Bezug auf die amtliche Auslegung oder Anwendung dieser Gesetze oder Vorschriften), die die Besteuerung oder die Verpflichtung zur Leistung von Abgaben gleich welcher Art betreffen, zur Zahlung von Zusatzbeträgen (*Additional Amounts*) verpflichtet ist. Siehe dazu den Abschnitt „*Beschreibung der Schuldverschreibungen—Rückzahlung aufgrund steuerlicher Änderungen*" (*Description of the Notes—Redemption for changes in Taxes*). |
| **Zusatzbeträge** . . . . . | Alle Zahlungen der Emittentin oder einer Garantin auf die Schuldverschreibungen oder auf Schuldverschreibungs-Garantien (*Note Guarantees*) erfolgen ohne Einbehalt oder Abzug von Steuern in (1) der Rechtsordnung, in der die Emittentin oder eine Garantin zu dem jeweiligen Zeitpunkt errichtet ist oder besteht oder in steuerlicher Hinsicht als geschäftstätig oder anderweitig ansässig eingestuft ist, oder einer dieser Rechtsordnung zugehörigen Gebietskörperschaft oder (2) der Rechtsordnung einer Zahlstelle (*Paying Agent*) oder einer dieser Rechtsordnung zugeordneten Gebietskörperschaft (jeweils eine „**Besteuernde Rechtsordnung**" (*Tax Jurisdiction*)), soweit ein solcher Einbehalt oder Abzug nicht gesetzlich vorgeschrieben ist. Ist die Emittentin gesetzlich verpflichtet, in der jeweiligen Besteuernden Rechtsordnung einen Steuereinbehalt oder -abzug von einer Zahlung an die Gläubiger der Schuldverschreibungen oder an die Begünstigen einer Schuldverschreibungs-Garantie vorzunehmen, so zahlt die Emittentin vorbehaltlich bestimmter Ausnahmeregelungen diejenigen Zusatzbeträge, die erforderlich sind, damit der von den Gläubigern der Schuldverschreibungen bzw. den Begünstigen einer Schuldverschreibungs-Garantie nach einem solchen Einbehalt vereinnahmten Beträge nicht geringer sind als die Beträge, die sie ohne diesen Einbehalt vereinnahmt hätten. Siehe dazu den Abschnitt „*Beschreibung der Schuldverschreibungen—Zusatzbeträge*" (*Description of the Notes—Additional Amounts*). |
| **Änderung der Beherrschungsverhältnisse** . . . . . | Bei Eintritt bestimmter Änderungen der Beherrschungsverhältnisse ist die Emittentin verpflichtet, den Rückkauf der Schuldverschreibungen zu einem Kaufpreis in Höhe von 101 % ihres Gesamtnennwerts zuzüglich etwaiger zum Datum dieses Rückkaufs aufgelaufener, aber nicht gezahlter Zinsen und Zusatzbeträge anzubieten. Siehe dazu den Abschnitt „*Beschreibung der Schuldverschreibungen—Rückkauf nach Wahl der Gläubiger—Kontrollwechsel*" |

(*Description of the Notes—Repurchase at the option of the Holders—Change of Control*).

**Bestimmte Verpflichtungserklärungen** . . . . . Durch den Anleihevertrag werden der Schaeffler Gruppe u. a. in folgenden Bereichen Einschränkungen auferlegt:

- bei der Aufnahme zusätzlicher Verbindlichkeiten und der Übernahme diesbezüglicher Garantien sowie bei der Begebung bestimmter Vorzugsaktien;
- bei der Zahlung von Dividenden auf das Grundkapital des Unternehmens sowie dessen Rückzahlung oder Rückkauf;
- bei der Leistung bzw. Vornahme von bestimmten, Beschränkungen unterliegenden Zahlungen und Investitionen, darunter die Leistung von Dividenden oder sonstigen Ausschüttungen auf die Aktien des Unternehmens oder ihrer von Beschränkungen betroffenen Tochtergesellschaften;
- bei der Begründung bestimmter Sicherheiten;
- beim Abschluss von Verträgen, die die Fähigkeit der Tochtergesellschaften der Schaeffler Gruppe zur Zahlung von Dividenden einschränken;
- bei der Übertragung oder beim Verkauf von Vermögenswerten;
- bei Zusammenschlüssen mit anderen Unternehmen;
- beim Abschluss bestimmter Rechtsgeschäfte mit verbundenen Unternehmen; und
- bei der Beeinträchtigung der Sicherungsrechte zugunsten der Gläubiger der Schuldverschreibungen.

In Bezug auf jede Verpflichtungserklärung gelten eine Reihe wesentlicher Ausnahmeregelungen und Vorbehalte. Siehe dazu den Abschnitt ,,*Beschreibung der Schuldverschreibungen—Bestimmte Verpflichtungserklärungen*" (*Description of the Notes—Certain covenants*).

**Verkaufsbeschränkungen** . . . . . Die Schuldverschreibungen und Garantien wurden und werden nicht gemäß dem US-Wertpapiergesetz (*US Securities Act*) registriert und dürfen vorbehaltlich bestimmter Ausnahmeregelungen nicht innerhalb der Vereinigten Staaten angeboten oder verkauft werden. Ein Verkauf der Schuldverschreibungen außerhalb der Vereinigten Staaten ist nur nach Maßgabe der Regulation S zum US-Wertpapiergesetz sowie in Übereinstimmung mit den anwendbaren Gesetzen und Vorschriften zulässig. Siehe dazu den Abschnitt ,,*Zeichnung, Angebot und Verkauf*" (*Subscription, Offer and Sale*) ab Seite 466.

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| **Öffentliches Angebot** . . . . . | Die Schuldverschreibungen können in Deutschland und Luxemburg im Rahmen eines öffentlichen Angebots vertrieben werden. Bestimmungen und Beschränkungen in Bezug auf öffentliche Angebote von Schuldverschreibungen im Europäischen Wirtschaftsraum sind dem Abschnitt „*Zeichnung, Angebot und Verkauf*" (*Subscription, Offer and Sale*) zu entnehmen. |
| **Erlösverwendung** . . . . . | Teilweise Rückzahlung von im Rahmen des Neuen Senior-Darlehensvertrag ausstehenden Beträgen sowie Zahlung von Gebühren und Aufwendungen. |
| **Börsennotierung und Zulassung zum Handel** . . . . . | Die Zulassung der Schuldverschreibungen zum Amtlichen Handel (*Official List*) sowie zum Handel im geregelten Markt wurde bei der Luxemburger Wertpapierbörse beantragt. |
| **Börsenzulassungsstelle** . . . . . | Deutsche Bank Luxembourg S.A. |
| **Auf die Schuldverschreibungen und den Anleihevertrag sowie die Garantien anwendbares Recht** . . . . . | New York. |
| **Auf die Sicherheitenpool- und Gläubigervereinbarung anwendbares Recht** . . . . . | England. |
| **Auf die Sicherheitendokumente anwendbares Recht** . . . . . | Brasilien, Deutschland, England, Frankreich, Hongkong, Österreich, Rumänien, Schweiz, Slowakei, Spanien und Ungarn sowie US-Bundesstaat New York. |
| **Treuhänder** . . . . . | Deutsche Trustee Company Limited. |
| **Luxemburger Registerstelle, Übertragungsstelle und Zahlstelle** . . . | Deutsche Bank Luxembourg S.A. |
| **Hauptzahlstelle** . . . . . | Deutsche Bank AG, Niederlassung London |
| **Allgemeiner Sicherheitentreuhänder (*General Security Trustee*)** . . . . . | Deutsche Bank Luxembourg S.A. |
| **Sicherheitentreuhänder für die Continental-Aktien (*Continental Shares Security Trustee*)** . . . . . | Commerzbank Aktiengesellschaft, Niederlassung Luxemburg. |
| **Risikofaktoren** . . . . . | Eine Anlage in die Schuldverschreibungen ist mit erheblichen Risiken verbunden. Vor einer Entscheidung über eine Anlage in die Schuldverschreibungen sollten Anleger alle Angaben in diesem Prospekt gründlich prüfen und insbesondere eine Bewertung der spezifischen, im Abschnitt „*Risikofaktoren*" (*Risk Factors*) dieses Prospekts dargestellten Risikofaktoren vornehmen. |

# Zusammenfassung der Risikofaktoren

## Risiken in Bezug auf die Emittentin

Die Emittentin ist eine Zweckgesellschaft und 100%ige Tochtergesellschaft der Muttergesellschaft-Garantin. Die Emittentin hat kein eigenes operatives Geschäft. Die Fähigkeit zur Erfüllung ihrer Zahlungsverpflichtungen im Rahmen der Schuldverschreibungen hängt von der Finanz- und Ertragslage der Muttergesellschaft-Garantin ab sowie von der Ausschüttung der von den Tochtergesellschaften der Muttergesellschaft-Garantin erzielten Gewinne.

## Risiken in Bezug auf die Schuldverschreibungen

Die Schuldverschreibungen sind eine möglicherweise nicht für alle Anleger geeignete Anlage.

Die Interessen der Gesellschafter des Unternehmens können im Widerspruch zu denen der Anleger stehen.

Die Schuldverschreibungen sind gegenüber den Verbindlichkeiten der Tochtergesellschaften, die keine Garantinnen sind, und soweit Einschränkungen in Bezug auf die Durchsetzbarkeit der Tochtergesellschafts-Garantien bestehen, auch gegenüber den Verbindlichkeiten der Tochtergesellschaft-Garantinnen, für die keine solchen Einschränkungen bestehen, strukturell nachrangig.

Die Schuldverschreibungen und die Garantien sind gegenüber den Verbindlichkeiten der Schaeffler Gruppe insoweit faktisch nachrangig, als diese durch Vermögenswerte besichert sind, die nicht gleichzeitig auch der Besicherung der Schuldverschreibungen dienen.

Trotz den sehr hohen Verbindlichkeiten der Schaeffler Gruppe können die Muttergesellschaft-Garantin und ihre Tochtergesellschaften weiterhin in erheblichem Umfang Schulden aufnehmen, was die mit den erheblichen Verbindlichkeiten verbundenen Risiken weiter erhöhen könnte.

Obwohl der Eintritt bestimmter Änderungen der Beherrschungsverhältnisse die Gläubiger (*Holders*) berechtigt, die Rückzahlung oder den Rückkauf der Schuldverschreibungen zu verlangen, ist die Emittentin möglicherweise zu einer Rückzahlung oder einem Rückkauf dieser Schuldverschreibungen nicht in der Lage.

Der Neue Senior-Darlehensvertrag und die Sicherheitenpool- und Gläubigervereinbarung schränken die Schaeffler Gruppe in ihrer Fähigkeit zur Rückzahlung der Schuldverschreibungen oder zur Vornahme bestimmter Änderungen in Bezug auf die Schuldverschreibungen ein.

Die Schaeffler Gruppe ist möglicherweise nicht in der Lage, in ausreichendem Maße Cashflows zu generieren, um ihren Schuldendienstverpflichtungen nachzukommen.

Die Emittentin ist als Finanzierungsgesellschaft für die Schaeffler Gruppe tätig, verfügt mit Ausnahme von Forderungen gegen die Muttergesellschaft aus Konzerndarlehen über keine wesentlichen Vermögenswerte oder Einnahmequellen und ist auf Ausschüttungen der Tochtergesellschaften der Muttergesellschaft-Garantin angewiesen, um ihren Schuldendienstverpflichtungen nachkommen und die Schuldverschreibungen zurückzahlen zu können.

Es besteht kein aktiver Markt für den öffentlichen Handel mit den Schuldverschreibungen, und möglicherweise kommt ein solcher Markt auch nicht zustande.

Eine Übertragung der Schuldverschreibungen ist nur eingeschränkt möglich, was sich nachteilig auf ihren Wert auswirken kann.

Kreditratings tragen unter Umständen nicht allen Risiken Rechnung, stellen keine Empfehlung dar, Wertpapiere zu kaufen oder zu halten, und können jederzeit geändert, ausgesetzt oder zurückgenommen werden.

Die Schuldverschreibungen werden in buchmäßiger Form geführt und die Investoren sind zur Ausübung ihrer Rechte und Ansprüche somit auf die Verfahren des entsprechenden Clearingsystems angewiesen.

Bestimmte Verpflichtungen werden bei Eintritt einer Änderung der Ratings der Schuldverschreibungen aufgehoben.

Der Preis, zu dem Berechtigte Mitarbeiter Schuldverschreibungen im Rahmen des Mitarbeiterangebots zeichnen können, kann über dem Preis liegen, zu dem sie die Schuldverschreibungen im Markt hätten erwerben können.

## Risiken in Bezug auf die Garantien und die Sicherheiten

Der Großteil der Anteile an den Tochtergesellschaften der Schaeffler Gruppe, die als Sicherheit dienen, sind für deutsche Steuerzwecke sperrfristbehaftete Anteile, was sich nachteilig auf den Wert der Sicherheiten auswirken könnte.

Die Erlöse aus der Verwertung der Garantien und der Sicherheiten reichen möglicherweise zur Erfüllung der Verpflichtungen aus den Schuldverschreibungen nicht aus.

Eine Weisung zur Verwertung der Sicherheiten kann von den Gläubigern nur unter bestimmten eingeschränkten Umständen erteilt werden.

Nach lokalem Recht sind die Ansprüche der Gläubiger möglicherweise nicht mit erstrangigen bestehenden besicherten Verbindlichkeiten, darunter Verbindlichkeiten aus dem Neuen Senior-Darlehensvertrag und den Bestehenden Schuldverschreibungen, gleichrangig, und Anleger müssen darauf vertrauen, dass durch die Sicherheitenpool- und Gläubigervereinbarung erstrangige Sicherungsrechte an den Sicherheiten begründet werden.

Die Sicherheiten werden nicht unmittelbar zugunsten der Gläubiger bestellt, und folglich bestehen im Hinblick auf die Fähigkeit der Sicherheitentreuhänder zur Verwertung der Sicherheiten nach lokalem Recht Unsicherheiten.

Gesetzliche Bestimmungen über kollektivschädliche Rechtshandlungen sowie sonstige Einschränkungen hinsichtlich der Verwertbarkeit und der Höhe der Garantien und der Sicherheiten könnten deren Wirksamkeit und Verwertbarkeit beeinträchtigen.

Lokale insolvenzrechtliche Bestimmungen sind möglicherweise nicht so anlegerfreundlich, wie dies in anderen, dem Anleger vertrauten Rechtsordnung der Fall ist, und verhindern möglicherweise die Beitreibung von auf die Schuldverschreibungen fälligen Zahlungen durch die Gläubiger.

Tochtergesellschafts-Garantien und Sicherheiten können ohne die Zustimmung der Gläubiger freigegeben oder beeinträchtigt werden, und unter bestimmten Umständen könnten die durch die Schuldverschreibungen begründeten Verpflichtungen nicht länger besichert sein und den Schutz durch alle Tochtergesellschafts-Garantien verlieren.

Nicht alle Vermögenswerte dienen als Sicherheiten.

Die Sicherheiten reichen möglicherweise nicht aus, um Zahlungen auf alle oder einzelne Schuldverschreibungen zu leisten.

Die Kontrolle über die Sicherheiten liegt in der Hand der Emittentin und der übrigen Bereitsteller von Sicherheiten, und der Pool der zur Besicherung der Schuldverschreibungen dienenden Vermögenswerte könnte durch den Verkauf bestimmter Vermögenswerte verringert werden.

Die Sicherheiten lassen sich möglicherweise nicht problemlos verwerten.

Die Garantien und die Sicherheiten sind möglicherweise im Rahmen eines Insolvenzverfahrens anfechtbar.

Die Rechte der Anleger an den Sicherheiten sind möglicherweise dadurch beeinträchtigt, dass die Sicherungsrechte an den Sicherheiten nicht wirksam bestellt werden.

Die Verwertung der Garantien in mehreren Rechtsordnungen ist möglicherweise mit Schwierigkeiten verbunden.

Die Verwertung der Sicherheiten in mehreren Rechtsordnungen ist möglicherweise mit Schwierigkeiten verbunden.

## Risiken in Bezug auf die Märkte, in denen die Schaeffler Gruppe tätig ist

Die Schaeffler Gruppe ist erheblichen Risiken im Zusammenhang mit der weltweiten konjunkturellen Entwicklung und der Schuldenkrise in der Eurozone ausgesetzt.

Die Schaeffler Gruppe ist in einer zyklischen Branche tätig.

Das Geschäftsumfeld der Schaeffler Gruppe ist durch harten Wettbewerb geprägt, der zu sinkenden Erträgen oder einem anhaltenden Preisdruck führen könnte.

Die Bemühungen der Schaeffler Gruppe, ihre Aktivitäten in bestimmte Märkte auszudehnen, unterliegen verschiedenen geschäftlichen, wirtschaftlichen, rechtlichen sowie politischen Risiken.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit Markttrends und -entwicklungen ausgesetzt.

## Risiken in Bezug auf den Geschäftsbetrieb der Schaeffler Gruppe

Die Schaeffler Gruppe ist beim Verkauf ihrer Produkte von großen OEM und deren direkten Zulieferern abhängig.

Die Schaeffler Gruppe ist bei bestimmten Produkten von einer begrenzten Anzahl wichtiger Zulieferer abhängig.

Die Schaeffler Gruppe ist Preisschwankungen bei Rohstoffen und Energie ausgesetzt.

Die Schaeffler Gruppe ist möglicherweise nicht in der Lage, ihre Wachstumsstrategie durch Expandierung in schnell wachsende Schwellenmärkte erfolgreich umzusetzen.

Der zukünftige geschäftliche Erfolg der Schaeffler Gruppe hängt von ihrer Fähigkeit ab, die hohe Qualität ihrer Produkte aufrechtzuerhalten.

Die Schaeffler Gruppe ist möglicherweise nicht in der Lage, ihre technologische Führungsposition zu halten.

Die Schaeffler Gruppe ist von ihrer Fähigkeit abhängig, ausreichende Mittel für ihre Forschungs- und Entwicklungsbestrebungen sicherzustellen.

Der Geschäftsbetrieb der Schaeffler Gruppe ist von qualifizierten Führungskräften und Mitarbeitern in Schlüsselpositionen abhängig.

Streiks und andere arbeitsrechtliche Auseinandersetzungen könnten sich nachteilig auf das Geschäft der Schaeffler Gruppe auswirken.

Die Schaeffler Gruppe ist im Rahmen ihrer Betriebstätigkeit auf komplexe IT-Systeme und -Netzwerke angewiesen.

Ein Vermögensverlust oder eine unvorhergesehene Betriebsunterbrechung könnte sich nachteilig auf die Schaeffler Gruppe auswirken.

## Risiken in Bezug auf die Finanzlage der Schaeffler Gruppe

Der hohe Fremdkapitalanteil und die hohen Schuldendienstverpflichtungen der Schaeffler Gruppe könnten sich in wesentlicher Hinsicht nachteilig auf das Geschäft der Gruppe auswirken und ihren Schuldendienst, auch in Bezug auf die Schuldverschreibungen, und ihren Geschäftsbetrieb erschweren.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit den Finanzierungen auf der Ebene der Muttergesellschaften ausgesetzt.

Aufgrund ihrer hohen Verschuldung ist die Schaeffler Gruppe möglichen Liquiditätsrisiken ausgesetzt.

Die Schaeffler Gruppe ist verschiedenen Risiken im Zusammenhang mit dem Neuen Senior-Darlehensvertrag ausgesetzt.

Bestehende und zukünftige Schuldtitel sehen wahrscheinlich vertragliche Handlungsbeschränkungen und Bestimmungen zu einer Änderung der Beherrschungsverhältnisse vor.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit ihrer Aktienbeteiligung an der Continental AG ausgesetzt.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit Wechselkursänderungen und Sicherungsgeschäften ausgesetzt.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit Zinsänderungen und damit verbundenen Sicherungsgeschäften ausgesetzt.

Möglicherweise ist die Schaeffler Gruppe zur Rückzahlung von Investitionszulagen und Investitionszuschüssen verpflichtet oder bereits zugesagte Investitionszulagen werden nur teilweise oder überhaupt nicht ausgezahlt.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit ihren Pensionszusagen ausgesetzt.

## Rechtliche, steuerliche und Umweltrisiken

Die Schaeffler Gruppe ist Gegenstand branchenweiter kartellrechtlicher Untersuchungen, die kartellrechtliche Geldbußen und damit verbundene Schadenersatzklagen zur Folge haben könnten.

Die Schaeffler Gruppe ist Gewährleistungs- und Produkthaftungsansprüchen ausgesetzt.

Der Schaeffler Gruppe gelingt es möglicherweise nicht, ihr geistiges Eigentum und ihre technische Expertise angemessen zu schützen.

Es besteht das Risiko, dass die Schaeffler Gruppe geistige Eigentumsrechte Dritter verletzt.

Möglicherweise hat die Schaeffler Gruppe Rechte an Arbeitnehmererfindungen nicht wirksam erworben oder wird diese in Zukunft nicht wirksam erwerben.

Der Schaeffler Gruppe können zusätzliche Kosten aufgrund von Branchentarifverträgen entstehen, die für ihre Arbeitnehmer in Deutschland gelten.

Die Schaeffler Gruppe ist Risiken im Zusammenhang mit Gerichts-, Verwaltungs- oder Schiedsverfahren ausgesetzt.

Fast alle Anteile an den Gesellschaften der Schaeffler Gruppe (mit Ausnahme der Aktien an der Continental AG) sowie bestimmte Anteile an anderen Gesellschaften der IHO Gruppe sind für deutsche Steuerzwecke sperrfristbehaftete Anteile.

Die Schaeffler Gruppe könnte Steuerrisiken in Bezug auf frühere Veranlagungszeiträume ausgesetzt sein.

Das Unternehmen unterliegt der in Deutschland geltenden Zinsschrankenregelung.

Die Schaeffler Gruppe könnte für Boden-, Wasser- oder Grundwasserverunreinigungen oder für mit Gefahrstoffen verbundene Risiken haftbar gemacht werden.

Die Schaeffler Gruppe könnte in Zukunft zusätzlichen, mit Kosten verbundenen Umwelt- und Sicherheitsvorschriften unterliegen, und zusätzliche Vorschriften könnten sich nachteilig auf die Nachfrage nach ihren Produkten und Dienstleistungen auswirken.

## Risiken in Bezug auf die Tochtergesellschaften als Garanten

Das Geschäft jeweils von Egon von Ruville GmbH (*Deutschland*), FAG Aerospace GmbH & Co. KG (*Deutschland*), FAG Kugelfischer GmbH (*Deutschland*), IAB Holding GmbH (*Deutschland*), IAB Verwaltungs GmbH (*Deutschland*), INA Beteiligungsverwaltungs GmbH (*Deutschland*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Deutschland*), LuK GmbH & Co. KG (*Deutschland*), LuK Vermögensverwaltungsgesellschaft mbH (*Deutschland*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Deutschland*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Deutschland*), Schaeffler Technologies AG & Co. KG (*Deutschland*), WPB Water Pump Bearing GmbH & Co. KG (*Deutschland*), Schaeffler Austria GmbH (*Österreich*), Schaeffler Brasil Ltda. (*Brasilien*), Schaeffler France SAS (*Frankreich*), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Ungarn*), S.C. Schaeffler Romania S.R.L. (*Rumänien*), INA Kysuce, a.s. (*Slowakei*), INA SKALICA spol. s r.o. (*Slowakei*), LuK (UK) Limited (*Vereinigtes Königreich*), Schaeffler (UK) Limited (*Vereinigtes Königreich*), Schaeffler Automotive Aftermarket (UK) Ltd. (*Vereinigtes Königreich*), The Barden Corporation (UK) Ltd. (*Vereinigtes Königreich*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) und Schaeffler Group USA Inc. (*Delaware, USA*) (die **Tochtergesellschaft-Garantinnen**) und damit der Wert jeder Tochtergesellschafts-Garantie ist einer Reihe von Risiken ausgesetzt, die mit den die Schaeffler Gruppe insgesamt betreffenden Risiken vergleichbar sind. Diese Risiken können sich in wesentlicher Hinsicht nachteilig auf die Nettovermögenswerte und die Finanz- und Ertragslage jeder Tochtergesellschaft-Garantin sowie die Fähigkeit zur Erfüllung der Verpflichtungen jeder Tochtergesellschaft-Garantin im Rahmen Tochtergesellschafts-Garantien auswirken.

Jede der Tochtergesellschaft-Garantinnen (mit Ausnahme der Schaeffler Beteiligungsholding GmbH & Co. KG, bei der die Schaeffler AG die Kommanditistin (100 %) und die Schaeffler Familienholding Drei GmbH & Co. KG die Komplementärin ist) ist eine 100%ige Tochtergesellschaft der Muttergesellschaft-Garantin. Entsprechend gelten die vorstehend genannten Risiken in Bezug auf die Schaeffler Gruppe auch für das jeweilige Geschäft jeder Tochtergesellschaft-Garantin.

Gesonderte Finanzinformationen zu jeder Tochtergesellschaft-Garantin sind in diesem Prospekt weder enthalten noch durch Verweis einbezogen, da keine Einzelabschlüsse veröffentlicht werden. Die Konzernabschlüsse des Unternehmens enthalten jedoch Angaben zur Schaeffler Gruppe, zu der jede der Tochtergesellschaft-Garantinnen gehört.

## Zusammenfassung von allgemeinen Informationen über die Emittentin

Die Schaeffler Finance B.V. wurde am 14. Oktober 2011 nach dem Recht der Niederlande auf unbestimmte Zeit errichtet. Sie ist im niederländischen Handelsregister unter der Registrierungsnummer 53761790 eingetragen.

Die Schaeffler Finance B.V. hat ihren Sitz in Gildeweg 31, 3771 NB Barneveld, Niederlande, Telefon: +31 (0) 342-403288.

Die Schaeffler Finance B.V. ist als Gesellschaft mit beschränkter Haftung nach dem Recht der Niederlande errichtet.

Die Emittentin wurde als Zweckgesellschaft für Finanzierungsgeschäfte wie die Begebung der Bestehenden Schuldverschreibungen und die Begebung der Schuldverschreibungen errichtet.

Das genehmigte Stammkapital der Schaeffler Finance B.V. beträgt zum 31. Dezember 2011 € 90.000 und ist in 90.000 Anteile im Nennwert von je € 1,00 eingeteilt. Das ausgegebene Kapital der Schaeffler Finance B.V. beträgt zum 31. Dezember 2011 € 18.000 und ist in 18.000 Anteile im Nennwert von je € 1,00 eingeteilt, die alle vollständig eingezahlt sind.

Aufgrund der Begebung der Bestehenden Schuldverschreibungen belaufen sich die Verbindlichkeiten der Emittentin zum 31. März 2012 auf rund € 2.000 Mio.

## Zusammenfassung von allgemeinen Informationen über die Muttergesellschaft-Garantin

Die Schaeffler AG (bis zum 13. Oktober 2011 als Schaeffler GmbH und bis zum 28. Juni 2010 als Schaeffler Verwaltung Zwei GmbH firmierend) wurde am 29. September 2009 errichtet und ist im Handelsregister des Amtsgerichts Fürth unter HRB 13202 eingetragen. Sitz der Muttergesellschaft-Garantin ist Industriestraße 1-3, 91074 Herzogenaurach, Deutschland.

Nach Ziffer 2 der Satzung der Muttergesellschaft-Garantin ist der Gegenstand der Emittentin die Tätigkeit als Management-Holding, das heißt die Zusammenfassung von Unternehmen unter einheitlicher Leitung. Die Muttergesellschaft-Garantin darf Zweigniederlassungen einrichten sowie andere Unternehmen gründen, erwerben oder sich an ihnen beteiligen.

## Zusammenfassung von allgemeinen Informationen über die Tochtergesellschaft-Garantinnen

Die Schaeffler AG und ihre Tochtergesellschaften, inklusive der Tochtergesellschaft-Garantinnen, sind in zwei Hauptsparten tätig: Automotive und Industrie. Mit der Sparte Automotive, die in den zwölf Monaten zum 31. März 2012 über 60.000 Produkte an ca. 7.500 Kunden weltweit lieferte, erwirtschaftete die Gruppe in diesem Zeitraum etwa 67 % ihres Umsatzes. Mit der Sparte Industrie, die in den zwölf Monaten zum 31. März 2012 über 90.000 Produkte an ca. 17.000 Kunden aus etwa 60 verschiedenen Industriebranchen lieferte, erwirtschaftete die Schaeffler-Gruppe in diesem Zeitraum etwa 32 % ihres Umsatzes.

Die folgenden Gesellschaften sind anfängliche Tochtergesellschaft-Garantinnen:

Egon von Ruville GmbH (*Deutschland*), FAG Aerospace GmbH & Co. KG (*Deutschland*), FAG Kugelfischer GmbH (*Deutschland*), IAB Holding GmbH (*Deutschland*), IAB Verwaltungs GmbH (*Deutschland*), INA Beteiligungsverwaltungs GmbH (*Deutschland*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Deutschland*), LuK GmbH & Co. KG (*Deutschland*), LuK Vermögensverwaltungsgesellschaft mbH (*Deutschland*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Deutschland*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Deutschland*), Schaeffler Technologies AG & Co. KG (*Deutschland*), WPB Water

Pump Bearing GmbH & Co. KG (*Deutschland*), Schaeffler Austria GmbH (*Österreich*), Schaeffler Brasil Ltda. (*Brasilien*), Schaeffler France SAS (*Frankreich*), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Ungarn*), S.C. Schaeffler Romania S.R.L. (*Rumänien*), INA Kysuce, a.s. (*Slowakei*), INA SKALICA spol. s r.o. (*Slowakei*), LuK (UK) Limited (*Vereinigtes Königreich*), Schaeffler (UK) Limited (*Vereinigtes Königreich*), Schaeffler Automotive Aftermarket (UK) Ltd. (*Vereinigtes Königreich*), The Barden Corporation (UK) Ltd. (*Vereinigtes Königreich*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) und Schaeffler Group USA Inc. (*Delaware, USA*) (die **Tochtergesellschaft-Garantinnen**).

# Zusammenfassung der Konzernfinanzinformationen

*Die nachstehenden Tabellen fassen die Finanzinformationen der Schaeffler Gruppe zusammen und sind in Verbindung mit den geprüften Konzernabschlüssen für die zum 31. Dezember 2011 und 2010 endenden Geschäftsjahre sowie den ungeprüften Konzernzwischenabschlüssen für die zum 31. März 2012 und 2011 endenden Dreimonatszeiträume, die sämtlich in diesen Prospekt durch Verweis einbezogen sind, sowie dem Abschnitt „Darstellung und Analyse der Finanz-, Vermögens- und Ertragslage der Schaeffler Gruppe" zu lesen. Die nachstehenden zusammenfassenden Finanzinformationen sind den Konzernabschlüssen entnommen bzw. daraus abgeleitet. Diese Abschlüsse wurden nach den in der EU anzuwendenden International Financial Reporting Standards (IFRS) aufgestellt. Die Konzernabschlüsse der Schaeffler Gruppe für die zum 31. Dezember 2011 und 2010 endenden Geschäftsjahre wurden von KPMG geprüft und mit einem uneingeschränkten Bestätigungsvermerk versehen. Die Konzernzwischenabschlüsse für die zum 31. März 2012 und 2011 endenden Dreimonatszeiträume, die nach den in der EU anzuwendenden IFRS aufgestellt wurden, sind ungeprüft. Die nachstehend dargestellten Angaben sind kein verlässlicher Hinweis auf zukünftige Geschäftsergebnisse.*

## Ausgewählte Daten der Gewinn- und Verlustrechnung

| | Zum 31. Dezember endendes Geschäftsjahr | | | Dreimonatszeitraum zum 31. März | | Zwölfmonatszeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **In Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| **Umsatzerlöse** | **7.336** | **9.495** | **10.694** | **2.697** | **2.858** | **10.855** |
| Umsatzkosten | (5.552) | (6.506) | (7.463) | (1.835) | (1.973) | (7.601) |
| **Bruttoergebnis vom Umsatz** | **1.784** | **2.989** | **3.231** | **862** | **885** | **3.254** |
| Kosten der Forschung und Entwicklung | (384) | (467) | (495) | (121) | (147) | (521) |
| Kosten des Vertriebs | (526) | (645) | (725) | (173) | (191) | (743) |
| Kosten der allgemeinen Verwaltung | (405) | (366) | (408) | (101) | (127) | (434) |
| Sonstige Erträge | 458 | 375 | 330 | 61 | 27 | 296 |
| Sonstige Aufwendungen | (481) | (377) | (244) | (56) | (46) | (234) |
| **EBIT** | **446** | **1.509** | **1.689** | **472** | **401** | **1.618** |
| Finanzergebnis | (1.520) | (1.159) | (409) | 105 | (74) | (588) |
| **EBT**[(1)] | **(1.074)** | **350** | **1.280** | **577** | **327** | **1.030** |
| Ertragsteuern | (125) | (277) | (378) | (136) | (88) | (330) |
| **Konzernergebnis** | **(1.199)** | **73** | **902** | **441** | **239** | **700** |

## Ausgewählte Bilanzdaten

| | Zum 31. Dezember | | | Zum 31. März |
|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2012** |
| | | | | **(ungeprüft)** |
| ***Aktiva*** | | | | |
| Immaterielle Vermögenswerte | 618 | 575 | 553 | 554 |
| Sachanlagen | 3.129 | 3.041 | 3.328 | 3.392 |
| Anteile an at Equity bewerteten Beteiligungen | 5.472 | 5.252 | 4.772 | 4.908 |
| Sonstige langfristige Vermögenswerte | 511 | 463 | 481 | 520 |
| **Langfristige Vermögenswerte** | **9.730** | **9.331** | **9.134** | **9.374** |
| Vorräte | 1.162 | 1.482 | 1.562 | 1.603 |
| Forderungen aus Lieferungen und Leistungen | 1.144 | 1.443 | 1.607 | 1.885 |
| Zahlungsmittel und Zahlungsmitteläquivalente | 350 | 733 | 397 | 291 |
| Sonstige kurzfristige Vermögenswerte | 222 | 355 | 289 | 296 |
| **Kurzfristige Vermögenswerte** | **2.878** | **4.013** | **3.855** | **4.075** |
| **Bilanzsumme** | **12.608** | **13.344** | **12.989** | **13.449** |
| ***PASSIVA*** | | | | |
| **Eigenkapital**[(2)] | **2.852** | **3.341** | **1.714** | **1.617** |
| Rückstellungen für Pensionen und ähnliche Verpflichtungen | 1.120 | 1.111 | 1.217 | 1.282 |
| Finanzschulden | 6.420 | 6.413 | 7.168 | 7.155 |
| Sonstige langfristige Verbindlichkeiten | 707 | 768 | 636 | 725 |
| **Langfristige Verbindlichkeiten** | **8.247** | **8.292** | **9.021** | **9.162** |
| Finanzschulden | 61 | 64 | 317 | 300 |
| Verbindlichkeiten aus Lieferungen und Leistungen | 425 | 729 | 873 | 976 |
| Sonstige kurzfristige Verbindlichkeiten | 1.023 | 918 | 1.064 | 1.394 |
| **Kurzfristige Verbindlichkeiten** | **1.509** | **1.711** | **2.254** | **2.670** |
| **Bilanzsumme** | **12.608** | **13.344** | **12.989** | **13.449** |

## Ausgewählte Daten der Kapitalflussrechnung

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| ***Laufende Geschäftstätigkeit*** | | | | | | |
| **EBIT** | **446** | **1.509** | **1.689** | **472** | **401** | **1.618** |
| Abschreibungen | 657 | 588 | 554 | 141 | 148 | 561 |
| **EBITDA**[3] | **1.103** | **2.097** | **2.243** | **613** | **549** | **2.179** |
| Veränderung des Working Capital[4] | 546 | (227) | (150) | (285) | (223) | (88) |
| Gezahlte Nettozinsen[5] | (678) | (634) | (673) | (169) | (164) | (668) |
| Gezahlte Ertragsteuern | (161) | (298) | (238) | (70) | (54) | (222) |
| Sonstige Anpassungen des Cash Flow aus laufender Geschäftstätigkeit[6] | (213) | (48) | (98) | 36 | 29 | (105) |
| **Cash Flow aus laufender Geschäftstätigkeit** | **597** | **890** | **1.084** | **125** | **137** | **1.096** |
| ***Investitionstätigkeit*** | | | | | | |
| Auszahlungen für Investitionen nach Cash Flow[7] | (321) | (361) | (773) | (120) | (250) | (903) |
| Beteiligung in Aktien der Continental AG[8] | (1.786) | 0 | 0 | 0 | 0 | 0 |
| Einzahlungen aus Abgängen und Sonstigem[9] | 110 | 37 | 8 | 6 | 6 | 8 |
| **Cash Flow aus Investitionstätigkeit** | **(1.997)** | **(324)** | **(765)** | **(114)** | **(244)** | **(895)** |
| ***Finanzierungstätigkeit*** | | | | | | |
| Netto-Aufnahme/-Auszahlungen aus der Tilgung von Krediten[10] | 1.900 | (80) | (29) | 43 | 159 | 87 |
| An die Schaeffler Verwaltungs GmbH gezahlte Dividenden | (592) | (134) | (400) | (400) | 0 | 0 |
| Sonstiger Cash Flow aus Finanzierungstätigkeit[11] | (145) | 14 | (217) | (17) | (157) | (357) |
| **Cash Flow aus Finanzierungstätigkeit** | **1.163** | **(200)** | **(646)** | **(374)** | **2** | **(270)** |
| **Nettozunahme/-abnahme des Bestands an Zahlungsmitteln und Zahlungsmitteläquivalenten** | **(237)** | **366** | **(327)** | **(363)** | **(105)** | **(69)** |
| Wechselkursbedingte Veränderung des Bestands an Zahlungsmitteln und Zahlungsmitteläquivalenten | 2 | 17 | (9) | (12) | (1) | 2 |
| **Bestand an Zahlungsmitteln und Zahlungsmitteläquivalenten zum Ende des Berichtszeitraums** | **350** | **733** | **397** | **358** | **291** | **291** |

## Sonstige Finanz- und Geschäftsdaten

| in Mio. € (soweit nicht anders angegeben) | Geschäftsjahr zum 31. Dezember 2009 | 2010 | 2011 | Dreimonatszeitraum zum 31. März 2011 | 2012 | Zwölfmonatszeitraum zum 31. März 2012 |
|---|---|---|---|---|---|---|
| | | | | (ungeprüft) | | (ungeprüft) |
| ***Sonstige Finanzdaten*** | | | | | | |
| Umsatzerlöse | 7.336 | 9.495 | 10.694 | 2.697 | 2.858 | 10.855 |
| *Umsatzzuwachs* | — | *29,4 %* | *12,6 %* | — | 6,0 %[12] | *8,2 %*[13] |
| EBIT | 446 | 1.509 | 1.689 | 472 | 401 | 1.618 |
| *EBIT-Marge* | *6,1 %* | *15,9 %* | *15,8 %* | 17,5 % | 14,0 % | *14,9 %* |
| EBITDA[3] | 1.103 | 2.097 | 2.243 | 613 | 549 | 2.179 |
| *EBITDA-Marge*[3] | *15,0 %* | *22,1 %* | *21,0 %* | 22,7 % | 19,2 % | *20,1 %* |
| Investitionen nach Cash Flow[7] | (321) | (361) | (773) | (120) | (250) | (903) |
| Working Capital (zum Ende des Berichtszeitraums)[14] | 1.881 | 2.196 | 2.296 | 2.420 | 2.512 | 2.512 |
| Free Cash Flow[15] | (1.400) | 566 | 319 | 11 | (107) | 201 |
| Free Cash Flow vor Beteiligung in Aktien der Continental AG[15] | 386 | 566 | 319 | 11 | (107) | 201 |
| Free Cash Flow vor Beteiligung an Continental AG und gezahlten Nettozinsen[15] | 1.064 | 1.200 | 992 | 180 | 57 | 869 |
| Nettofinanzschulden (zum Ende des Berichtszeitraums)[16] | 6.131 | 5.711 | 6.668 | 6.108 | 6.884 | 6.884 |
| ***Sonstige Geschäftsdaten*** | | | | | | |
| Anzahl der Mitarbeiter (zum Ende des Berichtszeitraums) | 61.536 | 67.509 | 74.031 | 69.517 | 74.948 | 74.948 |

| in Mio. € (soweit nicht anders angegeben) | Zwölfmonatszeitraum zum 31. März 2012 |
|---|---|
| | (ungeprüft) |
| ***Pro-forma-Finanzangaben*** | |
| *Pro-forma besicherte Bruttofinanzschulden (zum Ende des Berichtszeitraums)*[17] | 7.175 |
| *Pro-forma-Bruttofinanzschulden (zum Ende des Berichtszeitraums)*[18] | 7.178 |
| *Pro-forma-Zahlungsmittel und Zahlungsmitteläquivalente*[19] | 283 |
| *Pro-forma-Nettofinanzschulden (zum Ende des Berichtszeitraums)*[20] | 6.895 |
| *Pro-forma gezahlte Nettozinsen*[21] | 545 |
| Verhältnis der pro-forma besicherten Bruttofinanzschulden zum EBITDA (zum Ende des Berichtszeitraums) | 3,3x |
| Verhältnis der pro-forma-Nettofinanzschulden zum EBITDA (zum Ende des Berichtszeitraums) | 3,2x |
| Verhältnis des EBITDA zu den pro-forma gezahlten Nettozinsen | 4,0x |

## Ausgewählte Segment[(22)]berichterstattung

***Sparte Automotive***

| in Mio. € (soweit nicht anders angegeben) | Geschäftsjahr zum 31. Dezember 2009 | 2010 | 2011 | Dreimonatszeitraum zum 31. März 2011 | 2012 | Zwölfmonatszeitraum zum 31. März 2012 |
|---|---|---|---|---|---|---|
| | | | | (ungeprüft) | | (ungeprüft) |
| **Umsatzerlöse** | **4.743** | **6.325** | **7.160** | **1.821** | **1.938** | **7.274** |
| *Umsatzzuwachs* | — | *33,4 %* | *13,2 %* | — | *6,4 %*[(3)] | — |
| **Bruttoergebnis vom Umsatz** | **1.058** | **1.842** | **1.951** | **526** | **533** | **1.957** |
| **EBIT** | **283** | **990** | **1.074** | **301** | **245** | **1.018** |
| Abschreibungen | 424 | 401 | 375 | 101 | 103 | 399 |
| **EBITDA** | **707** | **1.391** | **1.449** | **402** | **348** | **1.417** |
| *Brutto-Gewinnmarge* | *22,3 %* | *29,1 %* | *27,2 %* | *28,9 %* | *27,5 %* | *26,9 %* |
| *EBIT-Marge* | *6,0 %* | *15,7 %* | *15,0 %* | *16,5 %* | *12,6 %* | *14,0 %* |
| *EBITDA-Marge* | *14,9 %* | *22,0 %* | *20,2 %* | *22,1 %* | *18,0 %* | *19,5 %* |

***Sparte Industrie***

| in Mio. € (soweit nicht anders angegeben) | Geschäftsjahr zum 31. Dezember 2009 | 2010 | 2011 | Dreimonatszeitraum zum 31. März 2011 | 2012 | Zwölfmonatszeitraum zum 31. März 2012 |
|---|---|---|---|---|---|---|
| | | | | (ungeprüft) | | (ungeprüft) |
| **Umsatzerlöse** | **2.513** | **3.002** | **3.462** | **856** | **905** | **3.512** |
| *Umsatzzuwachs* | — | *19,5 %* | *15,3 %* | — | *5,7 %* | — |
| **Bruttoergebnis vom Umsatz** | **726** | **1.147** | **1.280** | **336** | **352** | **1.297** |
| **EBIT** | **163** | **519** | **615** | **171** | **156** | **600** |
| Abschreibungen | 233 | 187 | 179 | 40 | 45 | 162 |
| **EBITDA** | **396** | **706** | **794** | **211** | **201** | **762** |
| *Brutto-Gewinnmarge* | *28,9 %* | *38,2 %* | *37,0 %* | *39,3 %* | *38,9 %* | *36,9 %* |
| *EBIT-Marge* | *6,5 %* | *17,3 %* | *17,8 %* | *20,0 %* | *17,2 %* | *17,1 %* |
| *EBITDA-Marge* | *15,8 %* | *23,5 %* | *22,9 %* | *24,6 %* | *22,2 %* | *21,7 %* |

(1) Ergebnis vor Steuern.

(2) Inkl. nicht beherrschender Anteile.

(3) Die Schaeffler Gruppe definiert EBITDA (Earnings before interest, taxes, depreciation, amortization and impairments) als Summe (i) des EBIT und (ii) Abschreibungen (ohne Abschreibungen auf Finanzanlagen). EBITDA ist nach IFR nicht als Kennzahl anerkannt. Der ausgewiesene EBITDA ist nicht notwendigerweise mit den von anderen Unternehmen als EBITDA oder ähnlich ausgewiesenen Kennzahlen vergleichbar. Nachfolgend ist eine Überleitung des Konzernergebnisses auf EBITDA für die nachstehend angegebenen Berichtszeiträume dargestellt:

| in Mio. € | Geschäftsjahr zum 31. Dezember 2009 | 2010 | 2011 | Dreimonatszeitraum zum 31. März 2011 | 2012 | Zwölfmonatszeitraum zum 31. März 2012 |
|---|---|---|---|---|---|---|
| | | | | (ungeprüft) | | (ungeprüft) |
| **Konzernergebnis** | **(1.199)** | **73** | **902** | **441** | **239** | **700** |
| Ertragsteuern | 125 | 277 | 378 | 136 | 88 | 330 |
| Zinsaufwendungen | 968 | 861 | 773 | 15 | 242 | 1.000 |
| Zinserträge | (39) | (51) | (40) | (14) | (32) | (58) |
| Ergebnis aus at Equity bewerteten Beteiligungen | 591 | 349 | **(324)** | (106) | (136) | (354) |
| **EBIT** | **446** | **1.509** | **1.689** | **472** | **401** | **1.618** |
| Abschreibungen | 657 | 588 | 554 | 141 | 148 | 561 |
| **EBITDA** | **1.103** | **2.097** | **2.243** | **613** | **549** | **2.179** |

(4) Die nachstehende Tabelle zeigt die Veränderungen des Working Capital:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Veränderungen der: | | | | | | |
| Vorräte | 573 | (257) | (80) | (91) | (54) | (43) |
| Forderungen aus Lieferungen und Leistungen | 73 | (241) | (153) | (295) | (290) | (148) |
| Verbindlichkeiten aus Lieferungen und Leistungen | (100) | 271 | 83 | 101 | 121 | 103 |
| **Veränderung des Working Capital** | **546** | **(227)** | **(150)** | **(285)** | **(223)** | **(88)** |

(5) Die nachstehende Tabelle zeigt die gezahlten Nettozinsen der Schaeffler Gruppe:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Gezahlte Zinsen | (686) | (644) | (686) | (171) | (166) | (681) |
| Erhaltene Zinsen | 8 | 10 | 13 | 2 | 2 | 13 |
| **Gezahlte Nettozinsen** | **(678)** | **(634)** | **(673)** | **(169)** | **(164)** | **(668)** |

(6) Die folgende Tabelle zeigt die sonstigen Anpassungen des Cash Flow aus laufender Geschäftstätigkeit der Schaeffler Gruppe:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Ergebnis aus dem Abgang von Vermögenswerten | 0 | (2) | 0 | (1) | (1) | 0 |
| Sonstige zahlungsunwirksame Erträge | (1) | (3) | 2 | (21) | (19) | 4 |
| Veränderungen der: | | | | | | |
| Rückstellungen für Pensionen und ähnliche Verpflichtungen | (59) | (55) | (61) | (7) | (8) | (62) |
| Sonstige Vermögenswerte, Schulden und Rückstellungen | (153) | 12 | (39) | 65 | 57 | (47) |
| **Sonstige Anpassungen des Cash Flow aus laufender Geschäftstätigkeit** | **(213)** | **(48)** | **(98)** | **36** | **29** | **(105)** |

(7) Investitionen nach Cash Flow umfassen immaterielle Vermögenswerte und Sachanlagen. Die folgende Tabelle zeigt die sonstigen Investitionen nach Cash Flow der Schaeffler Gruppe:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Auszahlungen für Investitionen in immaterielle Vermögenswerte | (51) | (21) | (15) | (4) | (9) | (20) |
| Auszahlungen für Investitionen in Sachanlagen | (270) | (340) | (758) | (116) | (241) | (883) |
| **Investitionen nach Cash Flow** | **(321)** | **(361)** | **(773)** | **(120)** | **(250)** | **(903)** |

(8) Die nachstehende Tabelle zeigt die Beteiligung der Schaeffler Gruppe in Aktien der Continental AG:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| At Equity bewertete Beteiligungen, davon an der Continental AG | (3.898) | 0 | 0 | 0 | 0 | 0 |
| Erwerb/Abgang von Swaps mit Barabwicklung | 2.112 | 0 | 0 | 0 | 0 | 0 |
| **Beteiligung in Aktien der Continental AG** | **(1.786)** | **0** | **0** | **0** | **0** | **0** |

(9) Die folgende Tabelle zeigt die sonstigen Einzahlungen der Schaeffler Gruppe aus Abgängen und Sonstigem:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Einzahlungen aus Abgängen von immateriellen Vermögenswerten und Sachanlagen | 50 | 25 | 11 | 6 | 7 | 12 |
| At Equity bewertete Beteiligungen ohne Beteiligung in Aktien der Continental AG | (7) | (4) | (10) | (1) | (1) | (10) |
| Sonstige Investitionstätigkeit | 67 | 16 | 7 | 1 | 0 | 6 |
| **Einzahlungen aus Abgängen und Sonstigem[9]** | **110** | **37** | **8** | **6** | **6** | **8** |

(10) Die nachstehende Tabelle zeigt die Netto-Aufnahme/-Auszahlungen aus der Tilgung von Krediten der Schaeffler Gruppe:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Einzahlungen aus der Aufnahme von Krediten | 2.150 | 3 | 13 | 53 | 170 | 130 |
| Auszahlungen aus der Tilgung von Krediten | (250) | (83) | (42) | (10) | (11) | (43) |
| **Netto-Aufnahme/-Auszahlung aus der Tilgung von Krediten** | **1.900** | **(80)** | **(29)** | **43** | **159** | **87** |

(11) Die folgende Tabelle zeigt den sonstigen Cash Flow aus laufender Finanzierungstätigkeit der Schaeffler Gruppe:

| | Geschäftsjahr zum 31. Dezember | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| **in Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(ungeprüft)** | | **(ungeprüft)** |
| Ausschüttung an nicht beherrschende Anteile | (1) | (1) | (1) | 0 | 0 | (1) |
| Sukzessive Erwerbe | 0 | 0 | 0 | 0 | (13) | (13) |
| Sonstige Ein-/Auszahlungen der Finanzierungstätigkeit | (144) | 15 | (216) | (17) | (144) | (343) |
| **Sonstiger Cash Flow aus Finanzierungstätigkeit** | **(145)** | **14** | **(217)** | **(17)** | **(157)(*)** | **(357)** |

(*) Dazu gehörende Mittelabflüsse (€163 Mio.) wurden vor dem 27. Januar 2012 bezahlt und unterlagen somit nicht der beschränkten Zahlungs-Verpflichtungserklärung (*restricted payment covenant*) unter den Bestehenden Schuldverschreibungen oder den Schuldverschreibungen. Siehe „*Beschreibung der Schuldverschreibungen*".

(12) Definiert als Umsatzzuwachs im Dreimonatszeitraum zum 31. März 2012 gegenüber dem Dreimonatszeitraum zum 31. März 2011.

(13) Definiert als Umsatzzuwachs im Zwölfmonatszeitraum zum 31. März 2012 gegenüber dem Zwölfmonatszeitraum zum 31. März 2011.

(14) Die nachstehende Tabelle zeigt das Working Capital der Schaeffler Gruppe:

| | Zum 31. Dezember | | | Zum 31. März | |
|---|---|---|---|---|---|
| **In Mio. €** | **2009** | **2010** | **2011** | **2011** | **2012** |
| | | | | **(ungeprüft)** | |
| Vorräte | 1.162 | 1.482 | 1.562 | 1.537 | 1.603 |
| Forderungen aus Lieferungen und Leistungen | 1.144 | 1.443 | 1.607 | 1.706 | 1.885 |
| Verbindlichkeiten aus Lieferungen und Leistungen | (425) | (729) | (873) | (823) | (976) |
| **Working Capital** | **1.881** | **2.196** | **2.296** | **2.420** | **2.512** |

(15) Die nachstehende Tabelle zeigt unseren Free Cash Flow vor Beteiligung in Aktien der Continental AG und gezahlten Nettozinsen:

| In Mio. € | Zum 31. Dezember endendes Geschäftsjahr | | | Dreimonats-zeitraum zum 31. März | | Zwölfmonats-zeitraum zum 31. März |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (ungeprüft) | | (ungeprüft) |
| Cash Flow aus laufender Geschäftstätigkeit | 597 | 890 | 1.084 | 125 | 137 | 1.096 |
| Cash Flow aus Investitionstätigkeit | (1.997) | (324) | (765) | (114) | (244) | (895) |
| **Free Cash Flow** | **(1.400)** | **566** | **319** | **11** | **(107)** | **201** |
| Beteiligung in Aktien der Continental AG | 1,786 | 0 | 0 | 0 | 0 | 0 |
| **Free Cash Flow vor Beteiligung in Aktien der Continental AG** | **386** | **566** | **319** | **11** | **(107)** | **201** |
| Gezahlte Nettozinsen | 678 | 634 | 673 | 169 | 164 | 668 |
| **Free Cash Flow vor Beteiligung in Aktien der Continental AG und gezahlten Nettozinsen** | **1.064** | **1.200** | **992** | **180** | **57** | **869** |

(16) Die nachstehende Tabelle zeigt unsere Netto-Finanzschulden:

| In Mio. € | Zum 31. Dezember | | | Zum 31. März | Zum 31. März |
|---|---|---|---|---|---|
| | 2009 | 2010[(*3)] | 2011 | 2011 | 2012 |
| | | | | (ungeprüft) | (ungeprüft) |
| Langfristige finanzielle Verbindlichkeiten | 6.420 | 6.413 | 7.168 | 6.411 | 7.155 |
| Kurzfristige finanzielle Verbindlichkeiten | 61 | 64 | 317 | 71 | 300 |
| **Finanzschulden** | **6.481** | **6.477** | **7.485** | **6.482** | **7.455** |
| Gesellschafterdarlehen[(*1)] | — | 33 | 420 | 16 | 280 |
| **Finanzschulden[(*2)]** | **6.481** | **6.444** | **7.065** | **6.466** | **7.175** |
| Zahlungsmittel und Zahlungsmitteläquivalente | (350) | (733) | (397) | (358) | (291) |
| **Nettofinanzschulden[(*2)]** | **6.131** | **5.711** | **6.668** | **6.108** | **6.884** |

(*1) Gesellschafterdarlehen umfassen das Sonder-Forderungsdarlehen und das IBV-Darlehen (in der Bilanz unter den langfristigen und kurzfristigen Finanzverbindlichkeiten ausgewiesen), die von unserer Muttergesellschaft Schaeffler Verwaltungs GmbH bzw. Schaeffler Holding GmbH & Co. KG ausgereicht wurden. Die Gesellschafterdarlehen gehen den Zahlungsansprüchen aus den Schuldverschreibungen und dem Neuen Senior-Darlehensvertrag aufgrund der Sicherheitenpool- und Gläubigervereinbarung im Rang nach. Weitere Einzelheiten entnehmen Sie bitte den Abschnitten „*Geschäfte mit nahestehenden Gesellschaften und Personen und Hauptaktionäre der Muttergesellschaft-Garantin-Schuldsonderdarlehen*" („*Related parties transactions and major shareholders of the Parent Guarantor —Special Receivables Loan*") und „*Beschreibung anderer Verbindlichkeiten-Schuldsonderdarlehen*" („*Description of other indebtedness —Special Receivables Loan*").

(*2) Darstellung ohne Gesellschafterdarlehen.

(*3) Wie im Geschäftsbericht 2011, der durch Verweis in diesen Prospekt einbezogen ist, ausgewiesen.

(17) Pro-forma besicherte Bruttofinanzschulden sind besicherte Bruttofinanzschulden (einschließlich des Annuitätendarlehens und kurzfristiger Bankverbindlichkeiten), bereinigt auf pro-forma-Basis um die Ausgabe von Schuldverschreibungen in einem angenommenen Gesamtnennbetrag in Höhe von € 300 Mio. und der Verwendung zur teilweisen Rückzahlung von im Rahmen des Neuen Senior-Darlehensvertrag ausstehenden Beträgen (insgesamt die „**Transaktionen**"), als wären die Transaktionen am 31. März 2011 erfolgt. Der Betrag spiegelt den angenommenen Bruttoerlös aus der Begebung der Schuldverschreibungen in Höhe von € 300 Mio. wider.

(18) Die pro-forma-Bruttofinanzschulden sind die Finanzschulden, im Hinblick auf die Transaktionen bereinigt auf pro-forma-Basis, als wären die Transaktionen am 31. März 2011 erfolgt. Pro-forma-Finanzschulden umfassen u.a. das Annuitätendarlehen ohne Gesellschafterdarlehen.

(19) Pro-forma-Zahlungsmittel und -Zahlungsmitteläquivalente sind Zahlungsmittel und Zahlungsmitteläquivalente bereinigt auf pro-forma-Basis, als wären die Transaktionen am 31. März 2012 erfolgt.

(20) Pro-forma-Nettofinanzverbindlichkeiten sind pro-forma-Finanzverbindlichkeiten abzüglich pro-forma-Zahlungsmitteln und -Zahlungsmitteläquivalenten.

(21) Pro-forma gezahlte Nettozinsen sind definiert als die für den zum 31. März 2012 endenden Zeitraum gezahlten kumulierten Nettozinsen, bereinigt auf pro-forma-Basis im Hinblick auf die Transaktionen (unter der Annahme der Begebung von Schuldverschreibungen mit einem Gesamtnennbetrag von € 300 Mio.), die Begebung der Bestehenden Schuldverschreibungen, Ziehungen in Höhe von € 5.104 Mio. im Rahmen des Neuen Senior-Darlehensvertrag und die Verwendung des Nettoerlöses zur vollständigen Rückzahlung ausstehender Beträge aus dem Abgelösten Senior-Darlehensvertrag, als wären diese Transaktionen am 31. März 2012 erfolgt. Die tatsächlichen kumulierten gezahlten Nettozinsen für den am 31. März 2012 endenden Zeitraum (€ 668 Mio.) sind bereinigt durch Abzug der Zinszahlungen in Höhe von € 324 Mio. im Zusammenhang mit dem Abgelösten Senior-Darlehensvertrag und durch Hinzurechnung der Zinszahlungen in Höhe von € 398 Mio. im Zusammenhang mit dem Senior-Darlehensvertrag, den Schuldverschreibungen und den Bestehenden Schuldverschreibungen. Des Weiteren wurden Transaktionskosten in Höhe von € 40 Mio. von den gezahlten Nettozinsen in Abzug gebracht. Darüber hinaus hat die Schaeffler Gruppe die gezahlten Nettozinsen um die Restrukturierung des Absicherungsportfolios der Schaeffler Gruppe zur Optimierung des Mehrheitsprofils, des abgesicherten Zinsniveaus und des Absicherungsvolumens im Umfang von € 155 Mio. (einschließlich Closeout-Zahlungen) bereinigt.

(22) Die Zuordnung von Kunden zu den Segmenten wird mindestens jährlich überprüft und gegebenenfalls angepasst. Um die Segmente in den Geschäftsberichten und Zwischenberichten der Schaeffler Gruppe in vergleichbarer Form darzustellen, wird auch das Vorjahr gemäß der aktuellen Kundenstruktur ausgewiesen. Die in diesem Prospekt enthaltene Segmentberichterstattung für den jeweils zum 31. März 2012 und 2011 endenden Dreimonats- und Zwölfmonatszeitraum basiert auf der Segmentberichterstattung für den zum 31. März 2012 endenden Dreimonatszeitraum. Die Segmentberichterstattung für die Jahre 2011 und 2010 in diesem Prospekt basiert auf der Segmentberichterstattung im Geschäftsjahr 2011, und die Segmentberichterstattung für das Jahr 2009 basiert auf der Segmentberichterstattung im Geschäftsbericht 2010. Insoweit ist die Segmentberichterstattung für das Jahr 2009 nur eingeschränkt mit der Segmentberichterstattung für die Jahre 2010 und 2011 vergleichbar.

# Risk factors

*Before deciding to purchase the Notes, investors should carefully review and consider the following risk factors and the detailed information set out elsewhere in this Prospectus. The occurrence of one or more of these risks alone or in combination with other circumstances may have a material adverse effect on the Schaeffler Group's business and cash flows, financial condition and results of operations and may affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude or significance of the individual risks. Investing in the Notes could involve additional risks and uncertainties of which the Schaeffler Group may not be currently aware, or which it may currently not consider material on the basis of its regular risk assessments. The risks to which the Schaeffler Group's business is exposed may result in inaccuracies in risk assessments or other forward-looking statements.*

## Risks related to the Issuer

The Issuer is a special purpose vehicle and a wholly-owned subsidiary of the Parent Guarantor. The Issuer has no operational business on its own. The ability to fulfill its payment obligations under the Notes depends on the Parent Guarantor's financial position and results of operations as well as the distribution of profits generated by the Parent Guarantor's subsidiaries.

The Schaeffler Group is exposed to various risks as set out in "*—Risks related to the markets in which the Schaeffler Group operates,*" "*—Risks related to the Schaeffler Group's business operations,*" "*—Risks related to the Schaeffler Group's financial position*" and "*—Legal, taxation and environmental risks.*"

## Risks related to the Notes

***The Notes may not be a suitable investment for all investors.***

A potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, an investor should:

have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;

have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from its currency;

understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant financial markets; and

be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate (including the risk that subsequent changes in market interest rates may adversely affect the value of the Notes) and other factors that may affect its investment and its ability to bear the applicable risks.

***The interests of the Company's shareholders may be inconsistent with investors' interests.***

As of the date of this Prospectus, Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler (together, the **Schaeffler Family**) ultimately own the entire equity of the Parent Guarantor. The interests of the Schaeffler Family could conflict with investors' interests, particularly if the Schaeffler Group encounters financial difficulties or is unable to pay its debts when due.

Affiliates of the Schaeffler Family may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to an investor as a holder of Notes ("**Holder**"). In addition, the Schaeffler Family or their affiliates may, in the future, own businesses that directly compete with the Schaeffler Group.

***The Notes will be structurally subordinated to indebtedness of non-guarantor subsidiaries and, to the extent of the limitations on enforceability of Subsidiary Guarantees, also to indebtedness of Subsidiary Guarantors that is not subject to such limitations.***

Some, but not all, of the subsidiaries of the Parent Guarantor will guarantee the Notes. In the event of a liquidation, winding-up or dissolution or a bankruptcy, administration, reorganization, insolvency, receivership or similar proceeding of any subsidiary that does not provide a guarantee in favor of the Notes, such non-guarantor subsidiaries will pay the holders of their own debt (including holders of third-party debt which such subsidiaries have guaranteed), their trade creditors and any preferred shareholders before they would be able to distribute any of their assets to the Parent Guarantor, the Issuer or the Subsidiary Guarantors. As a result of the foregoing, the Issuer and the Guarantors may not have sufficient assets to make payments on the Notes or the Guarantees, respectively.

As of March 31, 2012, on a *pro forma* basis after giving effect to this offering (assuming the issuance of €300 million aggregate principal amount of Notes) and the application of the net proceeds therefrom, together with cash on the balance sheet, to repay in part outstanding amounts under the New Senior Facilities Agreement, the subsidiaries of the Parent Guarantor other than the Issuer and the Subsidiary Guarantors would have had €20.8 million in financial indebtedness on a combined basis.

As described under "*—Risks related to the Guarantees and the Collateral—Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees and the Collateral may adversely affect their validity and enforceability,*" the enforcement of the Subsidiary Guarantees will be subject to certain limitations and restrictions that are typical for upstream or cross-stream guarantees. To the extent that any debt or other payment obligation of a Subsidiary Guarantor is not also subject to such limitations and restrictions, such debt and other obligations would also be structurally senior to the Notes.

***The Notes and the Guarantees will be effectively subordinated to the Schaeffler Group's debt to the extent such debt is secured by assets that are not also securing the Notes.***

Although the Indenture restricts the Parent Guarantor's and its subsidiaries' ability to provide asset security for the benefit of other debt, both the restriction on incurring liens and the requirement to provide equal security to the Notes are subject to a number of significant exceptions and carve-outs. For example, if the Parent Guarantor or its subsidiaries acquire assets subject to security interests securing other indebtedness, such security interests are grandfathered by the Indenture and will not trigger a requirement to secure the Notes or Guarantees equally. To the extent the Parent Guarantor or any of its subsidiaries provides asset security for the benefit of other debt without also securing the Notes, the Notes and the Guarantees will be effectively junior to such debt to the extent of such assets.

As a result of the foregoing, holders of the Schaeffler Group's (present or future) secured debt may recover disproportionately more on their claims than the Holders in an insolvency, bankruptcy or similar proceeding. The Issuer and the Guarantors may not have sufficient assets remaining to make payments on the Notes or the Guarantees, respectively.

***Despite the Schaeffler Group's high level of indebtedness, the Parent Guarantor and its subsidiaries will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with its substantial indebtedness.***

The Parent Guarantor and its subsidiaries may be able to incur substantial additional debt in the future. Under the New Senior Facilities Agreement, the Schaeffler Group has a €1.0 billion multicurrency revolving credit facility available to it, of which, as of March 31, 2012, €149.5 million were utilized (including ancillary facilities). Although the Indenture, the indenture governing the Existing Notes and the New Senior Facilities Agreement contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and, under certain limited circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. Under the Indenture, in addition to specified permitted debt, the Schaeffler Group will be able to incur additional debt so long as on a *pro forma* basis its consolidated coverage ratio (as defined in the Indenture) is at 2.0 to 1.0 and, if such additional debt is secured, its consolidated secured debt leverage ratio (as defined in the Indenture) is not greater than 3.25 to 1.0. In addition, the Indenture, the indenture governing the Existing Notes and the New Senior Facilities Agreement will not prevent the Schaeffler Group from incurring obligations that do not constitute indebtedness under those agreements. If new debt is added to the Schaeffler Group's existing debt levels, the risks associated with its substantial indebtedness described above, including its possible inability to service its debt, will increase.

***Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Issuer may not be able to redeem or repurchase such Notes.***

Upon the occurrence of specific change of control events, the Holders will have the right to require the redemption or repurchase of all or part of their Notes at 101% of their principal amount, plus accrued and unpaid interest. The Issuer's or the Parent Guarantor's ability to redeem or repurchase Notes upon such events will be limited by its access to funds at the time of the redemption or repurchase and the terms of certain debt agreements, which agreements could restrict or prohibit such a redemption or repurchase. Upon a change of control event, the Issuer or the Parent Guarantor may be required to immediately repay the outstanding principal, any accrued interest on and any other amounts owed by it under one or more of its bank facilities and may be required to offer to repurchase certain other debt instruments, including the Existing Notes. The source of funds for these repayments would be the available cash or cash generated from other sources. However, it cannot be assured that there will be sufficient funds available upon a change of control to make these repayments and any required redemption or repurchases of tendered Notes.

***The New Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement will restrict the Schaeffler Group's ability to repay the Notes or make certain amendments to the Notes.***

The New Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement will contain certain restrictions on the Schaeffler Group's rights under the Indenture with respect to Notes. The New Senior Facilities Agreement restricts its ability to redeem early or purchase the Notes. Under the Security Pooling and Intercreditor Agreement, the Schaeffler Group will not be able to amend the Indenture or the Notes to increase the principal amount of, or interest on, the Notes, other than to provide for the issuance of additional Notes in compliance with the Security Pooling and Intercreditor Agreement, without the consent of the facility agent under the New Senior Facilities Agreement (or any future facilities agreement that becomes subject to the Security Pooling and Intercreditor Agreement). Accordingly, the New Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement may prevent the Schaeffler Group from exercising certain rights in respect of the Notes that would typically be available under the Indenture.

***The Schaeffler Group may not be able to generate sufficient cash flows to meet its debt service obligations.***

The Schaeffler Group's ability to make scheduled payments on, or to refinance, its obligations with respect to its indebtedness, including the Notes, will depend on its financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond its control. The Schaeffler Group cannot assure the investors that its business will generate sufficient cash flow from operations or that future sources of capital will be available to it in an amount sufficient to enable it to service its indebtedness, including the Notes, or to fund its other liquidity needs. If the Schaeffler Group is unable to generate sufficient cash flow to satisfy its debt obligations, it may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. The Schaeffler Group cannot assure the investor that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all. The Indenture that will govern the Notes will restrict the Schaeffler Group's ability to dispose of assets and use the proceeds from the disposition. The Schaeffler Group's inability to generate sufficient cash flows to satisfy its debt obligations, or to refinance its indebtedness on commercially reasonable terms, would materially and adversely affect its financial condition and results of operations and its ability to satisfy its obligations under the Notes.

***The Issuer is a financing vehicle for the Schaeffler Group, has no material assets or sources of revenue except for claims against the Parent Guarantor resulting from intercompany loans and relies on distributions from the Parent Guarantor's subsidiaries to service its debt obligations and repay the Notes.***

The Issuer is a finance company with limited assets which concentrates on financing activities for the Schaeffler Group. The Issuer is a directly wholly-owned subsidiary of the Parent Guarantor and will on-lend the proceeds from the sale of the Notes under an intercompany loan, *i.e.*, the Notes Proceeds Loan, to repay certain borrowings. The Issuer intends to service and repay the Notes out of the payments it receives under the Notes Proceeds Loan. Other than the receivables under the Notes Proceeds Loan and any other proceeds loans made in connection with other financing transactions, the Issuer has no material assets or sources of revenue. The Issuer's ability to service and repay the Notes therefore depends on the ability of the Parent Guarantor to service in full all intercompany loans, including the Notes Proceeds Loan. In meeting its payment obligations under the Notes, the Issuer is wholly dependent on the profitability and cash flow of the Parent Guarantor.

The Parent Guarantor's cash flow and its ability to meet its cash requirements, including its obligations under its Parent Guarantee, is dependent to a significant extent upon the profitability and cash flow of its subsidiaries and payments by such subsidiaries to the Parent Guarantor in the form of loans, dividends, fees, rental payments, or otherwise, as well as the Parent Guarantor's own credit arrangements.

***There is no active public trading market for the Notes and an active trading market for the Notes may not develop.***

Although application has been made to list the Notes on the Official List of the LxSE and to admit the Notes to trading on its regulated market, there can be no assurance regarding the future development of a market for the Notes or the ability of Holders to sell their Notes or the price at which Holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Schaeffler Group's operating results, the market for similar securities and other factors, including general economic conditions, performance and prospects, as well as recommendations of securities analysts. The liquidity of, and the trading market for, the Notes may also be adversely affected by a decline in

the market for high yield securities generally. Such a decline may affect the liquidity and trading of the Notes independently of the Schaeffler Group's financial performance and prospects.

***The transfer of the Notes will be restricted, which may adversely affect the value of the Notes.***

The Notes and the Guarantees have not been registered under the U.S. Securities Act or any U.S. state securities laws. Consequently the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, and Holders may be required to bear the cost of their investment in the Notes until their maturity. It is the Holders' obligation to ensure that their offers and sales or resales of the Notes within the United States and other countries comply with applicable securities laws. See *"Subscription, Offer and Sale—Selling restrictions."*

***Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of the Schaeffler Group's financings and could adversely affect the value and trading of the Notes.

***The Notes will be held in book-entry form and therefore the investor must rely on the procedures of the relevant clearing system to exercise any rights and remedies.***

The Notes will be issued in fully registered global form. The global note(s) in registered form without interest coupons attached representing the Notes (the "**Global Notes**") will be deposited, on the closing date, with, or on behalf of, a common depositary for the accounts of Euroclear and Clearstream and registered in the name of the nominee of the common depositary.

Ownership of beneficial interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. Owners of beneficial interests in the Global Notes will not be entitled to receive definitive Notes in registered form, except under the limited circumstances described in *"Book-entry, delivery and form—Definitive Registered Notes."* So long as the Notes are held in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Global Notes. The common depositary for Euroclear and/or Clearstream or its nominee, as applicable, will be considered the sole holder of Global Notes.

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and additional amounts, if any) will be made by the Issuer to the Paying Agents. The Paying Agents will, in turn, make such payments to the common depositary for Euroclear and/or Clearstream or its nominee, which will, in turn, distribute such payments to participants in accordance with its procedures. After payment to the common depositary for Euroclear and/or Clearstream, the Schaeffler Group will have no responsibility or liability for the payment of interest, principal or other amounts to the holders of Book-Entry Interests. Accordingly, if the investor holds a Book-Entry Interest, it must rely on the procedures of Euroclear or Clearstream,

as applicable, or the procedures of the participant through which the investor holds its interest, to exercise any rights and obligations of a holder of Notes under the Indenture governing the Notes.

Unlike the Holders themselves, holders of Book-Entry Interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from Holders. Instead, if the investor holds a Book-Entry Interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, as applicable. The procedures implemented for the granting of such proxies may not be sufficient to enable the investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture governing the Notes, unless and until definitive registered Notes are issued in respect of all Book-Entry Interests, if the investor holds a Book-Entry Interest, it will be restricted to acting through Euroclear or Clearstream. The procedures to be implemented through Euroclear or Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

***Certain covenants may be suspended upon the occurrence of a change in the ratings of the Notes.***

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive a rating of Baa3 or better by Moody's and a rating of BBB- or better from S&P and no default has occurred and is continuing, then beginning that day and continuing until one or both of Moody's and S&P withdraws such rating or downgrades the rating assigned to the Notes below such rating, certain covenants will cease to be applicable to the Notes. Please see *"Description of the Notes—Certain covenants—Suspension of covenants when Notes rated Investment Grade."*

If these covenants were to cease to be applicable, the Schaeffler Group would be able to incur additional indebtedness or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

***The price at which Eligible Employees will be able to subscribe for Notes in the Employee Offering may be higher than the price at which they could have purchased Notes in the market.***

The issue price of the Notes, which will be identical in the International Offering and the Employee Offering, will be determined prior to the Employee Offering Offer Period. In case the issue price of the Notes exceeds the market price for the Notes on the LxSE during the Employee Offering Offer Period, Eligible Employees subscribing for Notes in the Employee Offering will do so at a price that is higher than what they would have paid by acquiring the Notes in the secondary market.

## Risks related to the Guarantees and the Collateral

***Most of the shares in the Schaeffler Group subsidiaries which serve as collateral are tainted for German tax purposes, which could adversely affect the value of the Collateral.***

Due to a legal restructuring in 2009 and 2010, almost all shares in the Schaeffler Group companies (not including the shares in Continental AG) and certain shares in other IHO Group companies are tainted for German tax purposes (see "*—Legal, taxation and environmental risks—Almost all shares in the Schaeffler Group's companies (not including the shares in Continental AG) and certain shares in other IHO Group companies are tainted for German tax purposes.*"). These tainted shares form part of the Collateral. As a consequence an enforcement of the Collateral will trigger the (partial) retroactive taxation of the built-in gains existing in the business and shares contributed in the reorganizations in 2009 and 2010 at the tax effective date of the relevant contribution.

The taxation of such a recapture gain may result in liabilities of several hundred million euro for the Schaeffler Group and could therefore have a material adverse effect on the value of the Collateral and the amount of enforcement proceeds available for distribution to Holders of the Notes.

***The proceeds from the enforcement of the Guarantees and the Collateral may not be sufficient to satisfy the obligations under the Notes.***

The Notes will, upon issuance, be guaranteed by the Guarantees and secured by the Collateral. No appraisal of the value of the Collateral or the Subsidiary Guarantees has been made in connection with the issue of the Notes. Furthermore, the assets subject to the Collateral are also subject to security interests for the benefit of the other *pari passu* Secured Creditors, including the lenders under the New Senior Facilities Agreement, the holders of Existing Notes and certain hedge counterparties. In addition, the Indenture will allow the incurrence of additional permitted indebtedness in the future that is secured by such assets. The amount to be received upon an enforcement of any Guarantees and any Collateral would be dependent on numerous factors affecting the financial situation of the providers of Guarantees and of the value of the assets subject to the Collateral at the time of their enforcement. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the payments under the Guarantees or the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes.

***Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.***

The Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors will not be granted directly to the Holders but will be granted only in favor of the General Security Trustee and the Continental Shares Security Trustee, as applicable. The Security Pooling and Intercreditor Agreement and the Indenture provide that only the General Security Trustee and the Continental Shares Security Trustee have the right to enforce the respective Collateral. As a consequence, Holders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral.

The Security Pooling and Intercreditor Agreement provides that the General Security Trustee and the Continental Shares Security Trustee may take enforcement action with respect to any of the respective Collateral only upon the instruction of an Instructing Group (as defined below). Any decision, instruction or consent requiring action by the Instructing Group under the Security Pooling and Intercreditor Agreement, including decisions and instructions with respect to the enforcement of the Collateral, will be made in the form of a resolution in the following manner:

Holders (as well as holders of Existing Notes and holders of any notes or similar debt instruments issued by the Company or any of its subsidiaries in the future that are secured by the Collateral and are subject to the Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a pro rata basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and the trustee for the Existing Notes and any trustee for notes issued in the future that become subject to the Security Pooling and Intercreditor Agreement) will report to the General Security Trustee the aggregate principal amount of notes of each currency that voted (or are deemed to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed to have voted) against the resolution.

Lenders under the New Senior Facilities Agreement (and under future facilities agreements that become subject to the Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution in accordance with the provisions of the relevant facilities agreement. The facility agent under the relevant facilities agreement will report to the General Security Trustee the aggregate amount of commitments under the respective facilities agreement that voted (or are deemed under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed under the relevant facilities agreement to have voted) against the resolution.

The General Security Trustee will determine the euro-equivalent total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of and against the resolution.

The resolution will be passed if the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

The Security Pooling and Intercreditor Agreement refers to any resolution passed in the foregoing manner as a decision or resolution of the "Instructing Group" (the "**Instructing Group**").

As a result of the voting provisions set out in the Security Pooling and Intercreditor Agreement, the lenders under the New Senior Facilities Agreement, as a class, will initially have effective control on all decisions with respect to enforcement of the Collateral. Initially, the aggregate principal amount of the Notes outstanding, together with the principal amount of the Existing Notes outstanding will constitute approximately 29.5% of the total commitments of all secured creditors subject to the Security Pooling and Intercreditor Agreement and entitled to vote thereunder (assuming the issuance of €300 million aggregate principal amount of Notes). Holders will therefore likely need to rely on other secured creditors, whose interests may differ from those of the Holders, to direct the General Security Trustee or the Continental Shares Security Trustee to take enforcement action with respect to the respective Collateral.

***Under local law, claims of Holders may not have a first priority ranking pari passu with existing secured indebtedness, including indebtedness under the New Senior Facilities Agreement and the Existing Notes, and investors must rely on the Security Pooling and Intercreditor Agreement to achieve a first priority lien in the Collateral.***

Under local law, a majority of the liens securing the Notes are subject to legal doctrines that effectively rank them behind the liens in favor of earlier incurred obligations, including the liens in favor of the New Senior Facilities Agreement, the Existing Notes and certain hedging obligations. Therefore, the first priority status of the Notes depends on the enforceability of the Security Pooling and Intercreditor Agreement. As a result, if the Security Pooling and Intercreditor Agreement is found to be invalid or unenforceable for any reason, or if an administrator refuses to give effect to it, the Notes may rank behind any other outstanding secured indebtedness.

***The Collateral will not be granted to the Holders directly, and, accordingly, the ability of the Security Trustees to enforce the Collateral is subject to uncertainty under local law.***

With respect to certain jurisdictions, including Austria, Brazil, France, Germany (with respect to the pledge of shares and accounts), Hungary, Romania, Slovakia, Spain, Switzerland, the United Kingdom and the United States, due to the laws and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the respective Collateral will secure only a so-called "parallel debt" obligation created under the Security Pooling and Intercreditor Agreement in favor of the General Security Trustee or, as the case may be, the Continental Shares Security Trustee rather than secure the obligations under

the Notes directly. The parallel debt is in the same amount and payable at the same time as the obligations of the Issuer and the Guarantors under the Notes and the Guarantees (the "**Principal Obligations**"), and any payment in respect of the Principal Obligations will discharge the corresponding parallel debt and any payment in respect of the parallel debt will discharge the corresponding Principal Obligations. In certain other jurisdictions, including, among others, Ireland, the United Kingdom and the United States, the respective Collateral will secure the Principal Obligations and the Parallel Debt Obligation in respect thereof. Although the General Security Trustee respectively the Continental Shares Security Trustee will have, pursuant to the parallel debt, a claim against the Issuer and the Guarantors for the full principal amount of the Notes, the parallel debt construct has not been tested in court in these jurisdictions and there is no judicial guidance as to its efficacy. Therefore, the ability of the General Security Trustee and the Continental Shares Security Trustee to enforce the Collateral may be restricted. In addition, Holders bear some risk associated with a possible insolvency or bankruptcy of the General Security Trustee or the Continental Shares Security Trustee. See *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

***Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees and the Collateral may adversely affect their validity and enforceability.***

The Guarantees and the Collateral may be subject to claims or could be limited or subordinated in favor of the relevant Guarantor's or relevant Collateral grantor's existing and future creditors under applicable laws. In addition, enforcement of each Subsidiary Guarantee will be limited to the extent of the amount which can be guaranteed by a particular guarantor without rendering the guarantee voidable or otherwise ineffective under, or contrary to, applicable law and enforcement of the Collateral will be limited to the extent of the amount which can be secured by a particular security grantor without rendering the security interest voidable or otherwise ineffective under, or contrary to, applicable law. Enforcement of any of the Subsidiary Guarantees or the Collateral against any Guarantor and any grantor of Collateral will also be subject to certain defenses available to guarantors and grantors of security interests generally. These laws and defenses include, primarily with respect to Subsidiary Guarantors, those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalization and defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and similar laws, a court could subordinate or void any guarantee or security interest provided by such guarantor or security grantor if it found that:

the guarantee was incurred or the security interest granted with actual intent to hinder, delay or defraud creditors or shareholders of the respective guarantor or security grantor;

the relevant guarantor or security grantor did not receive fair consideration or reasonably equivalent value for the guarantee or the security interest granted, and the relevant guarantor or security grantor:

- — was insolvent or was rendered insolvent because of the guarantee or security interest granted;
- — was undercapitalized or became undercapitalized because of the guarantee or security interest granted;
- — intended to incur, or believed that it would incur, debt beyond its ability to pay at maturity; or
- — the guarantee or security interest granted was not in the best interests or for the benefit of the relevant guarantor or security grantor.

The measure of insolvency for purposes of fraudulent conveyance and similar laws varies depending on the law applied. Generally, however, a guarantor or security grantor would be

considered insolvent if it could not pay its debts as they became due. In such circumstances, if a court voided such Guarantee or Collateral, or held it unenforceable, Holders and the General Security Trustee and Continental Shares Security Trustee, as applicable, would cease to have any claim in respect of the relevant Guarantor or the relevant Collateral, would be creditors solely of the Issuer, the Parent Guarantor and any remaining Subsidiary Guarantors and would benefit only from any remaining Collateral. The Holders, the General Security Trustee and the Continental Shares Security Trustee may also be required to repay any amounts received with respect to such Guarantee or such Collateral.

Further, the Subsidiary Guarantees and the Collateral may be subject to claims that they should be limited or subordinated under German, United States or other applicable law. The enforcement of the Subsidiary Guarantees and the Collateral will be limited to the extent that the granting of such Subsidiary Guarantees and the Collateral is not in the corporate interest of the relevant guarantor or provider of security, would be in breach of capital maintenance or thin capitalization rules or any other general statutory laws or that the burden of such Subsidiary Guarantee or Collateral securing the Notes and the Guarantees exceed the benefit to the relevant guarantor or provider of security. In particular, for the Subsidiary Guarantors and providers of Collateral organized under German law, each of their respective Subsidiary Guarantee or Collateral will be contractually limited under German law to the extent the granting of such Subsidiary Guarantee or enforcement of such Collateral would result in a breach of capital maintenance rules or other statutory laws or would cause the directors of such Subsidiary Guarantor or provider of Collateral to contravene their duties to incur civil or criminal liability or to contravene any legal prohibition.

A summary description of certain limitations on the validity and enforceability of the Guarantees and Collateral in respect of German law and the laws of certain other jurisdictions where the Guarantors and grantors of Collateral are organized is set out in *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

***Local insolvency laws may not be as favorable to the investor as the bankruptcy or insolvency laws of the jurisdiction with which the investor is familiar and may preclude Holders from recovering payments due on the Notes.***

The Issuer is incorporated under the laws of the Netherlands, the Parent Guarantor is incorporated under the laws of Germany, and each of the current Subsidiary Guarantors is incorporated under the laws of one of Austria, Brazil, England and Wales, France, Germany, Hong Kong, Hungary, Romania and Slovakia and the states of Delaware and Connecticut in the United States. The insolvency laws of foreign jurisdictions may not be as favorable to the investor's interests as the laws of the jurisdictions with which the investor is familiar, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and thus may limit the investor's ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. In the event that any one or more of the Issuer, the Guarantors or any other of the Parent Guarantor's subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. A brief description of certain aspects of insolvency law in the European Union, Austria, Brazil, France, Germany, Hong Kong, Hungary, Romania, Slovakia, Switzerland, the Netherlands, the United Kingdom and the United States is set forth under *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

***Any Subsidiary Guarantee and any Collateral may be released or impaired without consent of the Holders, and under certain circumstances the Notes could become unsecured and lose the benefit of all Subsidiary Guarantees.***

The Indenture and the Security Pooling and Intercreditor Agreement provide that in certain circumstances any Subsidiary Guarantee and all or part of the Collateral may be released without any consent of the Holders. Among other circumstances, liens on the Collateral securing the Notes will be released, subject to certain exceptions and conditions, upon the release of all other liens (other than permitted liens) on such Collateral. For further details see *"Description of the Notes—Security."* The New Senior Facilities Agreement provides that part of the Collateral, including a portion of the Continental AG shares held by Schaeffler Group, securing outstanding indebtedness under the New Senior Facilities Agreement will be released upon the satisfaction of certain requirements (see *"Description of other indebtedness—New Senior Facilities Agreement"*). Upon any such release the liens on such Collateral securing the Notes would also be released.

Among other circumstances, and subject to certain exceptions and conditions, a Subsidiary Guarantee will be released upon the release of all other guarantees given by the relevant Subsidiary Guarantor with respect to indebtedness of the Issuer or any Guarantor. See *"Description of the Notes—Note Guarantees."* After any such release, the Holders will no longer benefit from the relevant Subsidiary Guarantee or Collateral, as the case may be.

In addition, subject to certain conditions, additional debt will be permitted to share the Collateral on a *pro rata* basis. In order to allow future debt to share the Collateral, the Indenture and the Security Pooling and Intercreditor Agreement allow the security interests on the Collateral securing the Notes to be amended and the Collateral to be released and retaken without the consent of the Holders under certain circumstances, which would likely result in applicable hardening periods to restart or to be extended. Subject to certain exceptions and conditions, the security documents governing the security interests over the Collateral may be amended with the consent of an Instructing Group (see *"—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances"*). As a result of any of the foregoing, the Collateral could be impaired without the consent of Holders.

***Not all assets will be included in the Collateral.***

The Collateral securing the Notes will comprise the Proceeds Loan Assignment, pledges over the capital stock of the Issuer and certain other subsidiaries of the Parent Guarantor, pledges over the capital stock of Continental AG owned by the Parent Guarantor and its restricted subsidiaries and pledges over, or security assignments of, certain cash-pool accounts, intra-group loan receivables and accounts receivables of the Group. All or part of the Collateral may be released without the consent of Holders under certain circumstances (see *"—Any Subsidiary Guarantee and any Collateral may be released or impaired without consent of the Holders and under certain circumstances the Notes could become unsecured and lose the benefit of all Subsidiary Guarantees"*). If an event of default occurs and the Notes are accelerated, the Notes will rank equally with the holders of other unsubordinated and unsecured indebtedness with respect to any excluded assets. To the extent the claims of Holders exceed the value of the assets securing the Notes and other liabilities, claims related to any excluded assets will rank equally with the claims of the holders of any other unsecured indebtedness. As a result, if the value of the assets pledged as security for the Notes is less than the value of the claims of the Holders together with any super senior claims and any claims of the holders of any *pari passu* additional indebtedness, those claims may not be satisfied in full before the claims of the Schaeffler Group's unsecured creditors are paid.

***There may not be sufficient Collateral to pay all or any of the Notes.***

No appraisal of the value of the Collateral has been made in connection with this offering and the value of the Collateral in the event of liquidation will depend on market and economic

conditions, the availability of buyers and other factors. In addition, of the Schaeffler Group's total assets as of March 31, 2012, approximately 4.1%, or €554 million, of €13,449 million consisted of goodwill and definite lived and indefinite lived intangible assets. The Schaeffler Group's property, plant and equipment as of March 31, 2012 was €3,392 million. Consequently, liquidating the Collateral securing the Notes may not produce proceeds in an amount sufficient to pay any amounts due on the Notes or senior obligations.

The Collateral securing the Notes is shared between the Holders, the holders of Existing Notes, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under the New Senior Facilities Agreement and includes liens and other forms of security interests over the shares in, *inter alia,* the Issuer, the Subsidiary Guarantors and shares in Continental AG owned by members of the Schaeffler Group, certain cash pool accounts, certain intra-group liabilities and certain account receivables. Any proceeds of enforcement of the Collateral will be applied, *pari passu* and *pro rata,* to amounts due under the Notes, the Existing Notes, the New Senior Facilities Agreement (or any replacement facilities) certain hedging obligations and any *pari passu* additional indebtedness. See *"Description of other indebtedness—Security Pooling and Intercreditor Agreement."*

The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, conditions in the automotive and industrial sector, the ability to sell collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from any sale or liquidation of this Collateral may not be sufficient to pay the Schaeffler Group's obligations under the Notes and other prior ranking and *pari passu* claims referred to above.

***The Issuer and the other security providers will have control over the Collateral, and the sale of particular assets could reduce the pool of assets securing the Notes.***

The security documents allow the Issuer and the other security providers to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral securing the Notes. Except under limited circumstances specified in the relevant security documents, the Issuer and the other security providers may, among other things, without any release or consent by the Trustee or the relevant Security Trustee, conduct ordinary course activities with respect to the Collateral and make ordinary course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to the investor from the proceeds of any sale of the Collateral in the case of an enforcement of the Collateral.

***It may be difficult to realize the value of the Collateral.***

The Collateral will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture or the Security Pooling and Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the General Security Trustee or the Continental Shares Security Trustee to enforce such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions.

The Collateral initially includes pledges over all shares in Continental AG owned by any member of the Schaeffler Group. Due to high volatility and uncertainty regarding the value of

Continental AG shares, the value of Collateral as well as the ability of the General Security Trustee and the Continental Shares Security Trustee to enforce such Collateral could be adversely affected.

The enforcement of security interests by the General Security Trustee or the Continental Shares Security Trustee will also be subject to practical problems generally associated with the realization of security interests in collateral. For example, the enforcement of security interest by the General Security Trustee or the Continental Shares Security Trustee may require the completion of judicial proceedings in the jurisdiction that is relevant for such security interest. There is no assurance that the General Security Trustee or the Continental Shares Security Trustee will successfully complete such judicial proceedings in a timely manner or that other practical problems relating to the foreclosure of Collateral will be overcome by the General Security Trustee or the Continental Shares Security Trustee at all or without a material delay. Accordingly, the General Security Trustee and the Continental Shares Security Trustee may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease.

The right of holders of Notes to direct the enforcement of Collateral will be restricted by the Security Pooling and Intercreditor Agreement. See "*—Holders will be able to direct the enforcement of the Collateral only under certain limited circumstances.*"

***The Guarantees and the Collateral might be challenged or voidable in insolvency proceedings.***

The Guarantees and the Collateral may be voidable by the relevant Guarantors or the relevant grantor of Collateral or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may be otherwise set aside by a court, if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified "clawback" period following the grant. At each time, if the Guarantee or Collateral granted, perfected or recreated were to be enforced before the end of the respective clawback period applicable in such jurisdiction, it may be declared void. To the extent that the issuance of any Guarantee or the creation of the Collateral is voided, Holders and the General Security Trustee and the Continental Shares Security Trustee, as applicable, would lose the benefit of such Guarantee or Collateral and would be creditors solely of the Issuer and any remaining Guarantors and would therefore benefit only from any remaining Collateral. The Holders, the General Security Trustee and the Continental Shares Security Trustee may also be required to repay any amounts received with respect to such Guarantee or such Collateral.

In order to effectively secure future indebtedness, including additional Notes, that is permitted by the Security Pooling and Intercreditor Agreement to share in the Collateral, it may be necessary in some or all jurisdictions to create additional, junior-ranking security over the Collateral at the time such Indebtedness is incurred. Any such new security as well as any security interests for future Indebtedness arising under the existing security documents over the Collateral will likely be subject to new clawback periods and, consequently, to potential insolvency challenges as described under *"Limitations on validity and enforceability of the Guarantees and Collateral and certain insolvency law considerations."* Since the Security Pooling and Intercreditor Agreement will provide that any proceeds from the enforcement of Collateral will be distributed on a pro rata basis among the Holders, the lenders under the New Senior Facilities Agreement, certain hedge counterparties and the holders of any future indebtedness that shares in the Collateral and becomes subject to the Security Pooling and Intercreditor Agreement after the Issue Date, a successful challenge of any new junior-ranking security or any security interest arising for future indebtedness under the existing security documents would reduce the amount of enforcement proceeds available for distribution to the secured creditors under the Security Pooling and Intercreditor Agreement, including the Holders. The same applies to new guarantees and guarantee obligations arising for future indebtedness under the Guarantees *mutatis mutandis*.

In addition, in case the Issuer issues additional Notes with the same securities identification numbers as the initial Notes issued on the Issue Date, an insolvency administrator may seek to challenge the enforceability of Collateral and Guarantees securing both the additional Notes and the initial Notes issued on the Issue Date even if the hardening period with respect to the Collateral and Guarantees securing the initial Notes has expired, based on the fact that the initial Notes and the additional Notes are fungible and not distinguishable. Any such successful challenge would further reduce the proceeds available to Holders.

A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the Guarantors and the providers of Collateral are organized and have their center of main activities are set out in *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

***The investor's rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.***

Applicable law requires that a security interest in certain assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if the General Security Trustee or the Continental Shares Security Trustee is not able to take the actions necessary to perfect any of these liens on or prior to the Issue Date. The Issuer and the Guarantors have limited obligations to assist the General Security Trustee and the Continental Shares Security Trustee in perfecting the Holders' security interest in specified Collateral. There can be no assurance that the Trustee, the General Security Trustee or the Continental Shares Security Trustee for the Notes will monitor, or that Schaeffler Finance B.V. will inform such Trustee, General Security Trustee or Continental Shares Security Trustee of, the future acquisition of property and rights that should constitute Collateral, and that the necessary action will be taken to properly create and perfect the security interest in such after-acquired property and rights. The General Security Trustee and the Continental Shares Security Trustee for the Notes have no obligation to monitor the acquisition of additional property or rights that should constitute Collateral or the creation or perfection of any security interest. Such failure may result in such security interest being created in such property or rights or in the priority of such security interest in favor of the Notes against third parties being adversely affected.

***Enforcement of the Guarantees across multiple jurisdictions may be difficult.***

Though the Guarantees will be governed by New York law, the enforcement of such guarantees against Guarantors organized and having their center of main activities in countries other than the United States would be subject to the laws of multiple jurisdictions. In particular, in the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Guarantees will therefore be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. In addition, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability of each Holder to enforce the Guarantees and to realize any payment under the Guarantees.

Therefore, even if a Holder obtains a favorable judgment from a New York court against a Subsidiary Guarantor organized and having its center of main activities in countries other than the United States, such Holder will have to enforce such judgment in such foreign jurisdiction which is likely to result in additional costs and a further delay of the enforcement action. Furthermore, because in such case the recognition and enforcement of a New York court judgment by a foreign court will be subject to the laws of such foreign jurisdiction and may be conditional upon a number of factors, it is uncertain whether attempts of a Holder to enforce such judgments will be successful.

A summary description of certain aspects of the insolvency laws of certain jurisdictions where the Subsidiary Guarantors are organized or have their center of main activities are set out in *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

***Enforcement of the Collateral across multiple jurisdictions may be difficult.***

The Collateral will be governed by the laws of multiple jurisdictions. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Collateral will therefore be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. In addition, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the collateral and to realize any recovery under the Notes and the Guarantees.

A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the providers of Collateral are organized or have their center of main activities are set out in *"Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations."*

## Risks related to the markets in which the Schaeffler Group operates

***The Schaeffler Group is exposed to substantial risks associated with the performance of the global economy and the Eurozone debt crisis.***

The Schaeffler Group is exposed to substantial risks associated with the performance of the global economy. In general, demand for automotive products and services as well as for the industrial sectors are directly related to the strength of the global economy. Therefore, its income and results of operations have been influenced, and will continue to be influenced, to a certain degree, by the general state and the performance of the global economy. As a result of the global financial crisis, the global economy generally, and the automotive market specifically, experienced a severe downturn during 2008 and 2009, resulting in a sharp decline in demand for its products.

Although the global economy has recovered to a certain extent, the recent volatility of the financial markets shows that there can be no assurance that any recovery is sustainable or that there will be no recurrence of the global financial and economic crisis or similar adverse market conditions. In particular, the ongoing deterioration of the sovereign debt of several countries of the Eurozone, including Greece, Italy, Ireland, Spain and Portugal, together with the risk of contagion to other, more stable, countries, particularly France and Germany, has raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Concerns that the Eurozone sovereign debt crisis could worsen may lead to the reintroduction of national currencies in one or more Eurozone countries or, in particularly dire circumstances, the abandonment of the Euro. The departure or risk of departure from the Euro by one or more Eurozone countries and/or the abandonment of the Euro as a currency could have major negative effects on both existing contractual relations and the fulfillment of obligations by the Schaeffler Group and/or its customers, which would have a material adverse effect on its business, financial condition and results of operations.

In the course of the current sovereign debt crisis, the Eurozone has seen an increase in credit spreads, together with reduced liquidity and access to financing on the market. These negative trends have worsened and have caused considerable turbulence on the global financial and credit markets. A renewed downturn in the United States, European and global economies could cause demand in both of Schaeffler Group's relevant market segments to decline which would have a material adverse effect on its business, financial condition and results of operations. Any material future deterioration in economic conditions could materially and

adversely affect the Schaeffler Group's financial position and results of operations, which could in turn (in particular in the event of a significant and sudden decline of its revenues) adversely affect its ability to meet its financial covenants and other obligations under the New Senior Facilities Agreement and the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group operates in a cyclical industry.***

Since the Schaeffler Group business is characterized by high fixed costs, it risks underutilization of its facilities or having insufficient capacity to meet customer demand if the markets in which it is active either decline or grow faster than the Schaeffler Group has anticipated. An underutilization of its facilities could result in idle capacity costs, write-offs of inventories and losses on products due to falling average sale prices. Furthermore, falling production volumes cause declines in revenue and earnings.

Sales to Schaeffler Group's automotive customers (from which it generated approximately 56% of its revenue in the twelve months ended March 31, 2012 excluding its aftermarket business) are cyclical and depend, among other things, on general economic conditions as well as on consumer spending and preferences, which can be affected by a number of factors, including employment, consumer confidence and income, energy costs, interest rate levels, inflation and the availability of consumer financing. Given the variety of such economic parameters influencing the global automotive demand, the volume of automotive production has historically been, and will continue to be, characterized by a high level of fluctuation, making it difficult for the Schaeffler Group to accurately predict demand levels for its products aimed at the automotive sector. In addition, OEMs generally do not commit to purchasing minimum quantities from their suppliers.

Sales to Schaeffler Group's industrial customers (from which it generated approximately 20% of its revenue in the twelve months ended March 31, 2012, excluding its aftermarket business), depend on the development of the industrial production. Due to the high diversification within that division, various factors, such as fiscal policies, infrastructure programs or consumer behavior in general in certain countries or industry sectors, influence demand for its products. Although the broad range of individual economic factors influencing each of Schaeffler Group's end-markets in the Industrial Division makes it less vulnerable to unexpected changes of singular economic parameters, the variety of factors makes it difficult for the Schaeffler Group to estimate requirements for production capacity and to reliably prognosticate future working capital requirements.

The risks related to the cyclical nature of the industry in which the Schaeffler Group operates could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***Schaeffler Group's business environment is characterized by intense competition, which could reduce its revenue or put continued pressure on its sales prices.***

The markets in which the Schaeffler Group operates are competitive and have been characterized by changes in market penetration, increased price competition, the development and introduction of new products, product designs and technologies by significant existing and new competitors. The majority of bearings manufactured globally are used for either motor vehicles or industrial applications and represent core markets for both of Schaeffler Group's divisions. The Schaeffler Group competes with domestic manufacturers and many foreign manufacturers of anti-friction bearings. It competes primarily on the basis of price, quality, timeliness of delivery and design as well as the ability to provide engineering support and service on a global basis. Should the Schaeffler Group fail to secure the quality of its products

and the reliability of its supply in the future, then more and more of its customers could decide to procure products from its competitors.

The automotive supply industry, in particular, has been characterized by rapid technological change, high capital expenditures (which, unless stated otherwise, the Schaeffler Group defines as additions of property, plant, equipment and intangible assets according to its asset register), intense pricing pressure from major OEM customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. The Schaeffler Group competes with other international suppliers and, to a lesser extent, regional companies. The end customers for its products are increasingly affected by innovation and cost-cutting pressures from competitors and seek price reductions in both the initial bidding process and during the term of the contract with their suppliers. In particular, vehicle manufacturers expect lower prices from suppliers for the same, and in some cases even enhanced, functionality, as well as a consistently high product quality. If the Schaeffler Group became unable to offset continued price reductions through improved operating efficiencies and the realization of synergies, price reductions could impact its profit margins.

The realization of any of these risks could have a material adverse effect on the Schaeffler Group's business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***Schaeffler Group's efforts to expand in certain markets are subject to a variety of business, economic, legal and political risks.***

The Schaeffler Group manufactures its products in many countries and it markets and sells its products worldwide. The Schaeffler Group is actively operating and expanding its operations in rapidly growing and emerging markets in the Asia/Pacific region, including China, India, South Korea and Vietnam. In the future, the Schaeffler Group expects to generate a greater percentage of its revenues from these fast growing markets.

Potential social, political, legal, and economic instability may pose significant risks to Schaeffler Group's ability to conduct its business and expand its activities in certain markets. Inherent in its international operations is the risk that any number of the following circumstances could affect its operations: underdeveloped infrastructure; lack of qualified management or adequately trained personnel; currency exchange controls, exchange rate fluctuations and devaluations; changes in local economic conditions; governmental restrictions on foreign investment, transfer or repatriation of funds; protectionist trade measures, such as anti-dumping measures, duties, tariffs or embargoes; prohibitions or restrictions on acquisitions or joint ventures; changes in laws or regulations and unpredictable or unlawful government actions; the difficulty of enforcing agreements and collecting receivables through foreign legal systems; variations in protection of intellectual property and other legal rights; potential nationalization of enterprises or other expropriations; and political or social unrest or acts of sabotage or terrorism.

Any of these risks could have a material adverse effect on the Schaeffler Group's business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is exposed to risks associated with market trends and developments.***

The Schaeffler Group's future success depends on its ability to recognize market trends and technological changes and to develop and bring to the market new and improved products in a timely manner. The automotive market, in particular, is characterized by progressive development towards higher-performance and simultaneously more fuel-efficient, less polluting and quieter engines, growing demands by customers and stricter regulations with respect to engine efficiency, as well as towards low-cost cars and hybrid and electric vehicles. Therefore,

car manufacturers are increasingly forced to develop environmentally friendly technologies aimed at lower fuel consumption and a reduction of $CO_2$ emissions. Furthermore, the market segment of cars costing less than U.S.$10,000/€7,000 has been increasing steadily over the past years, in particular in emerging markets, such as China, India, Brazil and Eastern Europe. The industrial market is characterized by megatrends, such as energy efficiency, renewable energies and mechatronic systems and electric mobility.

There can be no assurance that (i) the Schaeffler Group will be successful in developing new products or systems or in bringing them to market in a timely manner, or at all, (ii) products or technologies developed by others will not render its offerings obsolete or non-competitive, (iii) the Schaeffler Group's customers will not substitute its products with competing products or alternate technology, (iv) the market will accept its innovations and (v) its competitors will not be able to produce its non-patented products more inexpensively from other sources. Should the Schaeffler Group fail to develop appropriate strategies as a response to these or similar market trends and should it fail to enhance existing products, develop new products or keep pace with developing technology, growth opportunities could be lost or it could lose existing customers. Furthermore, if the Schaeffler Group devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to be commercially viable, all or part of these R&D expenses may be lost and its business may suffer.

Any such risks could materially impact its revenue and profit margins in both the Automotive Division and Industrial Division and, therefore, its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

## Risks related to the Schaeffler Group's business operations

***The Schaeffler Group depends on large OEM and Tier 1 suppliers for the sale of its products.***

Many of the Schaeffler Group's customers are large OEMs and Tier 1 suppliers. Both have substantial bargaining power with respect to price and other commercial terms. A combination of significantly lower global production levels, tightened liquidity and increased cost of capital has caused severe financial distress among a number of OEMs during the financial and economic crisis in 2009 and have forced these companies to implement various forms of restructuring actions, including rigid cost saving measures and reorganization under bankruptcy laws. There can be no assurance that any of these restructuring measures will be successful. If any of the Schaeffler Group's OEM customers becomes insolvent, discontinues the business relationship with the Schaeffler Group or terminates a supply contract prematurely, the Schaeffler Group's original investments to provide such products or outstanding claims against such customer could be wholly or partially lost.

The timing and amount of sales to its OEM end-customers ultimately depend on factors that are beyond its control, *i.e.*, sales levels and shipping schedules for the OEM products into which its products are incorporated. The Schaeffler Group cannot be certain that its OEM customers will continue to manufacture products that incorporate its products at current levels or at all. Failure of the Schaeffler Group's OEM customers to achieve significant sales of products incorporating its products and fluctuations in the timing and volume of such product sales could be harmful to its business. Further, failure by these customers to inform the Schaeffler Group of changes to their production needs in a timely manner could also hinder its ability to effectively manage its business. In addition, the Schaeffler Group does not carry insurance on all of its receivables. If certain of its OEM customers are unable to make payment against products that it has already delivered, the Schaeffler Group may not be able to recover those receivables.

Loss of all or a substantial portion of sales to any of its large OEM customers for whatever reason or a continued reduction of prices for products sold to these customers could have a significant adverse effect on its business, financial condition, and results of operations. In the twelve months ended March 31, 2012, Schaeffler Group's top ten customers represented

approximately 54% of automotive revenues and approximately 16% of industrial revenues. Factors that could cause such a loss of sales include loss of market share by these customers, termination of supply agreements and/or the failure to renegotiate new agreements or new terms, loss of contracts, insolvency, reduced or delayed customer requirements and plant shutdowns, strikes, or other work stoppages affecting production by such OEM customers. There can be no assurance that the Schaeffler Group will not lose all or a portion of sales to its large OEM customers or that it will be able to offset a continued reduction of prices for products sold to these customers with reductions in costs.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group depends on a limited number of key suppliers for certain products.***

The Schaeffler Group requires substantial amounts of raw materials, including steel tubing and bars, strip steel, nickel and other alloys and electric power. It is subject to the risk that any or all of these materials may be unavailable. Although its general policy is to source raw materials from a number of different suppliers, reliance on a single supplier cannot always be avoided and, consequently, the Schaeffler Group is dependent on certain suppliers. Furthermore, its procurement logistics may experience supply delays, cancellations, strikes, insufficient quantities or inadequate quality which result in interruptions in production and, therefore, have a negative impact on its production capacity and lead to under- utilization of its production sites, which in turn may cause delays in the delivery of products to its customers in these areas. If any one of Schaeffler Group's suppliers becomes unable to meet its delivery requirements for any reason (for example, due to insolvency, destruction of production plants or refusal to perform following a change in control), the Schaeffler Group may be unable to source input products from other suppliers upon short notice and/or at the required volume.

The recent economic downturn in 2008 and 2009 has led to a significant deterioration of financial health among automotive suppliers and caused a rise in insolvencies, mainly among Tier 2 suppliers (suppliers that sell their products to Tier 1 suppliers) and Tier 3 suppliers (suppliers that sell their products to Tier 2 suppliers), whereas Tier 1 suppliers (suppliers that sell their products directly to OEMs) were not affected to the same extent. These circumstances can cause delays in delivery or finalization of its products or projects and could result in the Schaeffler Group having to purchase products or services from third parties at higher costs or even to financially support its own suppliers.

In addition, many of the Schaeffler Group's OEM customers have approval rights with respect to the suppliers used by us, limiting its ability to source input products from other suppliers upon short notice if the relevant OEM customer has not already approved such other suppliers.

Any of these risks could lead to order cancellations or even claims for damages and could harm its long-term relationships with OEM customers, which may choose to select another supplier. The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is exposed to fluctuations in prices of raw materials and energy.***

The Schaeffler Group procures large quantities of raw materials, components and energy from third-party suppliers. In the twelve months ended March 31, 2012, the Schaeffler Group's costs of raw materials, components and energy from third-party suppliers were approximately €2.9 billion. High demand for raw materials, especially for different kinds of steel, as well as energy, has caused prices to increase steadily since mid-2009, and such prices may continue to increase in the future. This has led to increases in the cost of manufacturing its products.

The Schaeffler Group does not actively hedge against the risk of rising prices of raw materials by using derivative financial instruments. Therefore, if the Schaeffler Group is not able to compensate for or pass on its cost increases to customers, such price increases could have a material adverse impact on its financial results. Even to the extent that it is successful in compensating for or passing on its increased costs to its customers by increasing prices, the positive effects of such price increases may not occur in the periods in which the additional expenses have been incurred, but in later periods. In that event, the price increases will not have a compensating effect for the periods in which the costs increased. If costs of raw materials and energy continue to rise, and if the Schaeffler Group is not able to undertake cost saving measures elsewhere in its operations or increase the selling prices of its products, it will not be able to compensate such cost increases, which could have a material adverse effect on its business, financial condition and results of operations, and which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group may not be able to successfully execute its growth strategy of expanding in rapidly growing emerging markets.***

The Schaeffler Group has dedicated significant resources to enhance its local presence in emerging markets and intends to continue pursuing this growth strategy, particularly in the Asia/Pacific region. However, should it be unable to secure sufficient funding to finance its development and growth activities in the future, the Schaeffler Group could lose its competitive position in these important and rapidly growing regional markets. Furthermore, if the Schaeffler Group invests in emerging markets that do not develop as expected, or that deteriorate due to economic, political or other reasons, all or part of these investments may be lost. The Schaeffler Group also depends on the success of its customers in the emerging markets.

In addition, the success of its growth strategy will depend on attracting and retaining qualified personnel (including the need to identify, recruit, train and integrate additional employees) maintaining its high quality standards and implementing its standardized process and quality management globally.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group's future business success depends on its ability to maintain the high quality of its products.***

For customers, one of the determining factors in purchasing Schaeffler Group's components and systems is the high quality of its products, in particular due to their often mission-critical nature. A decrease in actual and perceived the quality of its products could damage its image and reputation and also the image and reputation of one or more of its brands. In addition, defective products could result in loss of sales, loss of customers and loss of market acceptance. The risks arising from such warranty and product liability lawsuits, proceedings and other claims are insured up to levels considered economically reasonable by the Schaeffler Group. However, the insurance coverage could prove insufficient in individual cases. Additionally, any major defect in one of its products could also have a material adverse effect on the Schaeffler Group's reputation and market perception, which in turn could have an adverse effect on its sales and results of operations.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group may be unable to maintain its technological leadership.***

The markets for the products that the Schaeffler Group offers are characterized by rapidly changing technology, evolving technical standards, changes in customer preferences and the frequent introduction of new products. The development and commercialization of new technologies and the introduction of new products will often make existing ones obsolete or unmarketable. The Schaeffler Group's competitiveness in the future will depend, at least in part, on its ability to (i) keep pace with rapid technological developments and maintain technological leadership, (ii) develop and manufacture innovative products in a timely and cost-effective manner, (iii) attract and retain highly capable technical and engineering personnel, and (iv) accurately assess the demand for, and perceived market acceptance of, new products that it develops.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group depends on its ability to secure sufficient funding for its R&D efforts.***

Developing new and improved products is very costly and therefore requires a substantial amount of capital funding. The Schaeffler Group spends significant resources on R&D. During each of the financial years 2009, 2010 and 2011, its R&D expenses in relation to total revenue accounted for approximately 5%.

If the Schaeffler Group devotes resources to the pursuit of new technologies and products that fail to be accepted in the marketplace or that fail to become commercially viable, all or part of these R&D expenses may be lost.

The general lack of liquidity, caused by the disruptions in the financial markets and its high level of indebtedness, is adversely impacting the availability and cost of additional credit for the Schaeffler Group and could adversely affect the availability of credit already arranged or committed. Should it be unable to secure sufficient funding to finance its development activities, the Schaeffler Group could lose its competitive position in a number of important and rapidly growing sub-markets.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group's operations depend on qualified executives and key employees.***

The Schaeffler Group's success depends on its executive board members and other qualified executives and employees in key functions. The loss of executives or key employees could have a material adverse effect on the Schaeffler Group's market position and prospects. Considerable expertise could be lost or access thereto gained by competitors. Due to intense competition within the industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees. There is no guarantee that the Schaeffler Group will be successful in retaining its executives and the employees in key positions or in attracting new employees with corresponding qualifications. Although the Schaeffler Group tries to retain the commitment of its qualified executives and key employees through performance-based remuneration systems, there is a risk that any such individuals will leave the Schaeffler Group. The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group's business could be adversely impacted by strikes and other labor disputes.***

Over the past several years, the Schaeffler Group has experienced a number of strikes, lockouts or refusals to work as well as plant seizures. Although it has managed to settle these disputes, the relationships with its employees and unions could deteriorate in the future and the Schaeffler Group could experience additional strikes, unionization efforts or other types of conflicts with labor unions or its employees. In addition, many of its customers and other suppliers also have unionized workforces. Refusals to work or work downtime experienced by the Schaeffler Group's customers or other suppliers could result in decreased productivity or closures of its assembly plants where its products are needed for assembly. This could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group's operations rely on complex IT systems and networks.***

The Schaeffler Group relies heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources or to security threats. Although the Schaeffler Group has taken precautions to manage its risks related to system and network disruptions, an extended outage in a data center or telecommunications network utilized by its systems, any security breaches or any similar event could lead to an extended unanticipated interruption of its systems or networks. The realization of any risks related to the Schaeffler Group's IT system and network disruptions could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group could be adversely affected by property loss and unforeseen business interruption.***

Damage and loss caused by fire, accidents, natural disasters, terrorism, supply shortage, severe weather or other disruptions of the Schaeffler Group's production process at its facilities or within its supply chain, with respect to customers and with suppliers, can be severe. Such risks arising from business interruption and loss of production are insured at levels considered economically reasonable by the Schaeffler Group but its insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or kill individuals or damage or destroy third party property or the environment, which could, among other things, lead to considerable financial costs for the Schaeffler Group. In addition, its manufacturing processes are dependent on critical pieces of equipment such as furnaces, as well as electrical equipment such as transformers and this equipment may, on occasion, be out of service as a result of unanticipated failures, which may result in production bottlenecks and breakdowns.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

## Risks related to the Schaeffler Group's financial position

***The Schaeffler Group's high leverage and debt service obligations could have a material adverse effect on its business and may make it difficult for it to service its debt, including the Notes, and operate its business.***

As of March 31, 2012, on a *pro forma* basis after giving effect to the issuance of an assumed €300 million aggregate principal amount of Notes and the application of the net proceeds therefrom, together with cash on the balance sheet, to repay in part outstanding amounts

under the New Senior Facilities Agreement, the Schaeffler Group would have had financial debt (including shareholder loans) of approximately €7,458 million on a consolidated basis and shareholder equity of €1,606 million on a consolidated basis. In addition, the Schaeffler Group is able to borrow, in addition to its existing indebtedness, additional funds subject to compliance with certain covenants and other conditions. Its level of indebtedness could have important consequences for investors in the Notes. For example, it could:

- make it more difficult for the Schaeffler Group to satisfy its obligations with respect to its indebtedness;
- increase its vulnerability to adverse economic and industry conditions;
- require it to dedicate a substantial portion of cash flow from operations to payments on its indebtedness, which could reduce the availability of cash flow to fund working capital needs, capital expenditures according to cash flow, future acquisitions and other general corporate needs;
- limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;
- place it at a competitive disadvantage compared to its competitors with less debt; and
- limit its ability to borrow additional funds.

***The Schaeffler Group is exposed to risks associated with the financing arrangements at the level of its parent companies.***

The Schaeffler Group is wholly-owned by Schaeffler Verwaltungs GmbH, which in turn is wholly-owned by Schaeffler Holding GmbH & Co. KG. Both Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG have entered into an approximately €4,944 million term loan and revolving credit facilities agreement, originally dated November 20, 2009 and amended from time to time (the "**IHO Facilities Agreement**"). The term loan facility bears cash interest at a rate of 1.7% per annum, the revolving credit facility bears interest at a rate of 4.5% per annum, and the facilities are due on June 30, 2017. The IHO Facilities Agreement contains certain restrictive covenants. The failure of Schaeffler Verwaltungs GmbH, Schaeffler Holding GmbH & Co. KG and other obligors thereunder to comply with these covenants could result in events of default under the IHO Facilities Agreement which could consequently result in an event of default under the New Senior Facilities Agreement. If not cured or waived, this could result in the acceleration of the indebtedness under the New Senior Facilities Agreement, which, in turn, could result in an event of default and acceleration of indebtedness of the Schaeffler Group, including under the Indenture governing the Notes.

***Due to the Schaeffler Group's high level of debt, it faces potential liquidity risks.***

The Schaeffler Group's cash from operating activities, current cash resources, existing sources of external financing and the proceeds from the issue and sale of the Notes could be insufficient to meet its further capital needs.

Furthermore, future disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of a number of financial institutions, and the generally restricted availability of liquidity could adversely impact the availability and cost of additional financing for the Schaeffler Group and could adversely affect the availability of financing already arranged or committed. Its liquidity could also be adversely impacted if its suppliers tighten terms of payment as the result of any decline in its financial condition or if the Schaeffler Group's customers were to extend their normal payment terms.

The realization of any of these risks may affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees and may cause the market price of the Notes to decline or experience increased volatility, and investors could lose all or part of their investment.

***The Schaeffler Group is exposed to a number of risks associated with the New Senior Facilities Agreement.***

The New Senior Facilities Agreement contains a range of covenants that require the Schaeffler Group to satisfy specified financial tests and maintain specified financial ratios regarding (i) a maximum level of total consolidated net debt to consolidated EBITDA, (ii) a minimum level of consolidated EBITDA to consolidated net interest expense, (iii) a minimum level of consolidated cashflow to consolidated net interest expenses ("cashflow cover ratio") and (iv) a maximum amount for aggregate capital expenditures for any financial year.

In light of the cyclicality of the Schaeffler Group's business and the possible effects on its business activities and results of operations as well as the other market and business-related risks described in more detail below, the Schaeffler Group may not be able to maintain its current revenue and profitability at the levels required for meeting the EBITDA related financial tests or the cashflow cover ratio. Hence, the Schaeffler Group cannot assure the investor that it will continue to comply with these financial covenants in the future. A breach of any covenants or the inability to comply with the required financial ratios could result in a default under the New Senior Facilities Agreement unless the Company can obtain waivers or consents in respect of any breaches of these obligations thereunder. The Company cannot assure the investor that these waivers or consents will be granted. In the event of any default under the New Senior Facilities Agreement, the lenders thereunder will not be required to lend any additional amounts to the Schaeffler Group and could elect to declare all outstanding borrowings, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. In addition, indebtedness under other instruments that contain cross-default or cross-acceleration provisions also may be accelerated and become due and payable. In the event of a default, the relevant lenders could also require the Company to apply all available cash to repay the borrowings or prevent the Schaeffler Group from making debt service payments on the Notes, any of which would be an event of default under the Notes. If the debt under the Company's credit facilities or the Notes were to be accelerated, the Company cannot assure the investor that its assets would be sufficient to repay such debt in full.

Furthermore, in addition to the maintenance of specific covenants, the New Senior Facilities Agreement provides for covenants and representations that limit the Company's and/or any of its subsidiaries' operations as well as change of control provisions. If the Schaeffler Group fails to comply with any of these covenants or representations or if a change of control occurs, and it is unable to obtain a waiver from the respective lenders, a default could result under the relevant debt instrument, which then could be declared to be immediately due and payable and/or would then become immediately due and payable.

***Existing debt obligations contain, and future debt obligations are likely to contain, restrictive covenants and change of control provisions.***

In addition to the risks related to the New Senior Facilities Agreement (see *"—The Schaeffler Group is exposed to a number of risks associated with the New Senior Facilities Agreement"*), the Company and its subsidiaries may be subject to risks related to other existing and future debt obligations, including the Existing Notes and the Notes offered hereby. The indenture governing the Notes will contain a number of restrictive covenants, as well as a change of control provision, and the indenture governing the Existing Notes contains substantially identical covenants and obligations. Any debt financing incurred by the Schaeffler Group in the future may contain similar restrictive covenants, representations and change of control provisions. If the Schaeffler Group fails to comply with any of these covenants or representations or if a change of control occurs, and it is unable to obtain a waiver from the respective lenders, a default could result under the relevant debt instrument, which then could be declared to be immediately due and payable and/or would become immediately due and payable.

The realization of any of these risks could have a material adverse effect on the Schaeffler Group's business, financial condition and results of operations and thus on its ability to fulfill its obligations under the Notes and the Guarantees.

***The Schaeffler Group is exposed to risks in connection with its share interest in Continental AG.***

Continental AG, in which Schaeffler Beteiligungsholding GmbH & Co. KG has a 36.1% share interest as of March 31, 2012, is the Schaeffler Group's major associated company. Under IFRS, the investment in associated companies is accounted for using the equity method. Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation) from the date that significant influence commences until the date significant influence ceases. Hence, after initial recognition, the carrying amount of its investment in Continental AG is increased or decreased by the Schaeffler Group's share of Continental AG's net income or loss and other comprehensive income or loss. Furthermore, at the end of each reporting period, the Schaeffler Group assesses whether there is any indication that its equity method investments may be impaired. If such an indication exists, it is required to test this equity method investment for impairment. An equity method investment is impaired when its carrying amount exceeds the higher of its value in use and fair value less costs to sell.

In its financial year 2011, Continental AG reported revenue of approximately €30.5 billion and EBITDA of approximately €4.2 billion. However, this does not indicate that Continental AG will be profitable in any future periods. In addition, a variety of factors that are partially or entirely beyond Schaeffler Group's and Continental AG's control, such as a downturn in certain of Continental AG's core markets, could have an adverse effect on the results of operations and business prospects of the Continental Group, which in turn may lead to a decrease of the carrying amount or require the Schaeffler Group to make impairment adjustments with respect to its share interest in Continental AG. Therefore, any fluctuation of Continental AG's results as well as any material adverse change to Continental AG's trading position and growth prospects could directly adversely affect the Schaeffler Group's net assets and financial position.

***The Schaeffler Group is exposed to risks associated with changes in currency exchange rates and hedging.***

The Schaeffler Group operates worldwide and is therefore exposed to financial risks that arise from changes in exchange rates. Currency exchange fluctuations could cause losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. In addition, fluctuations in foreign exchange rates could enhance or minimize fluctuations in the prices of raw materials, since the Schaeffler Group purchases a considerable part of the raw materials which it sources in foreign currencies. As a result of these factors, fluctuations in exchange rates could affect its results of operations.

External and internal transactions involving the delivery of products and services to and/or by third parties result in cash inflows and outflows which are denominated in currencies other than the functional currency of its respective group member. The Schaeffler Group is particularly exposed to fluctuations of net inflows in U.S. dollars (surplus) and net outflows in Romanian Leu (demand). To the extent that cash outflows of its respective group member in any one foreign currency are not offset by cash inflows resulting from operational business in such currency, the remaining net foreign currency exposure is hedged, in general, by at least 80% of the net exposure of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts and options. The foreign exchange risk is concentrated at the Schaeffler Group level, to the extent allowed, and hedged on a net basis. Portfolio

aspects (such as correlations) and current market environment are taken into account in execution of the hedging strategy.

However, the future use of derivative hedging instruments is generally dependent on the availability of adequate credit lines with appropriate financial institutions. As a result, the Schaeffler Group could be unable to use derivative financial instruments in the future, to the extent necessary, and its hedging strategy could therefore ultimately be adversely impacted. Furthermore, any hedging transactions executed in the form of derivative financial instruments may negatively impact its profit due to changes in the market-to-market valuation if hedge accounting is not applied.

In addition, the Schaeffler Group is exposed to foreign exchange risks arising from external and internal loan agreements, which result from cash inflows and outflows in currencies other than the functional currency of its respective group member. These foreign exchange risks are, in general, hedged against by using appropriate derivative financial instruments, particularly currency forwards/swaps and cross currency interest-rate swaps.

The Schaeffler Group's net foreign investments are generally not hedged against exchange rate fluctuations. In addition, a number of its consolidated companies report their results in currencies other than the euro, which requires the Schaeffler Group to convert the relevant items into euro when preparing its consolidated financial statements. Translation risks are generally not hedged.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is exposed to risks in connection with interest rate changes and associated hedging.***

The Schaeffler Group is exposed to risks associated with changes in variable interest rates, as certain of its credit facilities bear interest at a floating rate, such as the floating rate senior term loan. Therefore, an increase or decrease in interest rates would affect its current interest expenses and its future refinancing costs. These risks are monitored and evaluated as part of the Schaeffler Group's interest rate management activities and managed individually based on principles of alignment with its corporate risk strategy and market opportunities by means of derivative interest rate hedging instruments.

However, the future use of derivative interest rate hedging instruments is generally dependent on the availability of adequate credit lines with appropriate financial institutions. Currently, the availability of additional credit lines is negatively affected by the disruptions in the financial markets and the Schaeffler Group's high level of financial indebtedness. As a result, the Schaeffler Group could be unable to use derivative financial instruments in the future to the extent necessary, and its hedging strategy could therefore ultimately be adversely impacted. In addition, any hedging transactions executed in the form of derivative financial instruments may result market-to-market in losses.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group may have to repay investment grants and subsidies, or previously awarded investment grants may not be disbursed in part or at all.***

A part of the Schaeffler Group's investment requirements for developing and expanding its production capacity is covered by public aid, such as subsidies, loans at favorable conditions or tax reductions or exemptions. The decisions on granting public aid received by the Schaeffler

Group contain various conditions such as the creation of jobs or specific research and development activities. If these conditions are not fulfilled during the commitment period, which generally exceeds the specified investment period, this could result in a repayment claim by the relevant authorities for the public aid received by the Schaeffler Group. During the commitment period, such conditions may no longer be satisfied and it could be subsequently exposed to considerable repayment claims. This could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is exposed to risks in connection with its pension commitments.***

The Schaeffler Group provides defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of March 31, 2012, its total pension obligations amounted to approximately €1,765 million. As of March 31, 2012, its net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,233 million.

The Schaeffler Group's externally invested pension plan assets are funded through externally managed investment funds. While the Schaeffler Group prescribes the general investment strategies applied by these funds, it does not determine their individual investment alternatives. The assets are invested in different asset classes including, but not limited to, stocks, fixed-income securities and real estate. The values attributable to the externally invested pension plan assets are subject to fluctuations in the capital markets that are beyond its influence. Unfavorable developments in the capital markets could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in the Schaeffler Group's net pension obligations. Any such increase in its net pension obligations could adversely affect its financial condition due to an increased additional outflow of funds to finance the pension obligations. Also, the Schaeffler Group is exposed to risks associated with longevity and interest rate changes in connection with its pension commitments as an interest rate decrease could have an adverse effect on its liabilities under these pension schemes. Furthermore, certain of its U.S.-based subsidiaries have entered into obligations to make contributions to healthcare costs of their former employees. Accordingly, the Schaeffler Group is exposed to the risk that these costs will increase in the future.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

## Legal, taxation and environmental risks

***The Schaeffler Group is subject to industry-wide antitrust investigations, the outcomes of which could result in antitrust fines and related damage claims.***

On November 8, 2011, the EU Commission conducted an on-site inspection at the Schaeffler Group's offices in Herzogenaurach and Schweinfurt, Germany, investigating suspected infringements of EU competition law in the automotive and industrial bearings sector. Its offices were searched and copies of a number of documents were taken. In addition, the U.S. Department of Justice ("**DOJ**") served a grand jury subpoena on November 9, 2011 and has commenced its own investigation concerning possible antitrust law infringements in these sectors. The Japanese Fair Trade Commission ("**JFTC**") sent an initial request for information to the Company's Japanese subsidiary on November 30, 2011 and further requests for information on January 10, May 21, and May 28, 2012. The Schaeffler Group is conducting an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors. Pursuant to Schaeffler Group policy, the Company is cooperating fully with the investigating authorities. If the EU Commission or the DOJ or any other relevant competition authority

concludes that the Schaeffler Group participated in anti-competitive practices, these authorities may seek to impose a fine. The DOJ may commence criminal prosecution of the Company and/or its employees. For example, a successful antitrust law challenge could result in the imposition of fines in the EU of up to a maximum of 10% of a company's worldwide annual group revenue. While the Schaeffler Group anticipates the risk of a fine in the EU, at this stage it is not possible to provide a reliable estimate of the amount of any fine. It may also face follow-on civil actions by both direct and indirect purchasers of bearings. On May 23 and 31, 2012, purported class action lawsuits were filed by Florida plaintiffs in the U.S. District Court for the Eastern District of Michigan against Schaeffler AG and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants.

The realization of any of these risks could have a material adverse effect on the Schaeffler Group's business, financial position and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is exposed to warranty and product liability claims.***

As a manufacturer, the Schaeffler Group is subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations, treatment errors and claims arising from breaches of contract, recall actions or fines imposed by government or regulatory authorities. Any such lawsuits, proceedings and other claims could result in increased costs for the Schaeffler Group. In addition, defective products could result in loss of revenue, loss of customers, and loss of market acceptance, in particular against the background that many of its products are mission-critical components which often have a major impact on the overall safety, durability and performance of its customers' end-product. The risks arising from such warranty and product liability lawsuits, proceedings and other claims are insured up to levels the Schaeffler Group considers economically reasonable, but the insurance coverage could prove insufficient in individual cases. Additionally, any major defect in one of its products could also have a material adverse effect on its reputation and market perception, which in turn could have a significant adverse effect on its revenue and results of operations.

In addition, vehicle manufacturers are increasingly requiring a contribution from their suppliers for potential product liability, warranty and recall claims and the Schaeffler Group has been subject to continuing efforts by its customers to change contract terms and conditions concerning warranty and recall participation.

Furthermore, the Schaeffler Group manufactures many products pursuant to OEM customer specifications and quality requirements. If the products manufactured and delivered do not meet the requirements stipulated by its OEM customers at the agreed date of delivery, production of the relevant products is generally discontinued until the cause of the product defect has been identified and remedied. Furthermore, its OEM customers could potentially bring claims for damages on the basis of breach of contract, even if the cause of the defect is remedied at a later point in time. In addition, failure to perform with respect to quality requirements could negatively affect the market acceptance of its other products and its market reputation in various market segments.

The realization of any of these risks could have a material adverse effect on the Schaeffler Group's business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group could be unsuccessful in adequately protecting its intellectual property and technical expertise.***

The Schaeffler Group's products and services are highly dependent upon its technological know-how and the scope and limitations of its proprietary rights therein. The Schaeffler Group has

obtained and applied for a large number of intellectual property rights, such as patents, that are of considerable importance to its business. The process of seeking patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide it with meaningful protection or a commercial advantage. In addition, while there is a presumption that patents are valid, the granting of a patent does not necessarily imply that it is effective or that possible patent claims can be enforced to the degree necessary or desired. A major part of its know-how and industrial secrets is not patented and cannot be protected through intellectual property rights. Consequently, there is a risk that third parties, in particular competitors, will copy the Schaeffler Group's know-how without incurring any expenses of their own.

In addition, the Schaeffler Group has entered into a number of license, cross-license, cooperation and development agreements with its customers, competitors and other third parties under which it is granted access to intellectual property or know-how of such third parties. It is possible that license agreements could be terminated under circumstances such as a licensing partner's insolvency or bankruptcy or in the event of a change of control in either party, leaving the Schaeffler Group with reduced access to intellectual property rights to commercialize its own technologies.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***There is a risk that the Schaeffler Group infringes intellectual property rights of third parties.***

The Schaeffler Group's competitors, suppliers and customers also submit a large number of inventions for intellectual property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party intellectual property rights to certain processes, methods or applications. Therefore, third parties could assert infringement claims (including illegitimate ones) against the Schaeffler Group. As a result, the Schaeffler Group could be required to cease manufacturing, using or marketing the relevant technologies or products in certain countries or be forced to make changes to manufacturing processes or products. In addition, the Schaeffler Group could be liable to pay compensation for infringements or could be forced to purchase licenses to make use of technology from third parties. This could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group might not have validly acquired employee inventions or could possibly fail to validly acquire them in the future.***

There is a risk that the Schaeffler Group has failed or will fail to properly utilize inventions of its employees. Present or former employees who made or make employee inventions might continue to be the owners of the valuable rights to inventions if the Schaeffler Group fails to claim the invention in a timely manner. If this should be the case and it nevertheless registered an employee invention with the Schaeffler Group as the owner of a patent or utility model and/or used an employee invention as such, then the employee who made the invention might have a claim for transfer of the patent/of the utility model against us, and might be able to assert claims for damages for the unauthorized use of his or her invention (*e.g.*, disgorgement of profits or notional license fees). In addition, a claim could be asserted against the Schaeffler Group to enjoin its use of the invention, or it could be forced to enter into a license agreement providing for the payment of royalties in order to use the invention in the future, or it might have to acquire the invention. Furthermore, there is a risk that employees may have claims for employee invention compensation which have not yet been fully satisfied. If the Schaeffler Group should have failed to have validly acquired employee inventions or should potentially fail

to validly acquire them in the future or if employees should have claims for employee invention compensation which have not been fully satisfied, this could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group may incur additional costs as a result of industry collective bargaining agreements applicable to its German employees.***

If the conditions of employment of individuals entitled to the benefits of industry collective bargaining agreements fall below the standard of industry collective bargaining agreements in Germany, an employee, the union or relevant social insurance institutions may object to these conditions because the employment is subject to a collective bargaining agreement. If they are successful, the Schaeffler Group could incur higher employment costs. If employment contracts fall below the standard of applicable collective bargaining agreements, it could also incur higher social security contributions for the past and future with regard to its German employees.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group is subject to risks from legal, administrative and arbitration proceedings.***

The Schaeffler Group companies are involved in a number of legal, administrative and arbitration proceedings and could become involved in additional legal, administrative and arbitration proceedings. These proceedings or potential proceedings could involve, in particular in the United States, substantial claims for damages or other payments. Based on a judgment or a settlement agreement, the Schaeffler Group could be obligated to pay substantial damages. Its litigation costs and those of third parties could also be significant.

***Almost all shares in the Schaeffler Group companies (not including the shares in Continental AG) and certain shares in other IHO Group companies are tainted for German tax purposes.***

Due to a legal restructuring in 2009 and 2010, almost all shares in the Schaeffler Group companies (not including the shares in Continental AG) and certain shares in other IHO Group companies are tainted (*sperrfristbehaftet*) for German tax purposes. In 2009 and 2010, the former Schaeffler KG's business was indirectly and through various steps hived-down into the Company pursuant to the German Reorganization Tax Act (*Umwandlungssteuergesetz*) at tax book value. As a result, a seven-year holding period applies with respect to the shares in the Company received and furthermore to the shares that form part of the contributed business as well as to certain shares in other IHO Group companies (all sets of shares referred to as "tainted shares"). A sale of any of these tainted shares or a comparable event during the seven-year holding period may, hence, trigger a (partial) retroactive taxation of built-in gains of the contributed business and shares existing at the tax effective date of the contribution for German tax purposes. The retroactive taxable gain is principally defined as the difference between the fair market value of the contributed assets or shares and their tax book value. This difference is reduced by one seventh for each year that has elapsed since the contribution until the recapture gain is triggered. Trade income tax on a recapture gain should be due at the level of Schaeffler Technologies AG & Co. KG. As these tainted shares form part of the Collateral, an enforcement of the Collateral will also trigger the (partial) retroactive taxation of such built-in gains. In addition, a sale or comparable event could under certain circumstances also be triggered by a direct or indirect shareholder of the Company or their successors and assignees (including transfer of shares by reason of gift or death to corporations and similar entities or the withdrawal of shares from the allocation to a German permanent establishment); accordingly the avoidance of any such event is beyond the Company's control.

The taxation of such a recapture gain may result in a tax liability of several hundred million euro for members of the Schaeffler Group and further recapture tax to be paid by its shareholders and could therefore have a material adverse effect on its business, financial condition and results of operations. This could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group could be subject to tax risks attributable to previous tax assessment periods.***

The Company and its subsidiaries could accrue unanticipated tax expenses in relation to previous tax assessment periods which have not yet been subject to a tax audit or are currently subject to a tax audit.

Until now, the Company has not been subject to a tax audit, but many of the Schaeffler Group's German and foreign companies are subject to a routine tax audit by the German tax authorities for the assessment periods 2005 through 2007. In ongoing or future tax audits, the tax laws or relevant facts could be interpreted by the tax authorities in a manner deviating from the relevant company's view. As a result, the tax authorities could revise original tax assessments and substantially increase the tax burden (including interest and penalty payments) of the relevant company. Since the Company indirectly acquired Schaeffler Holding GmbH & Co. KG's operating business by way of a hive-down under the German Reorganization Act (*Umwandlungsgesetz*), the Company is exposed to tax audit risks with respect to previous periods on a legal and/or contractual basis in connection with the reorganization.

A significant amount of the Company's annual refinancing expenses (interest payments and further expenses which may qualify as interest expenses within the meaning of the interest barrier rules) is not immediately deductible for tax purposes under the German interest barrier rules (*Zinsschranke*). The interest barrier rules generally provide for a limitation on the deduction of a business' net interest expenses in a financial year to an amount equal to 30% of its tax-adjusted EBITDA in the respective financial year. This has an adverse effect on the Schaeffler Group's financial situation, which could in turn cause the market price of the Notes to decline. In order to avoid negative impacts on the consolidated financial statements, the Company has not recognized any deferred tax assets on the non-deductible interest expenses.

The definition of interest expenses for interest barrier rule purposes is not free of doubt. It is, *inter alia,* not clear whether the German tax authorities qualify payments for interest swaps as interest expenses which would therefore become subject to the interest barrier rules. Against this background, the Company has accounted for tax provisions and liabilities in its consolidated financial statements which, in the view of the Company, properly reflect the (potential) tax inefficiencies from its interest expenses, hedging expenses and further financing expenses under the interest barrier rules. The Company and its affiliates have set up certain tax provisions to address identifiable risks in respect of uncertain tax audit risks. Thus, the Company takes the view that the current amount of provisions and liabilities shown in the consolidated financial statements of the Company properly reflects the potential exposure from tax audits. The Schaeffler Group companies, so far, have not been made aware by a tax auditor of any significant findings which would not be covered by the tax provisions and liabilities the respective company has accounted for. Nevertheless, it cannot be ruled out that ongoing and/or future tax audits may lead to an additional tax expense and/or payment, which may have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Company is affected by the German interest barrier rules.***

A significant amount of the Company's annual refinancing expenses (interest payments and further expenses which may qualify as interest expenses within the meaning of the interest

barrier rules) is not immediately deductible for tax purposes under the German interest barrier rules (*Zinsschranke*). The interest barrier rules generally provide for a limitation on the deduction of a business' net interest expenses in a financial year to an amount equal to 30% of its tax-adjusted EBITDA in the respective financial year. This has an adverse effect on the Schaeffler Group's financial situation, which could in turn cause the market price of the Notes to decline. In order to avoid negative impacts on the consolidated financial statements, the Company has not recognized any deferred tax assets on the non-deductible interest expenses. The definition of interest expenses for interest barrier rule purposes is not free of doubt. It is, *inter alia,* not clear whether the German tax authorities qualify payments for interest swaps as interest expenses which would therefore become subject to the interest barrier rules. Against this background, the Company has accounted for tax provisions and liabilities in its consolidated financial statements which, in the view of the Company properly reflect the (potential) tax inefficiencies from its interest expenses, hedging expenses and further financing expenses under the interest barrier rules.

***The Schaeffler Group could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.***

Many of the sites at which the Schaeffler Group operates have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. In addition, the Schaeffler Group could be held responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to its activities. Furthermore, soil, water or groundwater contamination has been discovered at sites operated by the Schaeffler Group in the past, including a site operated by Schaeffler Brazil. The competent authorities could assert claims against the Schaeffler Group, as the owner or tenant of the affected plots, for the examination or remediation of such soil or groundwater contamination, or order it to dispose of or treat contaminated soil excavated in the course of construction. The Schaeffler Group could also be required to indemnify the owners of plots leased by it or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if it caused the contamination. On several of the sites where contaminations have been discovered, remediation activities have already taken place upon order by or agreement with the competent authorities. Costs typically incurred in connection with such claims are generally difficult to predict. Also, if any contamination were to become a subject of public discussion, there is a risk that the Schaeffler Group's reputation or relations with its customers could be harmed.

Furthermore, at some of the sites at which the Schaeffler Group operates, hazardous materials were used in the past, such as asbestos-containing building materials used for heat insulation. The health and safety of third parties (such as former employees) may have been affected due to the use of such hazardous materials and it could therefore be exposed to related damage claims in the future. The Schaeffler Group faces similar risks with respect to former sites which it sold in the past. Even if the Schaeffler Group has contractually excluded or limited its liability in connection with the sale of such properties, it could be held responsible for currently unknown contamination on properties which it previously owned or used.

In addition, manufacturers of clutch lining materials are sometimes defendants in suits brought by individuals claiming personal injuries as a result of alleged exposure to asbestos or asbestos-containing products. Claims of this nature have been filed against certain of the Schaeffler Group's subsidiaries in various jurisdictions (including the U.S.) as a result of sales of clutch lining material containing asbestos made until the end of the 1980s.

The realization of any of these risks could have a material adverse effect on its business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

***The Schaeffler Group could become subject to additional burdensome environmental or safety regulations and additional regulation could adversely affect demand for its products and services.***

The Schaeffler Group must observe a large number of different regulatory systems across the world that change frequently and are continuously evolving and becoming more stringent, in particular with respect to environmental regulations, chemicals and hazardous materials, as well as health regulations. This applies also to air, water and soil pollution regulations and to waste legislation, all of which have recently become more stringent through new laws, in particular, but not limited to, in the EU and the United States. For instance, all its plants across the world are assessed according to the European Management and Audit Scheme ("**EMAS**") system and certified according to ISO 14001 and the Occupational Health and Safety Audit System ("**OHSAS**") 18001. In addition, for its sites and operations, the Schaeffler Group requires various permits and it has to comply with the requirements specified therein. In the past, adjusting to new requirements has required significant investments and the Schaeffler Group assumes that further significant investments in this regard will be required in the future.

Furthermore, any additional regulation restricting or limiting car traffic with an aim at reducing carbon emissions could lead to a material decrease in car sales and consequently adversely affect demand for its products and services.

In numerous markets important to the Schaeffler Group, governments introduced scrappage programs in 2009 (such as the Car Allowance Rebate System in the United States and the Car Scrappage Bonus (*Umweltprämie*) in Germany) intended to provide economic incentives to car owners to trade in older vehicles and purchase new ones. Most of these programs designed to stimulate the economy by boosting vehicle sales have lapsed. As these scrappage programs may have led to increased sales by bringing forward potential demand from later years rather than adding incremental demand in the relevant markets, vehicle sales may decline in the short term with likely negative consequences for production volumes on which the Schaeffler Group depends.

Increasing taxes reducing the income available for consumption may also weaken the global demand in the automotive markets. Tax increases are a likely reaction of the national governments (especially of the EU member states) to the increase of national debt resulting from the various bailout programs set up for banks or, most recently, the stabilization package for EU member states.

The realization of any of these risks could have a material adverse effect on the Schaeffler Group's business, financial condition and results of operations, which could in turn adversely affect the Schaeffler Group's ability to fulfill its obligations under the Notes and the Guarantees or cause the market price of the Notes to decline.

## Risks related to the Subsidiary Guarantors

As Egon von Ruville GmbH (*Germany*), FAG Aerospace GmbH & Co. KG (*Germany*), FAG Kugelfischer GmbH (*Germany*), IAB Holding GmbH (*Germany*), IAB Verwaltungs GmbH (*Germany*), INA Beteiligungsverwaltungs GmbH (*Germany*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Germany*), LuK GmbH & Co. KG (*Germany*), LuK Vermögensverwaltungsgesellschaft mbH (*Germany*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Germany*), Schaeffler Technologies AG & Co. KG (*Germany*), WPB Water Pump Bearing GmbH & Co. KG (*Germany*), Schaeffler Austria GmbH (*Austria*), Schaeffler Brasil Ltda. (*Brazil*), Schaeffler France SAS (France), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Hungary*), S.C. Schaeffler Romania S.R.L. (*Romania*), INA Kysuce, a.s. (*Slovakia*), INA SKALICA spol. s r.o. (*Slovakia*), LuK (UK) Limited (*United Kingdom*), Schaeffler (UK) Limited (*United Kingdom*), Schaeffler Automotive Aftermarket (UK) Ltd. (*United Kingdom*), The Barden Corporation (UK) Ltd. (*United Kingdom*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) and Schaeffler Group USA Inc. (*Delaware, USA*) (the "**Subsidiary Guarantors**") are part of the Schaeffler Group, the risks described above under

"*—Risks related to the markets in which the Schaeffler Group operates*," "*—Risks related to the Schaeffler Group's business operations*," "*—Risks related to the Schaeffler Group's financial position*" and "*—Legal, taxation and environmental risks*" also apply to the Subsidiary Guarantors as with regard to their respective businesses. There are no other individual risks particular to the Subsidiary Guarantors.

The individual financial statements of each Guarantor are not published by the Schaeffler Group and are therefore not disclosed or incorporated by reference in this Prospectus. The Schaeffler Group publishes only consolidated financial statements. The individual financial statements of each of the Subsidiary Guarantors do not contain further relevant information compared with the consolidated financial statements of the Company. The consolidated financial statements of the Company contain financial information of the Schaeffler Group which includes the Subsidiary Guarantors and which present a true and accurate picture of the net assets of the Subsidiary Guarantors. By simply deducting the existing credit facility indebtedness and indebtedness under the Existing Notes in the amount of €7,039 million from the financial debt position of €7,155 million of the Schaeffler Group's balance sheet data as of March 31, 2012, the investors are able to obtain the same information they would otherwise be able to obtain from the Subsidiary Guarantors financial statements. Please refer to the consolidated financial information of the Schaeffler Group which is incorporated by reference in this Prospectus. Please also see *"Selected financial information"* for key selected financial information of the Schaeffler Group and *"Description of other Indebtedness"* for a description of the liabilities of the Schaeffler Group.

# Use of proceeds

The Company estimates that the net proceeds from the sale of the Notes will amount to approximately €292 million (assuming €300 million aggregate principal amount of Notes are sold), after payment of the estimated commissions and other expenses related to the offering of the Notes that are to be borne by the Issuer.

The proceeds from the sale of the Notes will be on-lent by the Issuer to the Company under the Notes Proceeds Loan.

The Company expects to use the net proceeds received from the Issuer, together with cash on its balance sheet, to partially repay outstanding amounts under the New Senior Facilities Agreement.

The following table sets forth the expected sources and uses of funds (*pro forma*) by the Company in connection with the Transactions (all amounts shown are principal amounts).

| **Sources of Funds** | **in € million** |
|---|---|
| Notes offered hereby[(1)] | 300 |
| Cash and cash equivalents | 8 |
| **Total Sources** | **308** |

| **Uses of Funds** | **in € million** |
|---|---|
| Partial repayment of amounts outstanding under the New Senior Facilities Agreement[(2)(3)] | 300 |
| Repay Term Loan B under the New Senior Facilities Agreement in part | 180 |
| Repay Term Loan C1 under the New Senior Facilities Agreement in part | 36 |
| Repay Term Loan C2 under the New Senior Facilities Agreement in part | 84 |
| Estimated fees and expenses[(4)] | 8 |
| **Total Uses** | **308** |

(1) The amount reflects the proceeds from the issuance of an assumed €300 million aggregate principal amount of Notes, assuming that the Notes are issued at par.

(2) Gross of unamortized transaction costs.

(3) For this illustration, we have assumed that the partial repayment of amounts outstanding under the New Senior Facilities Agreement is on a pro rata basis of the current outstanding Term Loans.

(4) Represents the Schaeffler Group's estimate of fees and expenses in connection with or otherwise related to the offering of the Notes, including underwriting fees, professional and legal fees, financial advisory and other transaction costs. Actual fees and expenses may differ.

# Capitalization

*The following table provides an overview of the Schaeffler Group's unaudited consolidated capitalization as of March 31, 2012 (a) on an actual basis and (b) as adjusted to give pro forma effect to the issuance of €300 million aggregate principal amount of Notes, the application of the net proceeds therefrom, together with cash on its balance sheet, to repay in part outstanding amounts under the New Senior Facilities Agreement (together, the "**Transactions**"), as if the Transactions had occurred on March 31, 2011. The amount reflects the gross proceeds from the issuance of the Notes of €300 million as described under "Use of proceeds."*

*The information set out below should be read in conjunction with the Schaeffler Group's consolidated financial statements included elsewhere in this Prospectus. All values shown are book values (except where otherwise stated).*

| | As of March 31, 2012 | | |
|---|---|---|---|
| **in € million** | **Actual** | **Adjustments for the issuance of the Notes as well as for the partial repayment of the New Senior Facilities Agreement** | **As adjusted** |
| | | **(unaudited)** | |
| **Cash and cash equivalents** | **291** | **(8)** | **283** |
| Annuity loan | 90 | — | 90 |
| **Senior Facilities** | 5,046 | (297) | 4,749 |
| *Revolving credit facility* | 100 | — | 100 |
| *Term loan A* | — | — | — |
| *Term loan B* | 3,000 | (180) | 2,820 |
| *Term loan C1* | 600 | (36) | 564 |
| *Term loan C2* | 1,404 | (84) | 1,320 |
| *Unamortized transaction costs* | (58) | 3 | (55) |
| **Existing Notes** | **1,993** | **—** | **1,993** |
| *EUR Notes* | 1,200 | — | 1,200 |
| *USD Notes* | 824 | — | 824 |
| *Unamortized transaction costs* | (31) | — | (31) |
| Notes offered hereby[(1)] | — | 300 | 300 |
| Other financial debt | 46 | — | 46 |
| **Financial debt**[(2)(3)(4)] | **7,175** | **3** | **7,178** |
| Shareholder loans[(5)] | 280 | — | 280 |
| Shareholders' equity | 1,617 | (11) | 1,606 |
| **Total capitalization** | **9,072** | **(8)** | **9,064** |

(1) The amount reflects the gross proceeds from the issuance of the Notes of €300 million.

(2) Excluding shareholder loans.

(3) For this illustration, the Schaeffler Group has assumed that expected transaction costs of €8 million are not amortized and have thus deducted this amount from shareholders' equity. However, under IFRS, it is likely that a significant portion of the transaction costs qualify for amortization which would result in accordingly, lower reported financial debt and higher shareholders' equity.

(4) According to internal management accounts, non-current financial debt of the Schaeffler Group as of May 31, 2012 was €55 million higher than as of March 31, 2012.

(5) Shareholder loans refers to the Special Receivables Loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by our parent companies Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. These loans are subordinated in right of payment to the Notes and indebtedness under the New Senior Facilities Agreement pursuant to the terms of the Security Pooling and Intercreditor Agreement. After March 31, 2012, we made distributions to our parent company in the total amount of €10 million by way of our Special Receivables Loan to service our direct and indirect parent companies' liquidity needs.

For further information relating to the debt instruments described above, see *"Management's discussion and analysis of the Schaeffler Group's financial condition and results of operations—Liquidity and capital resources" and "Description of other indebtedness."*

# Selected financial information

## Selected consolidated financial data

*The following tables present the Schaeffler Group's selected financial information and should be read in conjunction with the audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 and the unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2011 and 2012. The summary financial information provided below was derived from the consolidated financial statements. These financial statements were prepared in accordance with IFRS as adopted by the EU. Schaeffler Group's consolidated financial statements as of and for the years ended December 31, 2011 and 2010 were audited by KPMG which were issued an unqualified audit opinion. The condensed consolidated financial statements as of and for the three months ended March 31, 2011 and 2012, which were prepared in accordance with IFRS as adopted by the EU, have not been audited. The information below is not necessarily indicative of the results of future operations.*

## Consolidated Income Statement

| | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| **in € million** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(unaudited)** | | **(unaudited)** |
| **Revenue** | **7,336** | **9,495** | **10,694** | **2,697** | **2,858** | **10,855** |
| Cost of sales | (5,552) | (6,506) | (7,463) | (1,835) | (1,973) | (7,601) |
| **Gross profit** | **1,784** | **2,989** | **3,231** | **862** | **885** | **3,254** |
| R&D expenses | (384) | (467) | (495) | (121) | (147) | (521) |
| Selling expenses | (526) | (645) | (725) | (173) | (191) | (743) |
| Administrative expenses | (405) | (366) | (408) | (101) | (127) | (434) |
| Other income | 458 | 375 | 330 | 61 | 27 | 296 |
| Other expenses | (481) | (377) | (244) | (56) | (46) | (234) |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| Share of net income (loss) of equity-accounted investees | (591) | (349) | 324 | 106 | 136 | 354 |
| Interest income | 39 | 51 | 40 | 14 | 32 | 58 |
| Interest expense[1] | (968) | (861) | (773) | (15) | (242) | (1,000) |
| **Financial result** | **(1,520)** | **(1,159)** | **(409)** | **105** | **(74)** | **(588)** |
| **EBT**[2] | **(1,074)** | **350** | **1,280** | **577** | **327** | **1,030** |
| Income taxes | (125) | (277) | (378) | (136) | (88) | (330) |
| **Net income** | **(1,199)** | **73** | **902** | **441** | **239** | **700** |
| Attributable to shareholders of the parent company | (1,204) | 63 | 889 | 438 | 236 | 687 |
| Attributable to non-controlling interests | 5 | 10 | 13 | 3 | 3 | 13 |

## Consolidated Statement of Financial Position

| | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| **in € million** | **2009** | **2010** | **2011** | **2011** | **2012** |
| | | | | | **(unaudited)** |
| **Assets** | | | | | |
| Intangible assets | 618 | 575 | 553 | 569 | 554 |
| Property, plant and equipment | 3,129 | 3,041 | 3,328 | 2,989 | 3,392 |
| Investments in equity-accounted investees | 5,472 | 5,252 | 4,772 | 5,324 | 4,908 |
| Other investments | 8 | 8 | 14 | 8 | 14 |
| Other assets | 255 | 166 | 95 | 209 | 116 |
| Income tax receivables | 0 | 0 | 22 | 0 | 24 |
| Deferred tax assets | 248 | 289 | 350 | 243 | 366 |
| **Total non-current assets** | **9,730** | **9,331** | **9,134** | **9,342** | **9,374** |
| Inventories | 1,162 | 1,482 | 1,562 | 1,537 | 1,603 |
| Trade receivables | 1,144 | 1,443 | 1,607 | 1,706 | 1,885 |
| Other assets | 183 | 257 | 200 | 318 | 221 |
| Income tax receivables | 39 | 98 | 89 | 111 | 75 |
| Cash and cash equivalents | 350 | 733 | 397 | 358 | 291 |
| **Total current assets** | **2,878** | **4,013** | **3,855** | **4,030** | **4,075** |
| **Total assets** | **12,608** | **13,344** | **12,989** | **13,372** | **13,449** |
| **Shareholders' equity and liabilities** | | | | | |
| Share capital | — | 500 | 500 | 500 | 500 |
| Reserves | 3,239 | 2,801 | 1,324 | 2,841 | 1,260 |
| Accumulated other comprehensive income (loss) | (421) | (7) | (163) | (101) | (200) |
| **Equity attributable to shareholders of the parent company** | **2,818** | **3,294** | **1,661** | **3,240** | **1,560** |
| Non-controlling interests | 34 | 47 | 53 | 48 | 57 |
| **Total shareholders' equity** | **2,852** | **3,341** | **1,714** | **3,288** | **1,617** |
| Provisions for pensions and similar obligations | 1,120 | 1,111 | 1,217 | 1,111 | 1,282 |
| Provisions | 135 | 127 | 79 | 130 | 75 |
| Financial debt | 6,420 | 6,413 | 7,168 | 6,411 | 7,155 |
| Income tax payables | 24 | 102 | 172 | 93 | 187 |
| Other liabilities | 473 | 423 | 261 | 290 | 341 |
| Deferred tax liabilities | 75 | 116 | 124 | 123 | 122 |
| **Total non-current liabilities** | **8,247** | **8,292** | **9,021** | **8,158** | **9,162** |
| Provisions | 306 | 317 | 208 | 339 | 203 |
| Financial debt | 61 | 64 | 317 | 71 | 300 |
| Trade payables | 425 | 729 | 873 | 823 | 976 |
| Income tax payables | 102 | 115 | 184 | 159 | 202 |
| Other liabilities | 615 | 486 | 672 | 534 | 989 |
| **Total current liabilities** | **1,509** | **1,711** | **2,254** | **1,926** | **2,670** |
| **Total shareholders' equity and liabilities** | **12,608** | **13,344** | **12,989** | **13,372** | **13,449** |

## Consolidated Statement of Cash Flows

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| **Operating activities** | | | | | | |
| EBIT | 446 | 1,509 | 1,689 | 472 | 401 | 1,618 |
| Interest paid | (686) | (644) | (686) | (171) | (166) | (681) |
| Interest received | 8 | 10 | 13 | 2 | 2 | 13 |
| Income taxes paid | (161) | (298) | (238) | (70) | (54) | (222) |
| Depreciation, amortization and impairments | 657 | 588 | 554 | 141 | 148 | 561 |
| Gains/losses on disposal of assets | 0 | (2) | 0 | (1) | (1) | 0 |
| Other non-cash items | (1) | (3) | 2 | (21) | (19) | 4 |
| Changes in: | | | | | | |
| • Inventories | 573 | (257) | (80) | (91) | (54) | (43) |
| • Trade receivables | 73 | (241) | (153) | (295) | (290) | (148) |
| • Trade payables | (100) | 271 | 83 | 101 | 121 | 103 |
| • Provisions for pensions and similar obligations | (59) | (55) | (61) | (7) | (8) | (62) |
| • Other assets, liabilities and provisions | (153) | 12 | (39) | 65 | 57 | (47) |
| **Cash flows from operating activities** | **597** | **890** | **1,084** | **125** | **137** | **1,096** |
| **Investing activities** | | | | | | |
| Proceeds from disposals of intangible assets and property, plant and equipment | 50 | 25 | 11 | 6 | 7 | 12 |
| Capital expenditures on intangible assets | (51) | (21) | (15) | (4) | (9) | (20) |
| Capital expenditures on property, plant and equipment | (270) | (340) | (758) | (116) | (241) | (883) |
| Investments in equity-accounted investees and other investments | (3,905) | (4) | (10) | (1) | (1) | (10) |
| Acquisition/disposal of cash settled swaps | 2,112 | 0 | 0 | 0 | 0 | 0 |
| Other investing activities | 67 | 16 | 7 | 1 | 0 | 6 |
| **Cash used in investing activities** | **(1,997)** | **(324)** | **(765)** | **(114)** | **(244)** | **(895)** |
| **Financing activities** | | | | | | |
| Dividends paid to non-controlling interests | (1) | (1) | (1) | 0 | 0 | (1) |
| Receipts from loans | 2,150 | 3 | 13 | 53 | 170 | 130 |
| Repayments of loans | (250) | (83) | (42) | (10) | (11) | (43) |
| Acquisition in stages | 0 | 0 | 0 | 0 | (13) | (13) |
| Dividends paid to Schaeffler Verwaltungs GmbH | (592) | (134) | (400) | (400) | 0 | 0 |
| Receipts/payments from other financing activities | (144) | 15 | (216) | (17) | (144) | (343) |
| **Cash used in financing activities** | **1,163** | **(200)** | **(646)** | **(374)** | **2** | **(270)** |
| **Net increase/decrease in cash and cash equivalents** | **(237)** | **366** | **(327)** | **(363)** | **(105)** | **(69)** |
| Cash and cash equivalents as of beginning of period | 585 | 350 | 733 | 733 | 397 | 358 |
| Effects of foreign exchange rate changes on cash and cash equivalents | 2 | 17 | (9) | (12) | (1) | 2 |
| **Cash and cash equivalents as of end of period** | **350** | **733** | **397** | **358** | **291** | **291** |

## Other Financial and Operating Data

| in € million (except where otherwise stated) | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (unaudited) | | (unaudited) |
| ***Other financial information*** | | | | | | |
| Revenue | 7,336 | 9,495 | 10,694 | 2,697 | 2,858 | 10,855 |
| *Revenue growth* | — | *29.4%* | *12.6%* | — | *6.0%*[3] | *8.2%*[4] |
| EBIT | 446 | 1,509 | 1,689 | 472 | 401 | 1,618 |
| *EBIT margin* | *6.1%* | *15.9%* | *15.8%* | *17.5%* | *14.0%* | *14.9%* |
| EBITDA[5] | 1,103 | 2,097 | 2,243 | 613 | 549 | 2,179 |
| *EBITDA margin*[5] | *15.0%* | *22.1%* | *21.0%* | *22.7%* | *19.2%* | *20.1%* |
| Working capital (at end of period)[6] | 1,881 | 2,196 | 2,296 | 2,420 | 2,512 | 2,512 |
| Free cash flow[7] | (1,400) | 566 | 319 | 11 | (107) | 201 |
| Free cash flow before investment in Continental AG shares[7] | 386 | 566 | 319 | 11 | (107) | 201 |
| Free cash flow before investment in Continental AG shares and net interest paid[7] | 1,064 | 1,200 | 992 | 180 | 57 | 869 |
| Net financial debt (at end of period)[8] | 6,131 | 5,711 | 6,668 | 6,108 | 6,884 | 6,884 |
| ***Other operating information*** | | | | | | |
| Number of employees (at the end of period) | 61,536 | 67,509 | 74,031 | 69,517 | 74,948 | 74,948 |

## Selected Segment[9] Information

***Automotive division***

| in € million (except where otherwise stated) | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (unaudited) | | (unaudited) |
| **Revenue** | **4,743** | **6,325** | **7,160** | **1,821** | **1,938** | **7,274** |
| *Revenue growth* | — | *33.4%* | *13.2%* | — | *6.4%*[3] | — |
| **Gross profit** | **1,058** | **1,842** | **1,951** | 526 | 533 | 1,957 |
| **EBIT** | **283** | **990** | **1,074** | **301** | **245** | **1,018** |
| Depreciation, amortization and impairments | 424 | 401 | 375 | 101 | 103 | 399 |
| **EBITDA** | **707** | **1,391** | **1,449** | **402** | **348** | **1,417** |
| *Gross profit margin* | *22.3%* | *29.1%* | *27.2%* | *28.9%* | *27.5%* | *26.9%* |
| *EBIT margin* | *6.0%* | *15.7%* | *15.0%* | *16.5%* | *12.6%* | *14.0%* |
| *EBITDA margin* | *14.9%* | *22.0%* | *20.2%* | *22.1%* | *18.0%* | *19.5%* |

*Industrial division*

| in € million (except where otherwise stated) | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (unaudited) | | (unaudited) |
| **Revenue** | **2,513** | **3,002** | **3,462** | **856** | **905** | **3,512** |
| *Revenue growth* | — | *19.5%* | *15.3%* | — | *5.7%*[3] | — |
| **Gross profit** | **726** | **1,147** | **1,280** | **336** | **352** | **1,297** |
| **EBIT** | **163** | **519** | **615** | **171** | **156** | **600** |
| Depreciation, amortization and impairments | 233 | 187 | 179 | 40 | 45 | 162 |
| **EBITDA** | **396** | **706** | **794** | **211** | **201** | **762** |
| *Gross profit margin* | *28.9%* | *38.2%* | *37.0%* | *39.3%* | *38.9%* | *36.9%* |
| *EBIT margin* | *6.5%* | *17.3%* | *17.8%* | *20.0%* | *17.2%* | *17.1%* |
| *EBITDA margin* | *15.8%* | *23.5%* | *22.9%* | *24.6%* | *22.2%* | *21.7%* |

(1) Including changes in fair value of derivatives.

(2) Earnings before taxes.

(3) Defined as revenue growth in the three months ended March 31, 2012 relative to the three months ended March 31, 2011.

(4) Defined as revenue growth in the twelve months ended March 31, 2012 relative to the twelve months ended March 31, 2011.

(5) The Schaeffler Group defines EBITDA (Earnings before interest, taxes, depreciation, amortization and impairments) as the aggregate of (i) EBIT and (ii) depreciation and amortization (excluding write-downs of investments) and impairments. EBITDA is not a performance indicator recognized under IFRS. The EBITDA reported is not necessarily comparable to the performance figures published by other companies as EBITDA or the like. The following is a reconciliation of Net Income to EBITDA for the periods below:

| in € million | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| | | | | (unaudited) | | (unaudited) |
| **Net Income** | **(1,199)** | **73** | **902** | **441** | **239** | **700** |
| Income taxes | 125 | 277 | 378 | 136 | 88 | 330 |
| Interest expense | 968 | 861 | 773 | 15 | 242 | 1,000 |
| Interest income | (39) | (51) | (40) | (14) | (32) | (58) |
| Share of net income (loss) of equity-accounted investees | 591 | 349 | (324) | (106) | (136) | (354) |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| Depreciation, amortization and impairments | 657 | 588 | 554 | 141 | 148 | 561 |
| **EBITDA** | **1,103** | **2,097** | **2,243** | **613** | **549** | **2,179** |

(6) The following table sets forth Schaeffler Group's working capital:

| in € million | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| Inventories | 1,162 | 1,482 | 1,562 | 1,537 | 1,603 |
| Trade receivables | 1,144 | 1,443 | 1,607 | 1,706 | 1,885 |
| Trade payables | (425) | (729) | (873) | (823) | (976) |
| **Working capital** | **1,881** | **2,196** | **2,296** | **2,420** | **2,512** |

(7) The following table sets forth Schaeffler Group's free cash flow before investment in Continental AG shares and net interest paid:

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| Cash flows from operating activities | 597 | 890 | 1,084 | 125 | 137 | 1,096 |
| Cash used in investing activities | (1,997) | (324) | (765) | (114) | (244) | (895) |
| **Free cash flow** | **(1,400)** | **566** | **319** | **11** | **(107)** | **201** |
| Investment in Continental AG shares | 1,786 | 0 | 0 | 0 | 0 | 0 |
| **Free cash flow before investment in Continental AG shares** | **386** | **566** | **319** | **11** | **(107)** | **201** |
| Net interest paid | 678 | 634 | 673 | 169 | 164 | 668 |
| **Free cash flow before investment in Continental AG shares and net interest paid** | **1,064** | **1,200** | **992** | **180** | **57** | **869** |

(8) The following table sets forth Schaeffler Group's net financial debt:

| in € million | As of December 31, 2009 | 2010(*3) | 2011 | As of March 31, 2011 | As of March 31, 2012 |
|---|---|---|---|---|---|
| | | | | (unaudited) | (unaudited) |
| Financial debt—non-current | 6,420 | 6,413 | 7,168 | 6,411 | 7,155 |
| Financial debt—current | 61 | 64 | 317 | 71 | 300 |
| **Financial debt** | **6,481** | **6,477** | **7,485** | **6,482** | **7,455** |
| Shareholder loans(*1) | — | 33 | 420 | 16 | 280 |
| **Financial debt(*2)** | **6,481** | **6,444** | **7,065** | **6,466** | **7,175** |
| Cash and cash equivalents | (350) | (733) | (397) | (358) | (291) |
| **Net financial debt(*2)** | **6,131** | **5,711** | **6,668** | **6,108** | **6,884** |

(*1) Shareholder loans refers to the Special Receivables Loan and the IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by Schaeffler Group's parent company Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively.

(*2) Excludes the shareholder loans.

(*3) As presented in the annual report 2011 which is incorporated by reference in this Prospectus.

(9) The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information in the Schaeffler Group's annual reports and interim financial reports is comparable, prior year information is also presented using the current year's customer structure. The segment information for the three months and the twelve months ended March 31, 2011 and 2012 contained in this Prospectus is based on the segment reporting in the interim financial report for the three months ended March 31, 2012. The segment information for 2010 and 2011 contained in this Prospectus is based on the segment reporting in the annual report 2011 and the segment information for 2009 is based on the segment reporting in the annual report 2010. In this regard, the 2009 segment information is not fully comparable to the 2010 and 2011 segment information. The 2010 and 2011 annual reports are both incorporated by reference herein.

# Management's discussion and analysis of the Schaeffler Group's financial condition and results of operations

*The following discussion and analysis of the Schaeffler Group's financial condition and results of operation are based on the unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2011 and 2012, the audited consolidated financial statements as of and for the years ended December 31, 2010 (which also contain comparative figures for 2009) and 2011 which are all incorporated by reference in this Prospectus and should be consulted when reading the information presented below. The consolidated financial statements were prepared in accordance with IFRS as adopted by the EU. The Schaeffler Group's consolidated financial statements as of and for the years ended December 31, 2010 and 2011 were audited by KPMG; both were issued an unqualified audit opinion. The condensed consolidated financial statements as of and for the three months ended March 31, 2011 and 2012, prepared in accordance with IFRS as adopted by the EU, have not been audited.*

*Some of the statements contained below relate to future revenue, costs, capital expenditures, acquisitions and financial condition and include forward-looking statements. Because such statements involve inherent uncertainties, actual results may differ materially from the results expressed in or implied by such forward-looking statements. A discussion of such uncertainties can be found in "Forward-looking statements." In addition, investing in the Notes involves risks. Such risks are discussed in "Risk factors."*

## Overview

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. It supplies high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 75,000 employees in approximately 50 countries (as of March 31, 2012), the Schaeffler Group is one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2012, it had revenues of approximately €10.9 billion, and EBITDA of approximately €2.2 billion.

The Schaeffler Group operates through two main divisions: Automotive and Industrial. Its Automotive Division generated approximately 67% of the Schaeffler Group's revenue in the twelve months ended March 31, 2012, supplying more than 60,000 products to approximately 7,500 customers globally. Its Industrial Division accounted for approximately 32% of the Schaeffler Group's revenue in the twelve months ended March 31, 2012, supplying approximately 90,000 products to approximately 17,000 customers in approximately 60 different industrial sectors. In the twelve months ended March 31, 2012, 24% of the Schaeffler Group's revenue was generated from its aftermarket business.

The Schaeffler Group distributes its products throughout its markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Its LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Its INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valvetrains and other precision components. Its FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

## Key factors affecting results of operations

The Schaeffler Group's results of operations, financial condition and liquidity have been influenced in the periods discussed in this Prospectus by the following events, facts, developments and market characteristics. The Schaeffler Group believes that these factors have influenced and are likely to continue to influence its operations in the future.

***Revenue***

The Schaeffler Group's business is divided into two divisions: the Automotive Division and the Industrial Division. Thus, its revenue development is dependent on the economic developments in the automotive and the industrial sectors. In 2009, revenue was especially impacted by the global financial and economic crisis of 2008-2009.

***Developments in the global automotive market***

The Schaeffler Group is a main supplier to large OEMs and Tier 1 suppliers in the automotive industry and therefore highly dependent on developments in the global automotive market.

Its Automotive Division's revenue is primarily impacted by factors influencing consumer demand for new passenger vehicles and commercial vehicles. The Automotive Division is indirectly affected by factors, such as unemployment, interest rates (and, most generally, overall monetary and fiscal policy), gasoline prices, consumer confidence and the availability of vehicle financing in these markets. In addition, the Automotive Division is also indirectly impacted by factors, such as the levels of international trade and the availability of vehicle financing as these factors particularly affect the demand for commercial vehicles. As a result, the revenue of the Automotive Division was impacted by the decline of the automotive sector in 2009 due to the financial crisis and benefited significantly from the rebound of the sector in 2010. In 2011, the Automotive Division outpaced market growth as a result of the positive economic situation in the automotive markets.

***Developments in the global industrial sector***

Within the Schaeffler Group's Industrial Division, it has customers in approximately 60 different sectors selling a diverse range of applications, ranging from wind turbines to aerospace engines and dentists' drills. This high degree of diversification in its businesses as well as the stability of its aftermarket businesses support the resilience of its revenues. Each of these end-markets is influenced by different economic factors and is affected by a downturn in different stages, making the Schaeffler Group less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of the Schaeffler Group's industry segments. The major customers of the Industrial Division are companies involved in the manufacturing of production machinery, power transmission, wind power, heavy industries and aerospace.

The market downturn in 2009 resulted in a significant order intake decline as well as order cancellations in this division since July 2008 and, consequently, decreased its Industrial Division's revenue in 2009. The subsequent economic recovery led to an increase in order intake and revenues in 2010. In 2011, the Industrial Division benefited over-proportionately from the strong global economy.

***Operating expenses***

The Schaeffler Group's key operating expenses are raw material costs, production costs, research and development expenses as well as administrative expenses.

***Raw material costs***

Most of the raw materials that the Schaeffler Group uses, such as steel, plastics, brass, cast iron and cast aluminum, are subject to price volatility. In 2009, raw material prices dropped significantly which, as a result of its contractual situation, only affected the Schaeffler Group positively in 2010, *i.e.*, with a one year delay. The unexpectedly fast recovery from the economic crisis in 2010, in particular, led to a sharp increase in raw material prices. The impact from this affected the Schaeffler Group in 2011. Prices for coking coal, iron ore and scrap metal remained at a historical high until fall, keeping price pressures high, particularly for flat steel products. In addition, manufacturers' sometimes very short-term pricing policies increased uncertainty, which facilitated the continued instability of prices in the steel market. Due to the further rise in commodities prices, price increases for some purchased parts could not be avoided entirely.

Most steel producers re-established their full plant capacities after the ramp-up in 2010; as a result, supply was largely smooth. The Schaeffler Group used the calmer situation to come to agreements on fundamental principles regarding logistics processes with those suppliers in order to be able to counter future fluctuations in supply with improved planning processes. Overall, it was able to fully satisfy the procurement needs of its 70 plants around the world by utilizing its global procurement sources in the form of existing and new suppliers, particularly in the strong growth markets of Asia.

***Production costs and cost saving measures in response to the Global Economic Downturn in 2009***

In response to the financial and economic crisis, the Schaeffler Group initiated various measures to improve its cost structure, successfully maintaining EBITDA margins of approximately 15% throughout the downturn.

Personnel expenses were reduced by (i) the introduction of short-time work, especially in Germany and other Western European countries and (ii) a 6.8% reduction in headcount in 2009 from 66,034 to 61,536, mainly in regions like Eastern Europe, North America and South America.

R&D costs and selling and administrative expenses include a certain proportion of fixed cost. These fixed costs and the decline in revenue during the crisis led to an unfavorable development in the Schaeffler Group's cost ratios. A cost reduction program was introduced in response, which was mainly driven by the reduction of operating expenses.

***Research and development (R&D) expenses***

Innovation regarding product development and production technology is important in order to maintain the profitability of the Schaeffler Group's business in the long term.

R&D expenses reflect the cost of undertaking R&D activities in its worldwide research and development centers. The Schaeffler Group employs nearly 6,000 people within a global R&D network comprising 40 locations. Key locations outside Germany are China, India, Brazil and the United States.

In the last three years, the Schaeffler Group has invested approximately 5% of revenue in research and development.

***Financial result***

*High level of financial debt*

The Schaeffler Group's results are significantly affected by its high level of financial debt and corresponding interest expenses. The financial debt originally was a result of the acquisition of the share interests in Continental AG in late 2008 and January 2009. After the refinancing on November 20, 2009, the Repaid Senior Facilities Agreement comprised €6,350 million and an additional line of credit (revolving credit facility) of €792.5 million. The rate of interest was EURIBOR + 425 basis points prior to the current refinancing.

As part of the March 2011 refinancing, on July 1, 2011, a further €600 million in debt was pushed down from IHO Group and was incorporated as a second term loan facility into the Repaid Senior Facilities Agreement.

In February 2012, the New Senior Facilities Agreement and the Existing Notes refinanced all the above mentioned term loans of €6,950 million and €792.5 million of revolving credit facility. For a detailed summary of the Schaeffler Group's financial debt, please see *"Description of other indebtedness."*

*Interest rate derivatives*

All interest rate derivatives, that were originally entered into by the IHO Group to hedge the interest rate exposure of the Acquisition Facility and an interest rate cap originated in the refinancing on November 20, 2009, are held by the Schaeffler Group.

Some of the interest rate derivatives had been designated as hedging instruments to that part of the Acquisition Facility that has been transferred to the Repaid Senior Facilities Agreement. This was eligible for hedge accounting under IFRS until the refinancing on November 20, 2009. Other interest rate derivatives were measured at fair value through profit and loss.

Since the refinancing on November 20, 2009 all derivatives were not eligible for hedge accounting under IFRS anymore and were therefore measured at fair value through profit and loss. Compensation payments related to the interest rate derivatives were also recognized in profit and loss. The hedge accounting reserve as of November 20, 2009 amounted to €(286) million and is amortized into profit and loss using the effective interest method.

In the fourth quarter of the fiscal year 2011, the Schaeffler Group restructured its hedging portfolio to align the maturity profile, the hedged interest rate level and the hedge ratio with its interest rate risk exposure, *i.e.*, closing out certain derivatives and modifying the remaining ones. As of October 31, 2011 and November 30, 2011, the remaining interest rate derivatives met the hedge accounting requirements under IFRS. As a result, the Schaeffler Group expects significantly less volatility in profit and loss in the future, as the effective portion of the fair value changes will be recognized in other comprehensive income.

Since the refinancing in February 2012, all interest rate derivatives are designated to hedge the interest rate risk of the New Senior Facilities Agreement and meet the IFRS requirements for hedge accounting.

The hedging portfolio will generally be eligible for hedge accounting under IFRS in a refinancing scenario for floating rate facilities.

*Investment in Continental AG*

The Schaeffler Group's investment in Continental AG has a material impact on its results of operations.

Under IFRS, Continental AG is accounted for using the equity method. Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss, taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation).

The share of net income (loss) from Continental AG was €(591) million in 2009, €(349) million in 2010 (including a one-off dilution loss (€(396) million) resulting from the capital increase of Continental AG, in which the Schaeffler Group did not participate), €324 million in 2011 and €136 million in the three months ended March 31, 2012.

Until September 30, 2011, Continental AG was an associate of Schaeffler AG according to IAS 28. On September 30, 2011, Schaeffler AG transferred its share interest of 72,290,458 shares, or 36.1%, in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG. Schaeffler AG's shares in Continental AG were transferred to Schaeffler Beteiligungsholding GmbH & Co. KG on September 30, 2011. Schaeffler Beteiligungsholding GmbH & Co. KG is a joint venture as defined in IAS 31 and is accounted for at equity in the consolidated financial statements. Schaeffler AG is the limited partner and holds 100% of the interest, therefore, the transfer of Continental AG shares does not change the underlying economics of this investment. For this reason, the accounting treatment and presentation in the consolidated financial statements remained substantially unchanged.

***Income taxes***

The legal structure of the Schaeffler Group was established on June 28, 2010. Thus, reporting periods prior to the legal creation have been compiled as carve-out financial statements.

In the fiscal year ended December 31, 2009, the Schaeffler Group's income tax was determined based on allocated earnings (separate return approach). This approach included a notional

re-calculation of income taxes on the basis of the historical legal structures and reflected the income and expenses allocated during the carve-out. As a result, current and future taxable income may differ from taxable income arrived at under the separate return approach.

Since fiscal year 2010, the Schaeffler Group entities have been filing tax returns in the current legal structure.

The Schaeffler AG is in substance subject to a combined tax rate of approximately 28%, including corporation tax, German solidarity surcharge and trade income tax.

## Explanation of key line items

***Revenue***

The Schaeffler Group's revenue is mainly derived from sales of bearings for automotive and industrial applications, as well as engine components, clutches, transmission components and modules. These applications, components and modules are sold to OEMs, Tier 1 and Tier 2 suppliers and through the aftermarket.

***Cost of sales***

Cost of sales include the cost of goods sold. These include all direct costs attributable to the process of producing goods and rendering services (*e.g.*, raw material, labor, depreciation of production machinery) as well as allocated production-related overheads.

The Schaeffler Group's raw material costs are mainly related to steel, plastics, brass and cast iron as well as cast aluminum.

***Gross profit and gross margin***

The Schaeffler Group's gross profit is defined as revenue less cost of sales. Gross margin is gross profit in relation to revenue.

***Research and development (R&D) expenses***

The Schaeffler Group's R&D expenses mainly comprise labor costs for personnel, *e.g.*, for its R&D engineers. Furthermore, material cost, service fees and amortization of machinery related to its R&D activities are recognized in R&D expenses.

***Selling expenses***

The Schaeffler Group's selling expenses generally comprise personnel expenses and general freight and logistics expenses.

***Administrative expenses***

The Schaeffler Group's administrative expenses consist mainly of personnel expenses and consulting fees.

***Other income and other expenses***

Other income and other expenses mainly consist of gains and losses from foreign exchange, disposal of assets and increase and decrease of allowances.

The Schaeffler Group's main foreign exchange exposure is from net inflows in U.S. dollars (surplus) and from net outflows in Romanian Leu (demand). The exposures are hedged, in general, by at least 80% of the remaining currency risk from operations of the next twelve months, using appropriate derivative financial instruments, particularly forward exchange contracts and options. Portfolio aspects, such as correlations, and the current market environment are taken into account in executing the Schaeffler Group's hedging strategy.

The table below sets forth the Schaeffler Group's remaining currency risk from operations of these currencies as of December 31, 2011:

| | As of December 31, 2011 | |
|---|---|---|
| in € million | U.S.$ | RON |
| Estimated currency risk from operations | 1,062 | (190) |
| Forward exchange contracts | (639) | 152 |
| Currency options | (156) | 0 |
| Remaining currency risk from operations | 267 | (38) |

### *EBIT*

EBIT is defined as earnings before financial result and income taxes.

#### *Share of net income (loss) of equity-accounted investees*

Under the equity method, the investment is initially measured at cost and subsequently adjusted for the investor's share of the investee's net income or loss, taking into account effects of the purchase price allocation (*e.g.*, amortization) and movements in the investee's other comprehensive income or loss (*e.g.*, share-based compensation).

The Schaeffler Group's only significant associated company is Continental AG. For more details, please refer to "*—Key factors affecting results of operations—Financial result.*"

#### *Interest income and interest expense*

Interest income includes interest income on pension plan assets, interest income on financial assets and income from reversal of impairment losses on financial assets in the class "other loans receivable."

Interest expense mainly comprises interest expense on financial debt, from compounding of pensions and other provisions and on interest rate derivatives.

Interest expense on financial debt mainly related to the Schaeffler Group's Repaid Senior Facilities Agreement, the New Senior Facilities Agreement and the Existing Notes.

Interest expense on interest rate derivatives is due to compensation payments, fair value changes and the amortization of the hedging reserve. For more details, please refer to "*—Key factors affecting results of operations—Financial result.*"

#### *Financial result*

The Schaeffler Group's financial result consists of share of net income (loss) of equity-accounted investees, interest income and interest expense.

#### *Income taxes*

The Schaeffler Group's income taxes consist of current income taxes and deferred income taxes.

## Critical accounting principles

Critical accounting principles are those that (i) are relevant to the presentation of the Schaeffler Group's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex.

In order to provide an understanding of how the Schaeffler Group's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the Schaeffler Group has identified the critical accounting policies discussed below. While the Schaeffler Group believes that all aspects of its financial statements should be studied and understood in assessing its current and expected financial condition and results of operations, the Schaeffler Group considers the following critical accounting policies to warrant particular attention.

The Schaeffler Group's consolidated financial statements have been prepared in euro, the functional and presentation currency of its parent company. Unless stated otherwise, all amounts are in millions of euro. As amounts (in millions of euro) and percentages have been rounded, rounding differences may occur.

Except for the following, the consolidated financial statements have generally been prepared on the historical cost basis:

- derivative financial instruments,
- financial instruments at fair value through profit or loss, and
- available-for-sale financial assets.
- These instruments were measured at fair value.

***Estimation uncertainty and management judgment***

In the preparation of financial statements in accordance with IFRS, 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.

Both estimates and the basis that assumptions are made on 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.

***Presentation of reporting periods prior to the Schaeffler Group's legal creation (Carve-Out)***

For legal purposes, the Schaeffler Group was created upon the registration of the hive-down in the Commercial Register on June 28, 2010. As a result, the reporting period 2009 and part of the reporting period ending on December 31, 2010 occurred before its current structure legally existed.

Financial data for the periods prior to June 28, 2010, *i.e.*, carve-out financial statements, have been derived from the consolidated IFRS financial statements of the IHO Group. Its operations are presented as if the legal structure created by the hive-down had already existed before June 28, 2010.

Assets, liabilities, expenses and income allocated to the Schaeffler Group were transferred from the consolidated IFRS financial statements of the IHO Group at their carrying values (predecessor accounting). For the periods prior to its legal creation, the assets and liabilities transferred to the Schaeffler Group were recognized and measured in accordance with IFRS as adopted by the EU and effective at the end of the respective reporting periods.

Assets, liabilities, expenses and income were generally allocated to the Schaeffler Group based on the hive-down agreements by and between Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltung Eins GmbH as well as by and between Schaeffler Verwaltung Eins GmbH and Schaeffler Verwaltung Zwei GmbH, both dated May 25, 2010. In addition, certain financial statement line items were allocated appropriately based on certain assumptions, estimates and the principle of substance over form. The assumptions and estimates may affect the recognition, measurement and presentation of assets and liabilities as well as the amounts and presentation

of the corresponding items of income and expense. The Schaeffler Group's management considers the allocation methods applied to be appropriate and justifiable.

More information on the allocation methods of major financial statement items can be found in its consolidated financial statements as of December 31, 2010.

***Share interest in Continental AG***

Associated companies are those entities over which the Schaeffler Group has significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not defined as the control or joint control over the investee. Significant influence is presumed to exist if the Schaeffler Group holds, directly or indirectly, between 20% and 50% of the voting power of an investee.

Continental AG, over which Schaeffler Beteiligungsholding GmbH & Co. KG has a 36.1% share interest as of December 31, 2011, is the Schaeffler Group's major equity-accounted investee. The total stake of the IHO Group is approximately 49.9% as of December 31, 2011.

The share interest in Continental AG is accounted for using the equity method. Under this method, the investment is initially recognized at cost which includes the goodwill identified on acquisition. After initial recognition, the carrying amount of the investment is increased or decreased by the Schaeffler Group's share of Continental AG's net income or loss and its other comprehensive income or loss.

***R&D expenses***

R&D expenses include costs incurred for research and development and expenditures for customer-specific applications, prototypes and testing.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge are recognized as expenses as incurred.

Development activities involve the application of research results or other knowledge to a production plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services. Related development costs are only capitalized as intangible assets if (1) their technical feasibility, (2) the intention to complete, (3) the ability to use or sell, (4) the future economic benefits from the sale or use of the assets, (5) the availability of adequate technical, financial and other resources and (6) the reliable measurement of the expenditure are given.

In contrast to costs of developing new or substantially improved products, advance development costs and costs incurred to produce customer-specific applications (*i.e.*, to customize existing products without substantial improvement) are not capitalized, but instead expensed as incurred.

***Goodwill***

Goodwill results from the acquisition of a subsidiary. It is calculated as the excess of total consideration transferred over the net identifiable assets of the acquiree, with acquisition costs defined as the aggregate of the fair value of (1) consideration transferred, (2) non-controlling interests and (3) the acquirer's previously held equity interest in the acquiree, if the business combination is achieved in stages. Non-controlling interests in the acquired company are measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Goodwill is not amortized, but is instead tested for impairment at least annually and when an indication of possible impairment exists. It is measured at costs less accumulated impairment losses. For associated companies, goodwill is included in the carrying amount of the investment in the associated company and is tested for impairment as part of the investment when an indication of possible impairment exists.

***Impairment***

Financial assets are tested for impairment individually. Non-financial assets are tested for impairment on the basis of individual assets or the smallest unit with largely independent cash inflows (cash-generating units). The Schaeffler Group's cash-generating units are its two divisions, Automotive and Industrial. If there is an indication of impairment, assets are tested for impairment during the year. In addition, financial assets, goodwill and intangible assets not yet available for use are also tested for impairment at the end of each reporting period.

Impairment loss is recognized if the carrying amount of the assets exceeds the Schaeffler Group's recoverable amount, being the higher of its fair value less costs to sell and value in use. To determine the recoverable amount of each division, considerable valuation assumptions and judgments are exercised. The value in use of each division is calculated by discounting estimated future cash flows expected to arise from the respective division. The future cash flows are based on a three- year planning period as well as an annual growth rate of 0.5% in 2011, 0.5% in 2010 and 1.0% in 2009 beyond the planning horizon. Depending on the underlying business and the Schaeffler Group's country of operation, the Schaeffler Group uses an assumed pre-tax interest rate of 13.9% in 2011, 13.1% in 2010 and 13.8% in 2009 as the weighted average cost of capital. Valuation assumptions were generally identical across cash-generating units.

***Derivative financial instruments***

The Schaeffler Group holds derivative financial instruments to hedge its currency and interest rate risk exposures inherent in assets and liabilities and in future cash flows.

These derivatives are initially recognized as an asset or liability at fair value; attributable transaction costs are expensed as incurred. Except for derivatives designated as hedging instruments in cash flow hedges, all derivatives are measured at fair value through profit or loss. The Schaeffler Group does not have any fair value hedges or hedges of a net investment in a foreign operation in the reported periods.

Gains and losses arising on changes in the fair value of derivatives designated as hedging instruments are recognized in accumulated other comprehensive income to the extent that the hedge is effective. The ineffective portion is recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in accumulated other comprehensive income remains in equity until the appropriate forecast transaction occurs.

***Inventories***

Inventories are measured at the lower of cost and net realizable value. Acquisition costs of raw materials, supplies and purchased merchandise are determined using the weighted average method. Work in progress and manufactured finished goods (including goods in transit) are valued at production costs consisting of direct material and labor costs as well as production-related overheads. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs of completion and estimated necessary selling costs.

***Deferred taxes***

The Schaeffler Group recognizes deferred taxes based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax assets are also recognized on tax loss carryforwards and tax credits to the extent that it is probable that taxable profit will be available against which deductible temporary differences and tax loss carryforwards can be utilized. Group entities are assessed with respect to whether it is probable that future taxable profit will be available.

***Pension obligations***

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 among other things based on market assessments regarding the expected return on plan assets and anticipated future compensation increases. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates of high-quality corporate bonds. The provision for pensions and similar obligations recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less, for funded defined benefit obligations, the fair value of plan assets.

The Schaeffler Group immediately recognizes all actuarial gains and losses arising from defined benefit plans in accumulated other comprehensive income. Interest expenses on provisions for pensions and similar obligations and interest income on plan assets are included in interest income and interest expenses.

***Provisions***

A provision is recognized if, as a result of a past event, the Schaeffler Group has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the recognition criteria for provisions are not met, a contingent liability is disclosed in the notes to the financial statements provided certain criteria are met.

Estimating future costs is subject to a large degree of uncertainty.

Non-current provisions are recognized at present value by discounting expected future cash outflows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Interest, including effects of changes in interest rates, is shown in the financial result.

## Results of operations

***Overview***

The following table shows the Schaeffler Group's operating results for the twelve months ended March 31, 2012, the three months ended March 31, 2011 and 2012 and for the and for the fiscal years ended December 31, 2009, 2010 and 2011.

| | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| **in € million** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(unaudited)** | | **(unaudited)** |
| **Revenue** | **7,336** | **9,495** | **10,694** | **2,697** | **2,858** | **10,855** |
| *Revenue growth* | — | *29.4%* | *12.6%* | — | *6.0%* | *8.2%* |
| Cost of sales | (5,552) | (6,506) | (7,463) | (1,835) | (1,973) | (7,601) |
| **Gross profit** | **1,784** | **2,989** | **3,231** | **862** | **885** | **3,254** |
| *Gross profit margin* | *24.3%* | *31.5%* | *30.2%* | *32.0%* | *31.0%* | *30.0%* |
| R&D expenses | (384) | (467) | (495) | (121) | (147) | (521) |
| Selling expenses | (526) | (645) | (725) | (173) | (191) | (743) |
| Administrative expenses | (405) | (366) | (408) | (101) | (127) | (434) |
| Other income | 458 | 375 | 330 | 61 | 27 | 296 |
| Other expenses | (481) | (377) | (244) | (56) | (46) | (234) |
| **EBIT** | **446** | **1,509** | **1,689** | **472** | **401** | **1,618** |
| *EBIT margin* | *6.1%* | *15.9%* | *15.8%* | *17.5%* | *14.0%* | *14.9%* |
| Share of net income (loss) of equity-accounted investees | (591) | (349) | 324 | 106 | 136 | 354 |
| Interest income | 39 | 51 | 40 | 14 | 32 | 58 |
| Interest expense | (968) | (861) | (773) | (15) | (242) | (1,000) |
| **Financial result** | **(1,520)** | **(1,159)** | **(409)** | **105** | **(74)** | **(588)** |
| **EBT** | **(1,074)** | **350** | **1,280** | **577** | **327** | **1,030** |
| Income taxes | (125) | (277) | (378) | (136) | (88) | (330) |
| **Net income** | **(1,199)** | **73** | **902** | **441** | **239** | **700** |
| Attributable to shareholders of the parent company | (1,204) | 63 | 889 | 438 | 236 | 687 |
| Attributable to non-controlling interests | 5 | 10 | 13 | 3 | 3 | 13 |

## Comparison of the three months ended March 31, 2011 with the three months ended March 31, 2012

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| **Revenue** | **2,697** | **2,858** | **6.0** |
| Cost of sales | (1,835) | (1,973) | 7.5 |
| **Gross profit** | **862** | **885** | **2.7** |
| *Gross profit margin* | *32.0%* | *31.0%* | *(1.0)pts* |
| Research and development expenses | (121) | (147) | 21.5 |
| Selling expenses | (173) | (191) | 10.4 |
| Administrative expenses | (101) | (127) | 25.7 |
| Other income | 61 | 27 | (55.7) |
| Other expenses | (56) | (46) | (17.9) |
| **EBIT** | **472** | **401** | **(15.0)** |
| *EBIT margin* | *17.5%* | *14.0%* | *(3.5)pts* |
| Share of net income (loss) of equity-accounted investees | 106 | 136 | 28.3 |
| Interest income | 14 | 32 | 128.6 |
| Interest expense | (15) | (242) | 1513.3 |
| **Financial result** | **105** | **(74)** | **(170.5)** |
| **Earnings before income taxes** | **577** | **327** | **(43.3)** |
| Income taxes | (136) | (88) | (35.3) |
| **Net income (loss)** | **441** | **239** | **(45.8)** |
| Attributable to shareholders of the parent company | 438 | 236 | (46.1) |
| Attributable to non-controlling interests | 3 | 3 | 0.0 |

***Revenue***

The following table shows the revenue contributions of each of the Schaeffler Group's divisions for the three months ended March 31, 2011 and 2012 and the period-to-period changes in these revenue contributions.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Automotive | 1,821 | 1,938 | 6.4 |
| Industrial | 856 | 905 | 5.7 |
| Other[(1)] | 20 | 15 | (25.0) |
| **Group total** | **2,697** | **2,858** | **6.0** |

(1) This represents reconciling items, such as scrap sales and materials provided to subcontractors, which are not allocated to the divisions.

Revenue increased from €2,697 million in the three months ended March 31, 2011 by €161 million, or 6.0%, to €2,858 million in the three months ended March 31, 2012. In the Automotive Division, revenue growth was driven by starting or ramping up projects, primarily in the engine and transmission systems sectors as well as the Schaeffler Group's focus on the overall trend towards the efficient use of resources and environmental technology. In the Industrial Division, revenue growth was mainly driven by the above-average growth in demand for the Schaeffler Group's products in North America together with the positive trend

experienced in the power transmission and aerospace engineering sectors as well as in the Schaeffler Group's aftermarket business.

The Automotive Division revenue increased from €1,821 million in the three months ended March 31, 2011 by €117 million, or 6.4%, to €1,938 million in the three months ended March 31, 2012. With overall economic momentum weakening, revenue growth was driven by the sales markets in Asia (+22.3%), in particular, and North America (+16.4% ). While higher sales were also generated in Europe (+1.8%), sales in South America declined (-10.3%). Top-selling product groups showing above-average growth included camshaft phasing unites (+23.5%), torque converters (+17.3%) and ball bearings (+17.1%). In addition, innovative new products, such as the dry double clutch and ball screw drives, as well as the product groups axial needle roller bearings, chain drives and continuously variable transmission systems (CVT) experienced high growth rates.

The Industrial Division revenue increased from €856 million in the three months ended March 31, 2011 by €49 million, or 5.7%, to €905 million in the three months ended March 31, 2012. Revenue growth was primarily driven by power transmission, aerospace and aftermarket sales. In the wind power sector, political regulations in China and the restrictive granting of loans by the central government in particular led to a significant decrease in revenue. In addition, the adverse impact of excess capacity and price competition continued to affect the entire wind power sector. The production machinery sector saw revenue decline slightly from the prior quarter. Revenue growth in the machine tools sub-sector was more than offset by decreases in the printing machinery, textile machinery and electronics manufacturing sub-sectors. The regions North America (+18.3%) and Germany (+10.1%) exhibited double-digit revenue growth during this period.

The regional distribution (by customer location) of the Schaeffler Group's revenue in the three months ended March 31, 2011 and 2012 and the period-to-period changes are shown below.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Germany | 725 | 787 | 8.6 |
| Europe excluding Germany | 920 | 893 | (2.9) |
| North America | 357 | 417 | 16.8 |
| South America | 156 | 145 | (7.1) |
| Asia/Pacific | 539 | 616 | 14.3 |
| **Group total** | **2,697** | **2,858** | **6.0** |

Revenue increased in Germany, North America and Asia/Pacific while revenue decreased slightly in Europe (excluding Germany) and South America. The revenue increase in Germany, North America and Asia/Pacific was driven by a favorable economic situation in the automotive industry and the increasing demand from various industrial sectors in those regions. The revenue decrease in Europe (excluding Germany) was mainly caused by declining demand of some European automotive manufacturers. The decrease in South America was mainly driven by the negative currency effects.

*Cost of sales*

The following table shows the cost of sales of each of the Schaeffler Group's divisions for the three months ended March 31, 2011 and 2012 and the period-to-period changes in these costs.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Automotive | 1,295 | 1,405 | 8.5 |
| Industrial | 520 | 553 | 6.3 |
| Other | 20 | 15 | (25.0) |
| **Group total** | **1,835** | **1,973** | **7.5** |

Cost of sales increased from €1,835 million in the three months ended March 31, 2011 by €138 million, or 7.5%, to €1,973 million in the three months ended March 31, 2012. This increase was primarily due to ongoing capacity expansions for future growth, increased prices for materials, such as steel, and necessary preproduction costs for new products.

*Gross profit*

The following table shows the gross profit contributions of each of the Schaeffler Group's divisions for the three months ended March 31, 2011 and 2012 and the period-to-period changes in these gross profit contributions.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| **Automotive** | | | |
| **Gross Profit** | **526** | **533** | **1.3** |
| *Gross profit margin* | *28.9%* | *27.5%* | *(1.4)pts* |
| **Industrial** | | | |
| **Gross Profit** | **336** | **352** | **4.8** |
| *Gross profit margin* | *39.3%* | *38.9%* | *(0.4)pts* |
| **Group total** | | | |
| **Gross Profit** | **862** | **885** | **2.7** |
| *Gross profit margin* | *32.0%* | *31.0%* | *(1.0)pts* |

Gross profit increased from €862 million in the three months ended March 31, 2011 by €23 million, or 2.7%, to €885 million in the three months ended March 31, 2012. This increase was primarily due to increased production volumes. It was partially offset by increased prices for raw materials, energy and personnel costs.

The gross profit margin decreased on group level from 32.0% (Automotive Division: 28.9%, Industrial Division: 39.3%) in the three months ended March 31, 2011 by 1.0 percentage point (Automotive Division: 1.4 percentage points, Industrial Division: 0.4 percentage points) to 31.0% (Automotive Division: 27.5%, Industrial Division: 38.9%) in the three months ended March 31, 2012. The decrease in gross profit margin was a result of increasing raw material prices as well as energy costs and additional headcount necessary for anticipated future growth.

***R&D expenses***

R&D expenses increased from €121 million in the three months ended March 31, 2011 by €26 million, or 21.5%, to €147 million in the three months ended March 31, 2012. This increase was primarily due to the needs of the Schaeffler Group's customers and changing market conditions in the areas of energy efficiency and the megatrends $CO_2$-reduction, mechatronics renewable energy. In the three months ended March 31, 2012, R&D expenses comprised 5.1% of the Schaeffler Group's revenue for the three months ended March 31, 2012 (three months ended March 31, 2011: 4.5%).

***Selling expenses***

Selling expenses increased from €173 million in the three months ended March 31, 2011 by €18 million, or 10.4%, to €191 million in the three months ended March 31, 2012. This increase was primarily due to higher sales-related costs, such as general freight and logistics expenses.

***Administrative expenses***

Administrative expenses increased from €101 million in the three months ended March 31, 2011 by €26 million, or 25.7%, to €127 million in the three months ended March 31, 2012. This increase was primarily due to one-time consulting expenses related to the February refinancing. Administrative expenses as a percentage of revenue increased from 3.7% in the three months ended March 31, 2011 to 4.4% in the three months ended March 31, 2012.

***Other income and expenses***

The following table shows the Schaeffler Group's other income for the three months ended March 31, 2011 and 2012 and the period-to-period changes.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Exchange gains | 53 | 17 | (67.9) |
| Reversal of provisions | 0 | 0 | — |
| Reduction of allowances | 1 | 2 | 100.0 |
| Gains on disposal of assets | 1 | 1 | 0.0 |
| Miscellaneous income | 6 | 7 | 16.7 |
| **Total** | **61** | **27** | **(55.7)** |

The following table shows the Schaeffler Group's other expenses for the three months ended March 31, 2011 and 2012 and the period-to-period changes.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Exchange losses | 51 | 38 | (25.5) |
| Increase in allowances | 0 | 2 | — |
| Losses on disposal of assets | 0 | 0 | — |
| Miscellaneous expense | 5 | 6 | 20.0 |
| **Total** | **56** | **46** | **(17.9)** |

Other income decreased from €61 million in the three months ended March 31, 2011 by €34 million, or 55.7%, to €27 million in the three months ended March 31, 2012.

Other expenses decreased from €56 million in the three months ended March 31, 2011 by €10 million, or 17.9%, to €46 million in the three months ended March 31, 2012.

***Earnings before interest and taxes***

The following table shows the contributions to EBIT of each of the Schaeffler Group's divisions for the three months ended March 31, 2011 and 2012 and the period-to-period changes in these EBIT contributions.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| **Automotive** | | | |
| **EBIT** | **301** | **245** | **(18.6)** |
| *EBIT margin* | *16.5%* | *12.6%* | *(3.9)pts* |
| **EBITDA** | **402** | **348** | **(13.4)** |
| *EBITDA margin* | *22.1%* | *18.0%* | *(4.1)pts* |
| **Industrial** | | | |
| **EBIT** | **171** | **156** | **(8.8)** |
| *EBIT margin* | *20.0%* | *17.2%* | *(2.8)pts* |
| **EBITDA** | **211** | **201** | **(4.7)** |
| *EBITDA margin* | *24.6%* | *22.2%* | *(2.4)pts* |
| **Group total** | | | |
| **EBIT** | **472** | **401** | **(15.0)** |
| *EBIT margin* | *17.5%* | *14.0%* | *(3.5)pts* |
| **EBITDA** | **613** | **549** | **(10.4)** |
| *EBITDA margin* | *22.7%* | *19.2%* | *(3.5)pts* |

EBIT decreased from €472 million in the three months ended March 31, 2011 by €71 million, or 15.0%, to €401 million in the three months ended March 31, 2012. As a result, the EBIT margin decreased from 17.5% in the three months ended March 31, 2011 by 3.5 percentage points to 14.0% in the three months ended March 31, 2012. This decrease was primarily due to higher expenses across all functional areas.

The Automotive Division's total EBIT decreased from €301 million in the three months ended March 31, 2011 by €56 million, or 18.6%, to €245 million in the three months ended March 31, 2012. The EBIT margin decreased from 16.5% in the three months ended March 31, 2011 by 3.9 percentage points to 12.6% in the three months ended March 31, 2012.

The Industrial Division's total EBIT decreased from €171 million in the three months ended March 31, 2011 by €15 million, or 8.8%, to €156 million in the three months ended March 31, 2012. The EBIT margin decreased from 20.0% in the three months ended March 31, 2011 by 2.8 percentage points to 17.2% in the three months ended March 31, 2012.

*Financial result*

The following table shows the Schaeffler Group's financial results for the three months ended March 31, 2011 and 2012 and the period-to-period changes.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | | (unaudited) | |
| Expected return on pension plan assets | 7 | 7 | 0.0 |
| Interest income on financial assets | 0 | 0 | — |
| Miscellaneous financial income | 7 | 25 | 257.1 |
| **Interest income** | **14** | **32** | **128.6** |
| Interest expense on financial debt | 100 | 176 | 76.0 |
| Interest expense from compounding of pensions and other provisions | 20 | 21 | 5.0 |
| Net interest expense on interest rate derivatives | (105) | 35 | (133.3) |
| Miscellaneous financial expense | 0 | 10 | — |
| **Interest expense** | **15** | **242** | **1,513.3** |
| Share of net income (loss) of equity-accounted investees | 106 | 136 | 28.3 |
| **Financial result** | **105** | **(74)** | **(170.5)** |

The Schaeffler Group's financial result changed from income of €105 million in the three months ended March 31, 2011 by €179 million to expenses of €(74) million in the three months ended March 31, 2012. This change was primarily driven by the Schaeffler Group's share of net income (loss) of equity-accounted investees of €136 million (prior year: €106 million) and net interest expense of €210 million (prior year: €1 million).

In the three months ended March 31, 2012, net interest expense comprised interest income of €32 million (prior year: €14 million) and interest expense of €242 million (prior year: €15 million).

Interest income related mainly to returns on plan assets of funded pension plans and miscellaneous financial in the three months ended March 31, 2012. Miscellaneous financial income consisted primarily of €15 million resulting from changes in the value of prepayment options on the U.S. dollar and euro bonds as well as €7 million from the valuation of U.S. dollar liabilities.

In the three months ended March 31, 2012, interest expense included interest on financial debt of €115 million (prior year: €92 million), and €61 million (prior year: €8 million) related to amortization of transaction costs. In the three months ended March 31, 2012, interest expense also included interest rate expense and fair value changes of €35 million (prior year: income of €105 million) on interest rate and currency derivatives. Interest expense of approximately €21 million in the three months ended March 31, 2012 (prior year: €20 million) was related to provisions for pensions and similar obligations.

In the three months ended March 31, 2012, the share of net income (loss) of equity-accounted investees of €136 million related to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, to which the 36.1% investment in Continental AG was transferred on September 30, 2011, and which is accounted for in the Schaeffler Group's consolidated financial statements using the equity method. The share of net income (loss) from equity-accounted investees represents Continental AG's earnings for the three months ended March 31, 2012, which Continental AG announced on May 3, 2012.

*Income taxes*

The following table shows the Schaeffler Group's income tax expenses for the three months ended March 31, 2011 and 2012 and the period-to-period changes.

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | (unaudited) | | |
| Current income tax | 99 | 107 | 8.1 |
| Deferred income tax | 37 | (19) | (151.4) |
| **Income taxes** | **136** | **88** | **(35.3)** |

Income taxes decreased from €136 million in the three months ended March 31, 2011 by €48 million, or 35.3%, to €88 million in the three months ended March 31, 2012, consisting of current tax expenses of €107 million (prior year: €99 million) and deferred tax benefits of €19 million (prior year: tax expenses of €37 million). Current tax expenses of €104 million related to the current fiscal year, while €3 million related to prior years.

As it is not probable that the remaining interest carryforwards from prior years (€481 million) will be utilized, no deferred tax assets were recognized on these interest carryforwards. Interest expense of €75 million was not tax deductible in 2012 because of the interest deduction cap.

*Net income (attributable to shareholders of the parent company)*

For the reasons set forth above, net income decreased from €438 million in the three months ended March 31, 2011 by €202 million, or 46.1%, to €236 million in the three months ended March 31, 2012.

## Comparison of the fiscal year ended December 31, 2010 with the fiscal year ended December 31, 2011

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | Change in % |
|---|---|---|---|
| **Revenue** | **9,495** | **10,694** | **12.6** |
| Cost of sales | (6,506) | (7,463) | 14.7 |
| **Gross profit** | **2,989** | **3,231** | **8.1** |
| *Gross profit margin* | *31.5%* | *30.2%* | *(1.3)pts* |
| Research and development expenses | (467) | (495) | 6.0 |
| Selling expenses | (645) | (725) | 12.4 |
| Administrative expenses | (366) | (408) | 11.5 |
| Other income | 375 | 330 | (12.0) |
| Other expenses | (377) | (244) | (35.3) |
| **EBIT** | **1,509** | **1,689** | **11.9** |
| *EBIT margin* | *15.9%* | *15.8%* | *(0.1)pts* |
| Share of net income (loss) of equity-accounted investees | (349) | 324 | (192.8) |
| Interest income | 51 | 40 | (21.6) |
| Interest expense | (861) | (773) | (10.2) |
| **Financial result** | **(1,159)** | **(409)** | **(64.7)** |
| **Earnings before income taxes** | **350** | **1,280** | **265.7** |
| Income taxes | (277) | (378) | 36.5 |
| **Net income** | **73** | **902** | **1,135.6** |
| Attributable to shareholders of the parent company | 63 | 889 | 1,311.1 |
| Attributable to non-controlling interests | 10 | 13 | 30.0 |

***Revenue***

The following table shows the revenue contributions of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes in these revenue contributions.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Automotive | 6,325 | 7,160 | 13.2 |
| Industrial | 3,002 | 3,462 | 15.3 |
| Other[(1)] | 168 | 72 | (57.1) |
| **Group total** | **9,495** | **10,694** | **12.6** |

(1) This represents reconciling items, such as scrap sales and materials provided to subcontractors, which are not allocated to the divisions.

Revenue increased from €9,495 million in the fiscal year ended December 31, 2010 by €1,199 million, or 12.6%, to €10,694 million in the fiscal year ended December 31, 2011. In the Automotive Division, revenue growth was driven by the sustained global economic recovery of the automotive sector. In the Industrial Division, revenue growth was mainly driven by the aftermarket, machine tools and production systems and power transmission sectors. Furthermore, except for wind power, all sectors contributed to the growth in revenue during the fiscal year ended December 31, 2011. The Schaeffler Group saw revenues in both segments increase at rates exceeding market growth. In addition to the continuing positive trend in the automotive sector and still rising demand in the industrial sector, its innovative product offerings have also contributed to the increase in revenue.

The Automotive Division revenue increased from €6,325 million in the fiscal year ended December 31, 2010 by €835 million, or 13.2%, to €7,160 million in the fiscal year ended December 31, 2011. All business divisions contributed to the growth in revenue during the fiscal year ended December 31, 2011. This revenue growth was driven by the continuing positive market situation of the automotive sector globally and increases, significantly in excess of market growth rates, due to new customer projects despite the turmoil in the financial markets during 2011. This was bolstered by a high level of average monthly order intake, where the Schaeffler Group was able to replace concluding projects through new projects with larger volumes and follow-up orders. In the fiscal year ended December 31, 2011, revenue growth was driven in particular by the sales markets in Asia (+20%), Europe (+13%) and North America (+13%). Top-selling product groups showing above-average growth included, torque converters, tapered roller bearings, ball bearings and hydraulic valve lash adjustment elements. In addition, innovative new products, such as the dry double clutch, ball screw drives and the fully variable electro-hydraulic valve control system (UniAir/MultiAir) experienced particularly high growth rates.

The Industrial Division revenue increased from €3,002 million in the fiscal year ended December 31, 2010 by €460 million, or 15.3%, to €3,462 million in the fiscal year ended December 31, 2011. Except for wind power, all sectors contributed to the growth in revenue during the fiscal year ended December 31, 2011 compared to the previous year, with the production machinery and power transmission sectors as well as the aftermarket business performing particularly well. The wind power sector was influenced by a shortage of subsidies and a strong price competition due to excess capacity. All regions exhibited double-digit revenue growth during this period, with Germany (+25%) at the top, followed by South America (+18%) and Europe excluding Germany (+15%). The growth in revenue was accompanied by continuing high order intake levels. Capacity limits in the Schaeffler Group's production prevented stronger growth in these areas.

The regional distribution (by customer location) of the Schaeffler Group's revenue in the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes are shown below.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Germany | 2,575 | 2,856 | 10.9 |
| Europe excluding Germany | 3,037 | 3,452 | 13.7 |
| North America | 1,253 | 1,409 | 12.5 |
| South America | 602 | 628 | 4.3 |
| Asia/Pacific | 2,028 | 2,349 | 15.8 |
| **Group total** | **9,495** | **10,694** | **12.6** |

Revenue increased in each of the five regions. This growth was driven by the continuing recovery of the automotive industry and the increasing demand from various industrial sectors. In Europe, the revenue increase was mainly driven by the strong demand of the Schaeffler Group's customers in the automotive industry. Asia/Pacific revenue primarily increased due to the strong demand in the automotive industry in Korea and in China.

***Cost of sales***

The following table shows the cost of sales of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes in these costs.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Automotive | 4,483 | 5,209 | 16.2 |
| Industrial | 1,855 | 2,182 | 17.6 |
| Other | 168 | 72 | (57.1) |
| **Group total** | **6,506** | **7,463** | **14.7** |

Cost of sales increased from €6,506 million in the fiscal year ended December 31, 2010 by €957 million, or 14.7%, to €7,463 million in the fiscal year ended December 31, 2011. This increase was primarily due to increased prices for materials such as steel and cost increases resulting from additional expansion of capacity. It was partially offset by economies of scale resulting from higher utilization of production capacities and productivity improvements.

*Gross profit*

The following table shows the gross profit contributions of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes in these gross profit contributions.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| **Automotive** | | | |
| **Gross Profit** | **1,842** | **1,951** | **5.9** |
| *Gross profit margin* | *29.1%* | *27.2%* | *(1.9)pts* |
| **Industrial** | | | |
| **Gross Profit** | **1,147** | **1,280** | **11.6** |
| *Gross profit margin* | *38.2%* | *37.0%* | *(1.2)pts* |
| **Group total** | | | |
| **Gross Profit** | **2,989** | **3,231** | **8.1** |
| *Gross profit margin* | *31.5%* | *30.2%* | *(1.3)pts* |

Gross profit increased from €2,989 million in the fiscal year ended December 31, 2010 by €242 million, or 8.1%, to €3,231 million in the fiscal year ended December 31, 2011. This increase was primarily due to improved productivity and increased production volumes. It was offset by increased prices for raw materials and energy and cost increases resulting from additional expansion of capacity.

The gross profit margin decreased on group level from 31.5% (Automotive Division: 29.1%, Industrial Division: 38.2%) in the fiscal year ended December 31, 2010 by 1.3 percentage points (Automotive Division: 1.9 percentage points, Industrial Division: 1.2 percentage points) to 30.2% (Automotive Division: 27.2%, Industrial Division: 37.0%) in the fiscal year ended December 31, 2011. The decrease in gross profit margin was a result of increasing raw material prices as well as energy costs and additional headcount necessary for the anticipated future growth.

*R&D expenses*

R&D expenses increased from €467 million in the fiscal year ended December 31, 2010 by €28 million, or 6.0%, to €495 million in the fiscal year ended December 31, 2011. In the fiscal year ended December 31, 2011, R&D expenses comprised 4.6% of the Schaeffler Group's revenue (prior year: 4.9%).

In addition to developing new applications for existing technologies, the Schaeffler Group has advanced its activities in the areas of energy efficiency and the megatrends $CO_2$-reduction, mechatronics, renewable energies and electric mobility.

*Selling expenses*

Selling expenses rose slightly less than sales, increasing from €645 million in the fiscal year ended December 31, 2010 by €80 million, or 12.4%, to €725 million in the fiscal year ended December 31, 2011. This increase was primarily due to higher sales-related costs, such as general freight and logistics expenses.

*Administrative expenses*

The percentage increase in administrative expenses was less than the percentage increase in revenue in the fiscal year ended December 31, 2011 as a result of the continuing strong cost discipline and economies of scale. The 11.5% increase from €366 million in the fiscal year ended December 31, 2010 to €408 million in the fiscal year ended December 31, 2011 was primarily due to consulting costs incurred in connection with optimizing the financial structure.

Administrative expenses as a percentage of revenue decreased from 3.9% in the fiscal year ended December 31, 2010 to 3.8% in the fiscal year ended December 31, 2011.

***Other income and expenses***

The following table shows the Schaeffler Group's other income for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Exchange gains | 308 | 292 | (5.2) |
| Reversal of provisions | 4 | 6 | 50.0 |
| Reduction of allowances | 8 | 3 | (62.5) |
| Gains on disposal of assets | 5 | 3 | (40.0) |
| Miscellaneous income | 50 | 26 | (48.0) |
| **Total** | **375** | **330** | **(12.0)** |

The following table shows the Schaeffler Group's other expenses for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Exchange losses | 319 | 219 | (31.3) |
| Increase in allowances | 4 | 3 | (25.0) |
| Losses on disposal of assets | 3 | 3 | 0.0 |
| Miscellaneous expenses | 51 | 19 | (62.7) |
| **Total** | **377** | **244** | **(35.3)** |

Other income decreased from €375 million in the fiscal year ended December 31, 2010 by €45 million, or 12.0%, to €330 million in the fiscal year ended December 31, 2011. Exchange gains consist primarily of gains arising from changes in exchange rates between initial recognition and settlement as well as exchange gains resulting from remeasuring monetary items in the statement of financial position at the closing rate.

Other expenses decreased from €377 million in the fiscal year ended December 31, 2010 by €133 million, or 35.3%, to €244 million in the fiscal year ended December 31, 2011. Exchange losses of €219 million (prior year: €319 million) include both realized and unrealized exchange losses. The development of exchange rates, particularly against the U.S. dollar, led to a decline in exchange losses realized on derivative currency hedging instruments compared to the prior year.

***Earnings before interest and taxes***

The following table shows the contributions to EBIT of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes in these EBIT contributions.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| **Automotive** | | | |
| **EBIT** | **990** | **1,074** | **8.5** |
| *EBIT margin* | *15.7%* | *15.0%* | *(0.7)pts* |
| **EBITDA** | **1,391** | **1,449** | **4.2** |
| *EBITDA margin* | *22.0%* | *20.2%* | *(1.8)pts* |
| **Industrial** | | | |
| **EBIT** | **519** | **615** | **18.5** |
| *EBIT margin* | *17.3%* | *17.8%* | *0.5pts* |
| **EBITDA** | **706** | **794** | **12.5** |
| *EBITDA margin* | *23.5%* | *22.9%* | *(0.6)pts* |
| **Group total** | | | |
| **EBIT** | **1,509** | **1,689** | **11.9** |
| *EBIT margin* | *15.9%* | *15.8%* | *(0.1)pts* |
| **EBITDA** | **2,097** | **2,243** | **7.0** |
| *EBITDA margin* | *22.1%* | *21.0%* | *(1.1)pts* |

EBIT grew from €1,509 million in the fiscal year ended December 31, 2010 by €180 million, or 11.9%, to €1,689 million in the fiscal year ended December 31, 2011. The EBIT margin of 15.8% remained nearly unchanged (prior year: 15.9%).

The Automotive Division's total EBIT increased from €990 million in the fiscal year ended December 31, 2010 by €84 million, or 8.5%, to €1,074 million in the fiscal year ended December 31, 2011. Following the high level in the prior year, the EBIT margin decreased slightly from 15.7% in the fiscal year ended December 31, 2010 by 0.7 percentage points to 15.0% in the fiscal year ended December 31, 2011.

The Industrial Division's total EBIT increased from €519 million in the fiscal year ended December 31, 2010 by €96 million, or 18.5%, to €615 million in the fiscal year ended December 31, 2011. The EBIT margin increased from 17.3% in the fiscal year ended December 31, 2010 by 0.5 percentage points to 17.8% in the fiscal year ended December 31, 2011.

*Financial result*

The following table shows the Schaeffler Group's financial results for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Expected return on pension plan assets | 25 | 26 | 4.0 |
| Interest income on financial assets | 12 | 13 | 8.3 |
| Miscellaneous financial income | 14 | 1 | (92.9) |
| **Interest income** | **51** | **40** | **(21.6)** |
| Interest expense on financial debt | (386) | (494) | 28.0 |
| Interest expense from compounding of pensions and other provisions | (84) | (86) | 2.4 |
| Net interest expense on interest rate derivatives | (373) | (176) | (52.8) |
| Miscellaneous financial expense | (18) | (17) | (5.6) |
| **Interest expense** | **(861)** | **(773)** | **(10.2)** |
| Share of net income (loss) of equity-accounted investees | (349) | 324 | (192.8) |
| **Financial result** | **(1,159)** | **(409)** | **(64.7)** |

The Schaeffler Group's financial result increased from €(1,159) million in the fiscal year ended December 31, 2010 by €750 million, or 64.7%, to €(409) million in the fiscal year ended December 31, 2011. This increase was primarily driven by its share of net income (loss) of equity-accounted investees of €324 million (prior year: €(349) million) and net interest expense of €733 million (prior year: €810 million).

In the fiscal year ended December 31, 2011, net interest expense comprised interest income of €40 million (prior year: €51 million) and interest expense of €773 million (prior year: €861 million).

Interest income related mainly to returns on plan assets of funded pension plans and income from discounting of various line items in the statement of financial position in the fiscal year ended December 31, 2011.

In the fiscal year ended December 31, 2011, interest expense included interest on financial debt of €494 million (prior year: €386 million), of which €78 million (prior year: €30 million) related to amortization of transaction costs. The amortization of transaction costs included €47 million due to the refinancing agreement reached with the banks on January 27, 2012 which led to an accelerated recognition of transaction costs relating to the Repaid Senior Facilities Agreement. The interest payments due to the Repaid Senior Facilities Agreement amounted to €395 million in the fiscal year ended December 31, 2011 (prior year: €282 million).

In the fiscal year ended December 31, 2011, interest expense also included different effects from interest rate derivatives. These were compensation payments of approximately €170 million (prior year: €252 million), unrealized non-cash fair value changes of approximately €69 million in gains (prior year: losses of €30 million) and the amortization of the cash flow hedging reserve of €75 million (prior year: €91 million).

Interest expense of approximately €86 million in the fiscal year ended December 31, 2011 (prior year: €84 million) were mainly related to provisions for pensions and similar obligations.

In the fiscal year ended December 31, 2011, the share of net income (loss) of equity-accounted investees of €324 million related to the investment in Schaeffler Beteiligungsholding GmbH & Co. KG, to which the 36.1% investment in Continental AG was transferred on September 30, 2011, and which is accounted for in the Schaeffler Group's consolidated financial statements using the equity method. The share of net income (loss) from equity-accounted investees

represents Continental AG's earnings for the fiscal year ended December 31, 2011, which Continental AG announced on March 1, 2012.

***Income taxes***

The following table shows the Schaeffler Group's income tax expenses for the fiscal years ended December 31, 2010 and 2011 and the period-to-period changes.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Current income tax | 314 | 386 | 22.9 |
| Deferred income tax | (37) | (8) | (78.4) |
| **Income taxes** | **277** | **378** | **36.5** |

Income taxes increased from €277 million in the fiscal year ended December 31, 2010 by €101 million, or 36.5%, to €378 million in the fiscal year ended December 31, 2011, consisting of current income tax of €386 million (prior year: €314 million) and deferred income tax benefit of €8 million (prior year: €37 million). In 2011, current income tax expense related to prior years amounted to €16 million (prior year: €19 million). In addition, the Schaeffler Group had deferred income tax of €14 million related to prior years (prior year: €20 million).

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

The average domestic tax rate for corporations was 27.9% in the fiscal year ended December 31, 2010 and remained the same in the fiscal year ended December 31, 2011. This tax rate consists of corporation tax, including the solidarity surcharge, of 15.9% (prior year: 15.9%) as well as the average trade tax rate of 12.0% in 2010 and 2011. Partnerships located in Germany are only subject to trade tax.

Deviations from the expected tax rate resulted from differing country-specific tax rates applicable to German and foreign entities.

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 2011 is based on a 28.0% (prior year: 28.0%) effective combined trade and corporation tax rate including solidarity surcharge for Schaeffler AG.

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| **Net income before tax** | **350** | **1,280** | **265.7** |
| Expected tax expense | 98 | 358 | 265.3 |
| Addition/reduction due to deviating local tax bases | 4 | (1) | (125.0) |
| Foreign/domestic tax rate differences | (1) | (4) | 300.0 |
| Non-recognition of deferred tax assets | 7 | 4 | (42.9) |
| Change in tax rate and law | (5) | 0 | (100.0) |
| Non-deductible expenses | 146 | 122 | (16.4) |
| Share of net income (loss) of equity-accounted investees | 54 | (90) | (266.7) |
| Taxes for previous years | (1) | 2 | (300.0) |
| Other | (25) | (13) | (48.0) |
| **Reported tax expense** | **277** | **378** | **36.5** |

The additional income tax on non-deductible expenses is, among others, caused by interest expense that is non-deductible because of the interest barrier rules (*Zinsschranke*). As it is not probable that the interest carryforwards will be utilized in the foreseeable future, no deferred tax assets were recognized on interest carryforwards. Please also see "*Risk factors—Legal, taxation and environmental risks—The Company is affected by the German interest barrier rules.*"

Share of net income (loss) of equity-accounted investees related primarily to the investment in Continental AG, Hanover.

***Net income (attributable to shareholders of the parent company)***

For the reasons set forth above, net income after non-controlling interests increased from €63 million in the fiscal year ended December 31, 2010 by €826 million, or 1,311.1%, to €889 million in the fiscal year ended December 31, 2011.

## Comparison of the fiscal year ended December 31, 2009 with the fiscal year ended December 31, 2010

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| **Revenue** | **7,336** | **9,495** | **29.4** |
| Cost of sales | (5,552) | (6,506) | 17.2 |
| **Gross profit** | **1,784** | **2,989** | **67.5** |
| *Gross profit margin* | *24.3%* | *31.5%* | *7.2pts* |
| Research and development expenses | (384) | (467) | 21.6 |
| Selling expenses | (526) | (645) | 22.6 |
| Administrative expenses | (405) | (366) | (9.6) |
| Other income | 458 | 375 | (18.1) |
| Other expenses | (481) | (377) | (21.6) |
| **EBIT** | **446** | **1,509** | **238.3** |
| *EBIT margin* | *6.1%* | *15.9%* | *9.8pts* |
| Share of net income (loss) of equity-accounted investees | (591) | (349) | (40.9) |
| Interest income | 39 | 51 | 30.8 |
| Interest expense | (968) | (861) | (11.1) |
| **Financial result** | **(1,520)** | **(1,159)** | **(23.8)** |
| **Earnings before income taxes** | **(1,074)** | **350** | **(132.6)** |
| Income taxes | (125) | (277) | 121.6 |
| **Net income (loss)** | **(1,199)** | **73** | **(106.1)** |
| Attributable to shareholders of the parent company | (1,204) | 63 | (105.2) |
| Attributable to non-controlling interests | 5 | 10 | 100.0 |

***Revenue***

The following table shows the revenue contributions of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes in these revenue contributions.(1)

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Automotive | 4,743 | 6,325 | 33.4 |
| Industrial | 2,513 | 3,002 | 19.5 |
| Other | 80 | 168 | 110.0 |
| **Group total** | **7,336** | **9,495** | **29.4** |

(1) The allocation of customers to segments is reviewed at least annually and adjusted where necessary. To ensure that segment information in the Schaeffler Group's annual reports is comparable, prior year information is also presented using the current year's customer structure. The segment information for 2010 contained in this Prospectus is based on the segment reporting in the annual report 2011 and the segment information for 2009 is based on the segment reporting in the annual report 2010. In this regard, the 2009 segment information is not fully comparable to the 2010 segment information.

Revenue increased from €7,336 million in the fiscal year ended December 31, 2009 by €2,159 million, or 29.4%, to €9,495 million in the fiscal year ended December 31, 2010. This increase was primarily due to an increased demand for the Schaeffler Group's products as well as the worldwide recovery of the automotive market, resulting in an overall increase in sales volumes. The improved market environment in the industrial business has led to significantly higher revenues, particularly in certain industrial sectors, such as wind power, distribution, power transmission and production machinery, as well as in the Asian market in general.

The economic recovery, following a significant decrease in demand in 2009 as a result of the global economic downturn, allowed the Automotive Division to increase the Schaeffler Group's revenue from €4,743 million in the fiscal year ended December 31, 2009 by €1,582 million, or 33.4%, to €6,325 million in the fiscal year ended December 31, 2010. In addition to the general recovery of the market which was reflected in a worldwide increase in vehicle production and increased inventories at all value-adding stages of the global supply chain, the Automotive Division benefited particularly from double-digit growth rates in Asia and the unexpectedly rapid recovery of the North American economy. Furthermore, positive momentum came from various new projects, production start-ups and above-average growth rates for equipping small gasoline engines for passenger cars with variable valve control systems.

Following a restrained start in the first quarter of the fiscal year ended December 31, 2010, the recovery process of the Industrial Division following the global economic crisis has continued at a rapid pace during the subsequent quarters. The Industrial Division's revenue increased from €2,513 million in the fiscal year ended December 31, 2009 by €489 million, or 19.5%, to €3,002 million in the fiscal year ended December 31, 2010. This increase was primarily due to the continuing dynamic of the global economic recovery with its increasingly stabilizing effect on the Industrial Division.

The regional distribution (by customer location) of the Schaeffler Group's revenue in the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes in these fiscal years are shown below.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Germany | 2,080 | 2,575 | 23.8 |
| Europe excluding Germany | 2,552 | 3,037 | 19.0 |
| North America | 920 | 1,253 | 36.2 |
| South America | 452 | 602 | 33.2 |
| Asia/Pacific | 1,332 | 2,028 | 52.3 |
| **Group total** | **7,336** | **9,495** | **29.4** |

Driven by the worldwide recovery of the global economy, global automotive and industrial production increased significantly in 2010. Revenue increased in each of the five regions. The largest revenue increase of 52.3% was in Asia/Pacific, followed by North America (36.2%). Asia/Pacific revenue increased on the back of the expansion of the Schaeffler Group's business activities and strong demand in the automotive and industrial sectors, particularly in China and Korea. In North America, the increase was mainly driven by the automotive industry, where production of automobiles increased significantly in 2010 compared to 2009.

***Cost of sales***

The following table shows the cost of sales of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes in these costs.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Automotive | 3,685 | 4,483 | 21.7 |
| Industrial | 1,787 | 1,855 | 3.8 |
| Other | 80 | 168 | 110.0 |
| **Group total** | **5,552** | **6,506** | **17.2** |

Cost of sales increased from €5,552 million in the fiscal year ended December 31, 2009 by €954 million, or 17.2%, to €6,506 million in the fiscal year ended December 31, 2010. This increase was in particular due to the substantial increase in sales volume. At the same time, the Schaeffler Group's cost structure improved as a result of economies of scale as well as savings measures, in particular with respect to staff and material expenses, that were established in 2009. Therefore, the increase in cost of sales was less than revenue growth.

The cost of sales of the Automotive Division increased from €3,685 million in the fiscal year ended December 31, 2009 by €798 million, or 21.7%, to €4,483 million in the fiscal year ended December 31, 2010. This increase was generally due to increased sales volumes. The cost structure improved due to a better coverage of fixed costs as a result of increased production volumes combined with productivity gains and increased plant utilization.

The cost of sales of the Industrial Division increased from €1,787 million in the fiscal year ended December 31, 2009 by €68 million, or 3.8%, to €1,855 million in the fiscal year ended December 31, 2010. This slight increase was due to increased sales volumes through improved utilization of plants, reaching full capacity in many areas. Increased productivity, a moderate increase in material costs and the implementation of cost reduction measures also led to an improved cost structure.

*Gross profit*

The following table shows the gross profit contributions of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes in these revenue contributions:

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| **Automotive** | | | |
| **Gross Profit** | **1,058** | **1,842** | **74.1** |
| *Gross profit margin* | *22.3%* | *29.1%* | *6.8pts* |
| **Industrial** | | | |
| **Gross Profit** | **726** | **1,147** | **58.0** |
| *Gross profit margin* | *28.9%* | *38.2%* | *9.3pts* |
| **Group total** | | | |
| **Gross Profit** | **1,784** | **2,989** | **67.5** |
| *Gross profit margin* | *24.3%* | *31.5%* | *7.2pts* |

Overall gross profit increased significantly from €1,784 million in the fiscal year ended December 31, 2009 by €1,205 million, or 67.5%, to €2,989 million in the fiscal year ended December 31, 2010. This increase was due to the widespread economic recovery, particularly within the automotive industry but also within the industrial industry. As the increase in cost of sales was less than revenue growth due to cost improvement programs initiated during the financial crisis and a high utilization, the gross margin increased from 24.3% in the fiscal year ended December 31, 2009 by 7.2 percentage points to 31.5% of revenue in the fiscal year ended December 31, 2010.

The gross profit of the Automotive Division increased from €1,058 million in the fiscal year ended December 31, 2009 by €784 million, or 74.1%, to €1,842 million in the fiscal year ended December 31, 2010. This increase was due to increased sales volumes. As the increase in cost of sales was less than proportionate to the increase in revenue, the gross margin increased from 22.3% in the fiscal year ended December 31, 2009 by 6.8 percentage points to 29.1% in the fiscal year ended December 31, 2010.

The gross profit of the Industrial Division increased from €726 million in the fiscal year ended December 31, 2009 by €421 million, or 58.0%, to €1,147 million in the fiscal year ended December 31, 2010. This increase was due to increased sales volumes and an improved cost structure. As a result, gross profit margin improved from 28.9% in the fiscal year ended December 31, 2009 by 9.3 percentage points to 38.2% in the fiscal year ended December 31, 2010.

*R&D expenses*

R&D expenses increased from €384 million in the fiscal year ended December 31, 2009 by €83 million, or 21.6%, to €467 million in the fiscal year ended December 31, 2010. In light of the positive course of business and high order volume, the Schaeffler Group significantly expanded the Schaeffler Group's research and development activities in 2010. The focus of development projects was on energy efficiency and environmental technology. In the fiscal year ended December 31, 2010, R&D expenses comprised 4.9% of its revenue (prior year: 5.2%).

*Selling expenses*

Selling expenses increased from €526 million in the fiscal year ended December 31, 2009 by €119 million, or 22.6%, to €645 million in the fiscal year ended December 31, 2010. This increase

was primarily due to the expansion of the volume of business in 2010 causing higher sales-related freight costs and logistics expenses.

***Administrative expenses***

General administrative expenses decreased from €405 million in the fiscal year ended December 31, 2009 by €39 million, or 9.6%, to €366 million in the fiscal year ended December 31, 2010. This decrease was primarily due to cost-saving measures implemented in 2009 and a continuous strong cost discipline. In addition, the expenses for consulting fees relating to the Schaeffler Group's refinancing and restructuring were significantly lower in 2010 than in 2009.

***Other income and expenses***

The following table shows the Schaeffler Group's other income for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Exchange gains | 386 | 308 | (20.2) |
| Reversal of provisions | 5 | 4 | (20.0) |
| Reduction of allowances | 7 | 8 | 14.3 |
| Gains on disposal of assets | 9 | 5 | (44.4) |
| Miscellaneous income | 51 | 50 | (2.0) |
| **Total** | **458** | **375** | **(18.1)** |

The following table shows the Schaeffler Group's other expenses for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Exchange losses | 427 | 319 | (25.3) |
| Increase in allowances | 11 | 4 | (63.6) |
| Losses on disposal of assets | 7 | 3 | (57.1) |
| Miscellaneous expenses | 36 | 51 | 41.7 |
| **Total** | **481** | **377** | **(21.6)** |

Other income and expenses decreased from €458 million and €481 million, respectively, in the fiscal year ended December 31, 2009 by €83 million and €104 million, or 18.1% and 21.6%, respectively, to €375 million and €377 million, respectively, in the fiscal year ended December 31, 2010. The decrease of other income was primarily due to a decrease in exchange gains caused by the increased proportion of derivative financial instruments accounted for using hedge accounting. The decrease in other expenses was primarily due to a decrease in exchange losses, including realized and unrealized losses, caused by the increased proportion of derivative financial instruments accounted for using hedge accounting.

*Earnings before interest and taxes*

The following table shows the contributions to EBIT of each of the Schaeffler Group's divisions for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes in these revenue EBIT contributions.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| **Automotive** | | | |
| **EBIT** | **283** | **990** | **249.8** |
| *EBIT margin* | *6.0%* | *15.7%* | *9.7pts* |
| **EBITDA** | **707** | **1,391** | **96.7** |
| *EBITDA margin* | *14.9%* | *22.0%* | *7.1pts* |
| **Industrial** | | | |
| **EBIT** | **163** | **519** | **218.4** |
| *EBIT margin* | *6.5%* | *17.3%* | *10.8pts* |
| **EBITDA** | **396** | **706** | **78.3** |
| *EBITDA margin* | *15.8%* | *23.5%* | *7.7pts* |
| **Group total** | | | |
| **EBIT** | **446** | **1,509** | **238.3** |
| *EBIT margin* | *6.1%* | *15.9%* | *9.8pts* |
| **EBITDA** | **1,103** | **2,097** | **90.1** |
| *EBITDA margin* | *15.0%* | *22.1%* | *7.1pts* |

EBIT increased from €446 million in the fiscal year ended December 31, 2009 by €1,063 million, or 238.3%, to €1,509 million in the fiscal year ended December 31, 2010. This increase was primarily due to the double-digit growth in revenue and the improved cost structure. As a result, the EBIT margin increased from 6.1% in the fiscal year ended December 31, 2009 by 9.8 percentage points to 15.9% in the fiscal year ended December 31, 2010.

The Automotive Division's EBIT increased from €283 million in the fiscal year ended December 31, 2009 by €707 million, or 249.8%, to €990 million in the fiscal year ended December 31, 2010. As a result, the EBIT-margin increased from 6.0% in the fiscal year ended December 31, 2009 by 9.7 percentage points to 15.7% in the fiscal year ended December 31, 2010. The EBIT increase was due to the widespread economic recovery within the automotive industry. All sectors of the Automotive Division contributed to the significant increase in revenue and earnings. High order volumes, evidenced by an increase in average monthly incoming orders of approximately 40% compared to the fiscal year ended December 31, 2009, resulted in all plants operating at very high utilization levels from the second quarter of the fiscal year ended December 31, 2010 onward.

The Industrial Division's EBIT increased from €163 million in the fiscal year ended December 31, 2009 by €356 million, or 218.4%, to €519 million in the fiscal year ended December 31, 2010. As a result, the EBIT-margin increased from 6.5% in the fiscal year ended December 31, 2009 by 10.8 percentage points to 17.3% in the fiscal year ended December 31, 2010. The OEM sector profited most strongly from the rapidly growing demand for machinery and equipment, while revenue growth for the Industrial Aftermarket business was restricted for a longer period due to equipment dealers' high inventory levels.

*Financial result*

The following table shows the Schaeffler Group's financial results for the fiscal years ended December 31, 2009 and 2010 and the period-to-period changes.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Expected return on pension plan assets | 22 | 25 | 13.6 |
| Interest income on financial assets | 16 | 12 | (25.0) |
| Miscellaneous financial income | 1 | 14 | 1300.0 |
| **Interest income** | **39** | **51** | **30.8** |
| Interest expense on financial debt | (602) | (386) | (35.9) |
| Interest expense from compounding of pensions and other provisions | (97) | (84) | (13.4) |
| Net interest expense on interest rate derivatives | (247) | (373) | 51.0 |
| Miscellaneous financial expense | (4) | (18) | 350.0 |
| Losses on securities | (18) | 0 | 100.0 |
| **Interest expense[(1)]** | **(968)** | **(861)** | **(11.1)** |
| Share of net income (loss) of equity-accounted investees | (591) | (349) | (40.9) |
| **Financial result** | **(1,520)** | **(1,159)** | **(23.8)** |

(1) Including changes in fair value of derivatives.

The Schaeffler Group's financial result increased from €(1,520) million in the fiscal year ended December 31, 2009 by €361 million, or 23.8%, to €(1,159) million in the fiscal year ended December 31, 2010. This increase was due to the following reasons: Interest income increased from €39 million in the fiscal year ended December 31, 2009 by €12 million, or 30.8%, to €51 million in the fiscal year ended December 31, 2010, whereas interest expenses decreased from €968 million in the fiscal year ended December 31, 2009 by €107 million, or 11.1%, to €861 million in the fiscal year ended December 31, 2010. The share of net income (loss) of equity-accounted investees decreased from €591 million in the fiscal year ended December 31, 2009 by €242 million, or 40.9%, to €349 million in the fiscal year ended December 31, 2010. This share of net income (loss) of equity-accounted investees consisted mainly of the Schaeffler Group's share of net income (loss) of Continental AG, which was accounted for using the equity method. It included a non-recurring dilution loss of €396 million on the capital increase of Continental AG in January 2010, in which the Schaeffler Group did not participate. Excluding this dilution loss, the share of net income (loss) of equity-accounted investees would have amounted to €48 million in the financial year ended December 31, 2010.

In the fiscal year ended December 31, 2010, net interest expense comprised interest income of €51 million (prior year: €39 million) and interest expense of €861 million (prior year: €968 million).

In the financial year ended December 31, 2010, interest expense included interest on financial debt of €386 million (prior year: €602 million), of which €30 million (prior year: €191 million) related to amortization of transaction costs. The amortization of transaction costs in 2009 primarily comprised material amounts from the periods before the November 20, 2009 refinancing, such as non-recurring items as well as accelerated amortization due to the derecognition of the previous debt. The interest payments due to the Repaid Senior Facilities Agreement amounted to €282 million in the financial year ended December 31, 2010 (prior year: €33 million).

In the financial year ended December 31, 2010, interest expense also included different effects from interest rate derivatives. These were compensation payments of approximately €252 million (prior year: €245 million), unrealized non-cash fair value changes of approximately €30 million in losses (prior year: losses of €2 million) and the amortization of the cash flow

hedging reserve of €91 million (prior year: €10 million). The recognition of fair value changes and amortization of the hedge reserve in the income statement is a consequence of the termination of hedge accounting subsequent to the refinancing in November 2009.

Interest expense of approximately €84 million in the financial year ended December 31, 2010 (prior year: €97 million) was related to provisions for pensions and similar obligations.

***Income taxes***

The following table shows the Schaeffler Group's income tax expenses for the fiscal years ended December 31, 2009 and 2010 and the year-to-year changes.

| in € million (except where otherwise stated) | Year ended December 30, 2009 | 2010 | % change |
|---|---|---|---|
| Current income tax | 146 | 314 | 115.1 |
| Deferred income tax | (21) | (37) | 76.2 |
| **Income taxes** | **125** | **277** | **121.6** |

Income tax increased from €125 million in the fiscal year ended December 31, 2009 by €152 million, or 121.6%, to €277 million in the fiscal year ended December 31, 2010.

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

The average domestic tax rate for the corporations of Schaeffler Group was 27.9% in the fiscal year ended December 31, 2009 and remained the same in the fiscal year ended December 31, 2010. This tax rate consisted of corporation tax and a solidarity surcharge of 15.9% in 2009 and 2010, as well as the average trade income tax rate of 12.0% in 2009 and 2010.

The following tax rate reconciliation shows the tax effects required to reconcile expected income tax expenses to reported income tax expenses. The calculation for 2010 is based on a 28.0% expected effective combined trade and corporation tax rate (effective tax rate) including solidarity surcharge for Schaeffler GmbH.

Deviations from the expected tax rate resulted primarily from differing country-specific tax rates applicable to German and foreign entities.

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| **Net income before tax** | **(1,074)** | **350** | **(132.6)** |
| Expected tax expense/income | (302) | 98 | (132.5) |
| Addition/reduction due to deviating local tax bases | (18) | 4 | (122.2) |
| Foreign/domestic tax rate differences | (22) | (1) | (95.5) |
| Non-recognition of deferred tax assets | 60 | 7 | (88.3) |
| Change in tax rate and law | (2) | (5) | 150.0 |
| Non-deductible expenses | 210 | 146 | (30.5) |
| Non-taxable income | (15) | 0 | (100.0) |
| Result from associated company accounted for at-equity | 166 | 54 | (67.5) |
| Taxes for previous years | 12 | (1) | (108.3) |
| Other | 36 | (25) | (169.4) |
| **Reported tax expense** | **125** | **277** | **121.6** |

The additional income tax on non-deductible expenses was almost entirely caused by non-deductible interest expenses resulting from the interest deduction cap (*Zinsschranke*). No deferred taxes were recognized on interest carryforwards.

Results from associated companies accounted for at-equity related primarily to the investment in Continental AG.

## Liquidity and capital resources

For the three months ended March 31, 2012 and for the fiscal years ended December 31, 2009, 2010 and 2011, the Schaeffler Group's principal source of liquidity was cash generated from operating activities, except for the acquisition of Continental AG shares which was financed by bank loans. As of March 31, 2012, the Schaeffler Group had cash and cash equivalents totaling €291 million as well as an unused credit line from the Revolving Credit Facility of €850 million. It expects to meet its working capital, capital expenditures according to cash flow, dividend payment and investment requirements for the next twelve months primarily through cash flows from operations. It may also, from time to time, seek other sources of funding, which may include debt or equity financings, including euro-denominated loans from German banks, depending on the Schaeffler Group's financing needs and market conditions.

## Period-to-period analysis of cash flows

The summary cash flow statement below shows how the Schaeffler Group's cash and cash equivalents changed over the relevant periods indicated by cash inflows and outflows.

| | Year ended December 31, | | | Three Months ended March 31, | | Twelve Months ended March 31, |
|---|---|---|---|---|---|---|
| **in € million** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | | | **(unaudited)** | | **(unaudited)** |
| **Operating activities** | | | | | | |
| EBIT | 446 | 1,509 | 1,689 | 472 | 401 | 1,618 |
| Interest paid | (686) | (644) | (686) | (171) | (166) | (681) |
| Interest received | 8 | 10 | 13 | 2 | 2 | 13 |
| Income taxes paid | (161) | (298) | (238) | (70) | (54) | (222) |
| Depreciation, amortization and impairments | 657 | 588 | 554 | 141 | 148 | 561 |
| Gains/losses on disposal of assets | 0 | (2) | 0 | (1) | (1) | 0 |
| Other non-cash items | (1) | (3) | 2 | (21) | (19) | 4 |
| Changes in: | | | | | | |
| • Inventories | 573 | (257) | (80) | (91) | (54) | (43) |
| • Trade receivables | 73 | (241) | (153) | (295) | (290) | (148) |
| • Trade payables | (100) | 271 | 83 | 101 | 121 | 103 |
| • Provisions for pensions and similar obligations | (59) | (55) | (61) | (7) | (8) | (62) |
| • Other assets, liabilities and provisions | (153) | 12 | (39) | 65 | 57 | (47) |
| **Cash flows from operating activities** | **597** | **890** | **1,084** | **125** | **137** | **1,096** |

| in € million | Year ended December 31, 2009 | 2010 | 2011 | Three Months ended March 31, 2011 | 2012 | Twelve Months ended March 31, 2012 |
|---|---|---|---|---|---|---|
| | | | | (unaudited) | | (unaudited) |
| **Investing activities** | | | | | | |
| Proceeds from disposals of intangible assets and property, plant and equipment | 50 | 25 | 11 | 6 | 7 | 12 |
| Capital expenditures on intangible assets | (51) | (21) | (15) | (4) | (9) | (20) |
| Capital expenditures on property, plant and equipment | (270) | (340) | (758) | (116) | (241) | (883) |
| Investments in equity-accounted investees and other investments | (3,905) | (4) | (10) | (1) | (1) | (10) |
| Acquisition/disposal of cash settled swaps | 2,112 | 0 | 0 | 0 | 0 | 0 |
| Other investing activities | 67 | 16 | 7 | 1 | 0 | 6 |
| **Cash used in investing activities** | **(1,997)** | **(324)** | **(765)** | **(114)** | **(244)** | **(895)** |
| **Financing activities** | | | | | | |
| Dividends paid to non-controlling interests | (1) | (1) | (1) | 0 | 0 | (1) |
| Receipts from loans | 2,150 | 3 | 13 | 53 | 170 | 130 |
| Repayments of loans | (250) | (83) | (42) | (10) | (11) | (43) |
| Acquisitions in stages | — | — | — | 0 | (13) | (13) |
| Dividends paid to Schaeffler Verwaltungs GmbH | (592) | (134) | (400) | (400) | 0 | 0 |
| Receipts/payments from other financing activities | (144) | 15 | (216) | (17) | (144) | (343) |
| **Cash used in financing activities** | **1,163** | **(200)** | **(646)** | **(374)** | **2** | **(270)** |
| **Net increase/decrease in cash and cash equivalents** | **(237)** | **366** | **(327)** | **(363)** | **(105)** | **(69)** |
| Cash and cash equivalents as of beginning of period | 585 | 350 | 733 | 733 | 397 | 358 |
| Effects of foreign exchange rate changes on cash and cash equivalents | 2 | 17 | (9) | (12) | (1) | 2 |
| **Cash and cash equivalents as of end of period** | **350** | **733** | **397** | **358** | **291** | **291** |

***Cash flows for the three months ended March 31, 2011 and 2012***

*Cash flows from operating activities*

Cash flows from operating activities increased from €125 million in the three months ended March 31, 2011 by €12 million, or 9.6%, to €137 million in the three months ended March 31, 2012. This increase was primarily due to lower cash outflows in working capital by €62 million to €223 million (prior year: €285 million).

*Cash used in investing activities*

Cash outflow for investing activities (cash paid for property, plant and equipment and intangible assets) increased from €114 million in the three months ended March 31, 2011 by €130 million, or 114.0%, to €244 million in the three months ended March 31, 2012. This increase was primarily due to capacity expansion.

The following table sets forth the Schaeffler Group's capital expenditures by division for the periods indicated:

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | (unaudited) | | |
| Automotive | 91 | 177 | 94.5 |
| Industrial | 31 | 58 | 87.1 |
| **Group total** | **122** | **235** | **92.6** |
| Other (non-)cash effective | (2) | 15 | (850.0) |
| **Capital expenditures according to cash flow** | **120** | **250** | **108.3** |

The Schaeffler Group incurred capital expenditures on property, plant and equipment and intangible assets of €235 million (Automotive Division: €177 million, Industrial Division: €58 million) for the three months ended March 31, 2012, significantly more than the corresponding amount for the prior year period of €122 million (Automotive Division: €91 million, Industrial Division: €31 million). This increase was due to the expansion of capacity resulting from the Schaeffler Group's growth.

For information purposes, the following table sets forth the Schaeffler Group's capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

| in € million (except where otherwise stated) | Three Months ended March 31, 2011 | 2012 | % change |
|---|---|---|---|
| | (unaudited) | | |
| Capacity extension and new products | 82 | 165 | 101.2 |
| Function extension and rationalization | 21 | 45 | 114.3 |
| Replacement and other | 19 | 25 | 31.6 |
| **Additions according to fixed assets register** | **122** | **235** | **92.6** |
| Other (non-)cash effective | (2) | 15 | (850.0) |
| **Capital expenditures according to cash flow** | **120** | **250** | **108.3** |

*Cash used in financing activities*

Cash flows from financing activities changed from €374 million used in the three months ended March 31, 2011 by €376 million to an inflow of €2 million in the three months ended March 31, 2012. This change was primarily due to dividends paid to Schaeffler Verwaltungs GmbH in the three months ended March 31, 2011.

***Cash flows for the fiscal years ended December 31, 2010 and 2011***

*Cash flows from operating activities*

Cash flows from operating activities increased from €890 million in the fiscal year ended December 31, 2010 by €194 million, or 21.8%, to €1,084 million in the fiscal year ended December 31, 2011. This increase was primarily due to improved earnings in the fiscal year ended December 31, 2011 as reflected in the EBIT of €1,689 million.

The cash outflows within working capital (€150 million cash outflow in the fiscal year ended December 31, 2011, €227 million cash outflow in the fiscal year ended December 31, 2010) is predominantly driven by revenue growth.

*Cash used in investing activities*

Cash used in investing activities (cash paid for property, plant and equipment and intangible assets) increased from €324 million in the fiscal year ended December 31, 2010 by €441 million, or 136.1%, to €765 million in the fiscal year ended December 31, 2011. This increase was primarily due to the growth-related expansion of capacity.

The following table sets forth the Schaeffler Group's capital expenditures by division for the periods indicated:

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Automotive | 284 | 621 | 118.7 |
| Industrial | 102 | 225 | 120.6 |
| **Group total** | **386** | **846** | **119.2** |
| Non-cash effective | (25) | (73) | 192.0 |
| **Capital expenditures according to cash flow** | **361** | **773** | **114.1** |

Capital expenditures increased from €386 million in the fiscal year ended December 31, 2010 by €460 million, or 119.2%, to €846 million in the fiscal year ended December 31, 2011. Capital expenditures increased in the Automotive Division from €284 million in the fiscal year ended December 31, 2010 by €337 million, or 118.7%, to €621 million in the fiscal year ended December 31, 2011 and increased in the Industrial Division from €102 million in the fiscal year ended December 31, 2010 by €123 million, or 120.6%, to €225 million in the fiscal year ended December 31, 2011. This increase was due to the expansion of capacity resulting from the Schaeffler Group's growth.

For information purposes, the following table sets forth the Schaeffler Group's capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

| in € million (except where otherwise stated) | Year ended December 31, 2010 | 2011 | % change |
|---|---|---|---|
| Capacity extension and new products | 253 | 616 | 143.5 |
| Function extension and rationalization | 75 | 106 | 41.3 |
| Replacement and other | 58 | 124 | 113.8 |
| **Additions according to fixed assets register** | **386** | **846** | **119.2** |
| Non-cash effective | (25) | (73) | 192.0 |
| **Capital expenditures according to cash flow** | **361** | **773** | **114.1** |

*Cash used in financing activities*

Cash used in financing activities increased from €200 million in the fiscal year ended December 31, 2010 by €446 million, or 223.0%, to €646 million in the fiscal year ended December 31, 2011. The dividend of €400 million paid to Schaeffler Verwaltungs GmbH and the repayment of the IBV loan due to Schaeffler Holding GmbH & Co. KG of €186 million were the largest cash outflows in 2011. Other payments also include the repayment of a loan due to a IHO Group company of €30 million.

***Cash flows for the fiscal years ended December 31, 2009 and 2010***

*Cash flows from operating activities*

Cash flows from operating activities increased from €597 million in the fiscal year ended December 31, 2009 by €293 million, or 49.1%, to €890 million in the fiscal year ended December 31, 2010. This increase was primarily due to improved earnings in the fiscal year ended December 31, 2010 as reflected in the EBIT of €1,509 million, partly offset by an increase in cash outflow within working capital.

The increase in cash outflows within working capital (€227 million cash outflow in the fiscal year ended December 31, 2010, €546 million cash inflow in the fiscal year ended December 31, 2009) is predominantly driven by the level of revenue growth.

*Cash used in investing activities*

Cash used in investing activities (cash paid for property, plant and equipment and intangible assets) decreased from €1,997 million in the fiscal year ended December 31, 2009 by €1,673 million, or 83.8%, to €324 million in the fiscal year ended December 31, 2010. This decrease was primarily due to cash payments in the fiscal year ended December 31, 2009 to acquire shares in Continental AG. There were no comparable cash outflows in the fiscal year ended December 31, 2010.

The following table sets forth the Schaeffler Group's capital expenditures by division for the periods indicated:

| **in € million (except where otherwise stated)** | **Year ended December 31,** | | |
|---|---|---|---|
| | **2009** | **2010** | **% change** |
| Automotive | 88 | 284 | 222.7 |
| Industrial | 125 | 102 | (18.4) |
| Other[(1)] | 112 | — | (100.0) |
| **Group total** | **325** | **386** | **18.8** |
| Non-cash effective | (4) | (25) | 525.0 |
| **Capital expenditures according to cash flow** | **321** | **361** | **12.5** |

(1) The amount consists entirely of capital expenditures not allocated to segments, mainly in the operations and in the non-production areas. In addition, eliminations of intercompany transfers are also included.

Capital expenditures increased from €325 million in the fiscal year ended December 31, 2009 by €61 million, or 18.8%, to €386 million in the fiscal year ended December 31, 2010. Capital expenditures increased in the Automotive Division from €88 million in the fiscal year ended December 31, 2009 by €196 million, or 222.7%, to €284 million in the fiscal year ended December 31, 2010 but decreased in the Industrial Division from €125 million in the fiscal year ended December 31, 2009 by €23 million, or 18.4%, to €102 million in the fiscal year ended December 31, 2010. The Automotive Division received a disproportionately large share of capital expenditures due to the extraordinary positive market growth in most business areas, in particular, for new products and partial expansions of capacity in the Engine Systems and Transmissions business divisions. The increase was primarily due to the economic recovery, which led to a strong increase in customer demand in North and South America and particularly in the Asia/Pacific region. As a result, the geographic focus of capital expenditures was on the plants in Taicang and Suzhou in China and Changwon, Jenoju and Ansan in Korea. In the Industrial Division, capital expenditures decreased primarily due to capacity expansions which were completed in 2009 at the plants in Brasov in Romania, Wuppertal in Germany, Taicang in China and Joplin in the United States.

For information purposes, the following table sets forth the Schaeffler Group's capital expenditures divided into capacity, extension and new products, function extension and rationalization and replacement and other:

| in € million (except where otherwise stated) | Year ended December 31, 2009 | 2010 | % change |
|---|---|---|---|
| Capacity extension and new products | 234 | 253 | 8.1 |
| Function extension and rationalization | 46 | 75 | 63.0 |
| Replacement and other | 45 | 58 | 28.9 |
| **Additions according to fixed assets register** | **325** | **386** | **18.8** |
| Non-cash effective | (4) | (25) | 525.0 |
| **Capital expenditures according to cash flow** | **321** | **361** | **12.5** |

*Cash flows used in financing activities*

Cash flows used in financing activities decreased from a net cash inflow of €1,163 million in the fiscal year ended December 31, 2009 by €1,363 million, or 117.2%, to a net cash outflow of €200 million in the fiscal year ended December 31, 2010. This change was primarily due to the substantial decrease in receipts from loans.

## Capital resources

The table below gives an overview of the Schaeffler Group's available liquidity for the following period:

| in € million | As of December 31, 2009 | 2010 | 2011 | As of March 31, 2012 (unaudited) |
|---|---|---|---|---|
| Cash and cash equivalents | 350 | 733 | 397 | 291 |
| Credit lines and available financing from banks | 742 | 742 | 742 | 850 |
| **Total** | **1,092** | **1,475** | **1,139** | **1,141** |

## Financial debt

***Sources of financing***

As of March 31, 2012, the Schaeffler Group's financial debt amounted to €7,455 million (€7,155 million non-current bank debt and €300 million current bank debt) compared to €6,482 million as of March 31, 2011 (€6,411 million non-current bank debt and €71 million current bank debt). As of December 31, 2011, the Schaeffler Group's financial debt amounted to €7,485 million (€7,168 million non-current bank debt and €317 million current bank debt) compared to €6,477 million as of December 31, 2010 (€6,413 million non-current bank debt and €64 million current bank debt) and €6,481 million as of December 31, 2009 (€6,420 million non-current bank debt and €61 million current bank debt). The main sources of financing made available to the Schaeffler Group are described below.

***New Senior Facilities Agreement and Existing Notes***

In the past, the major part of the Schaeffler Group's financial debt was incurred under the Repaid Senior Facilities Agreement, which was entered into in November 2009 as part of the efforts to rearrange the debt financing of the acquisition of Continental AG shares.

In February 2012, the Repaid Senior Facilities Agreement was fully refinanced by the New Senior Facilities Agreement and the Existing Notes.

The New Senior Facilities Agreement comprises (i) a €2.0 billion term loan facility ("**Facility A**") which was voluntarily cancelled by the Company on February 9, 2012; (ii) a €3.0 billion term loan facility ("**Facility B**") which matures on January 27, 2015 and bears interest at EURIBOR plus credit spread (between 263 and 500 basis points depending on leverage and rating of the Schaeffler Group); (iii) a term loan facility with an initial aggregate amount of €2.0 billion ("**Facility C**", together with Facility A and Facility B, the "**Term Loan Facilities**") due January 27, 2017 which consists of a €600 million term loan facility ("**Facility C1**"), bearing interest at EURIBOR plus 550 basis points, and a €1.4 billion term loan facility converted into a €450 million term loan facility and a US$1,275 million term loan facility ("**Facility C2**"), bearing interest at EURIBOR plus 550 basis points (EUR tranche) and LIBOR plus 550 basis points (USD tranche); and (iv) a €1.0 billion multicurrency revolving credit facility, bearing interest at EURIBOR plus credit spread (between 263 and 500 basis point depending on leverage and rating of the Schaeffler Group) (the "**Revolving Facility**" together with the Term Loan Facilities, the "**Facilities**"), of which €100.0 million, and an additional €49.5 million under ancillary facilities, were drawn as of March 31, 2012, with two one-year extension options subject to approval by the lenders.

The carrying amounts of these loans totaling €5,046 million as of March 31, 2012, which is presented as non-current and current financial debt, differs from the principal amount due to unamortized transaction costs of €58 million and due to the undrawn Revolving Facility, except as to €100 million, and an additional €49.5 million under ancillary facilities, as of the reporting date.

In addition to the New Senior Facilities Agreement, Schaeffler Finance B.V. issued €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**Existing Notes**"). As of March 31, 2012, the Existing Notes had a carrying amount of €1,993 million.

For a detailed description of our financial debt, please see "*Description of other indebtedness.*"

***Other financial debt***

The other sources of financing comprise mainly a further annuity loan in Germany as well as some smaller bank loans outside of Germany.

***Overview of financial debt and maturity profile***

As of March 31, 2012, the Schaeffler Group had a financial debt of €7,455 million, of which €7,173 million was secured. Financial debt of €300 million had a term of up to one year, €7,155 million of more than one year.

The following table summarizes the principal payments the Schaeffler Group is obligated to make as of March 31, 2012 under current and non-current debt obligations after giving effect

to the Transactions (assuming the issuance of €300 million aggregate principal amount of Notes) and the application of the proceeds thereof (see "*Use of proceeds*").

| | | Payments due by period[1] | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **in € million** | **Total** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **Thereafter** |
| | | | | **(unaudited)** | | | | |
| Annuity loan | 90 | 35 | 55 | — | — | — | — | — |
| Senior Credit Facilities | 4,804 | 100 | — | — | 2,820 | — | 1,884 | — |
| *Revolving credit facility (€1,000 million)* | 100 | 100 | — | — | — | — | — | — |
| *Term loan A* | — | — | — | — | — | — | — | — |
| *Term loan B* | *2,820* | — | — | — | *2,820* | — | — | — |
| *Term loan C1* | *564* | — | — | — | — | — | *564* | — |
| *Term loan C2* | *1,320* | — | — | — | — | — | *1,320* | — |
| *Existing Notes*[1] | *2,024* | — | — | — | — | — | *1,250* | *774* |
| EUR Notes | 1,200 | — | — | — | — | — | 800 | 400 |
| USD Notes[2] | 824 | — | — | — | — | — | 450 | 374 |
| Notes offered hereby[3] | 300 | — | — | — | — | — | 300 | — |
| Other financial debt[4] | 46 | 46 | — | — | — | — | — | — |
| **Pro forma gross financial debt (current and non-current)** | **7,264** | **181** | **55** | **—** | **2,820** | **—** | **3,434** | **774** |
| **Shareholder loans[5]** | **280** | **—** | **—** | **—** | **—** | **—** | **—** | **280** |

(1) As adjusted to give effect to the Transactions as though the Transactions had taken place on March 31, 2012.

(2) For presentational purposes, the Dollar Notes have been converted into euro at an exchange rate of $1.3356 to €1.00 as of March 31, 2012.

(3) Assumes €300 million aggregate principal amount of Notes are issued at par.

(4) Includes €20 million of short term debt to credit institutions and €26 million of other short term debt.

(5) Shareholder loans refers to a special receivables loan and an IBV Loan (which are included in the balance sheet items non-current and current financial debt) granted by the Schaeffler Group's parent company Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG, respectively. The shareholder loans are subordinated in right of payment to the Notes and the New Senior Facilities Agreement by operation of the Security Pooling and Intercreditor Agreement.

## Contractual obligations

The following table sets forth the Schaeffler Group's contractual obligations and commitments as of December 31, 2011.

| | Contractual obligations and commitments Payments due by period | | | |
|---|---|---|---|---|
| **in € million** | **Total** | **Up to 1 year** | **1-5 years** | **More than 5 years** |
| Financial debt | 8,058 | 751 | 7,307 | 0 |
| Operating Lease Obligations | 120 | 44 | 72 | 4 |
| Trade payables | 873 | 873 | 0 | — |
| Other liabilities | 195 | 186 | 2 | 7 |
| Derivative financial liabilities | 320 | 176 | 144 | — |
| **Total** | **9,566** | **2,030** | **7,525** | **11** |

***Non-recognized contingent liabilities and other obligations***

As of December 31, 2011, the Schaeffler Group has the following non-recognized contingent liabilities and other obligations.

| **in € million** | **December 31, 2011** |
|---|---|
| Contingent Liabilities on guarantees and warranties | 10 |
| Other contingent liabilities | 34 |
| **Non-recognized contingent liabilities and other obligations** | **44** |

In late 2011, several antitrust authorities have commenced investigations of several manufacturers of rolling and plain bearings for the automotive and other industrial sectors. The authorities are investigating possible agreements violating antitrust laws. Schaeffler AG and some of its subsidiaries are subject to these investigations. Schaeffler AG is fully cooperating with the investigating authorities and supports their work. To date, the investigations have not yet been specified in more detail. There is a risk that the antitrust authorities will impose penalties, and that third parties may claim damages. The amount of potential penalties or subsequent claims is uncertain, but could be significant. Please also see "*Risk factors—Legal, taxation and environmental income*".

***Pension obligations***

The following table sets forth the Schaeffler Group's pension provisions as of December 31, 2011:

| | As of December 31, 2011 | | | | |
|---|---|---|---|---|---|
| **in € million** | **Germany** | **United Kingdom** | **United States** | **Other** | **Total** |
| DBO[(1)] | (1,172) | (154) | (166) | (191) | (1,683) |
| Plan assets | 121 | 167 | 108 | 113 | 509 |
| **Funded status** | **(1,051)** | **13** | **(58)** | **(78)** | **(1,174)** |
| Balance sheet | | | | | |
| Provisions for Pensions | (1,076) | (5) | (58) | (78) | (1,217) |
| Pension assets | 25 | 18 | — | — | 43 |
| **Net balance sheet obligations** | **(1,051)** | **13** | **(58)** | **(78)** | **(1,174)** |

(1) Including other employee benefits similar to pensions.

The Schaeffler Group grants its employees various types of pension benefits. The defined benefit pension obligations are primarily towards beneficiaries in Germany, most of which are unfunded. In addition to the German pension plans, the most significant defined benefit pension plans cover employees in the U.S. and the United Kingdom. In these countries, the Schaeffler Group's pension obligations are financed by separate pension funds. At the end of 2011, approximately 86% (prior year: 90%) of pension obligations in the U.S. and the United Kingdom were covered by plan assets.

The net balance sheet provision for pensions and similar obligations comprises a defined benefit obligation of €1,683 million and a market value of plan assets of €509 million. This is presented on the balance sheet as a provision for pensions and similar obligations of €1,217 million. Some overfunded plans lead to plan assets of €43 million recognized in other assets in the statement of financial position.

## Off-balance sheet arrangements

There are no material off-balance sheet arrangements in place for the periods presented.

## Qualitative disclosure on market risk

The Schaeffler Group is exposed to a number of financial risks arising from the ordinary course of business, such as credit risks, interest rate risks and currency risks.

## Credit risk

Credit risk arising on trade receivables is managed by continuously monitoring customers' financial status, creditworthiness and payment history. Efficient collection procedures and classification of customers in defined risk categories are additional components of the Schaeffler

Group's credit risk management. Appropriate credit limits are set and commercial credit insurance policies further reduce credit risk.

## Interest rate risk

Due to the floating rate senior term loan, the Schaeffler Group is subject to an interest rate risk relating to fluctuations in one-month EURIBOR. As part of interest rate risk management, this interest rate risk is hedged by entering into interest rate swaps, caps and collars. Currently, existing interest rate hedging transactions were entered into at a higher interest rate level than current rates to limit the risk of fluctuations in one-month EURIBOR over the entire term of the senior term loan. Interest rate risk, market values of interest rate derivatives and development of interest rate markets are continually monitored as part of the market risk reporting to the Chief Financial Officer.

## Currency risk

The Schaeffler Group is exposed to diverse foreign exchange risks due to its international presence. The focus on hedging is on transaction risk, *i.e.*, the impact from currency fluctuations on future cashflow of the Schaeffler Group. The largest transaction foreign currency risks result from exchange rate fluctuations of the U.S. dollar (surplus) and Romanian Leu (demand). Potential foreign currency fluctuations have an effect on revenue as well as on purchase costs. Foreign exchange risks are managed centrally by corporate treasury, using various hedging instruments, such as forward exchange contracts and options. Specific exchange rate exposures and exchange rate effects on earnings are continuously monitored and evaluated as part of a regular reporting program and risk management system.

# Industry

*In this Prospectus, the Schaeffler Group relies on and refers to information regarding its business and the industry in which it operates and competes. All automotive and industrial market data is based on or derived from reports provided by independent, widely-used and respected industry research providers.*

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. The Schaeffler Group supplies high quality and technologically advanced components and systems to a broad range of automotive and industrial customers.

## Automotive

The Schaeffler Group offers products and services to customers in the automotive sector. These include OEMs and their suppliers (Tier 1 and Tier 2) as well as companies focusing on the aftermarket. Products range from components and systems for the engine (such as belt and chain drive systems, variable valve train systems and camshaft phasing systems) to components and systems for the transmission (such as CVTs and torque converters) to chassis components (such as wheel bearings and ball screw drives). Bearings are utilized in many engine, transmission and chassis components and systems, such as wheel bearings and components for the steering column.

### *Definition, size and structure*

The global automotive industry designs, develops, manufactures, sells and services light vehicles and heavy commercial vehicles. The light vehicle segment consists of passenger cars, vans and light trucks (all weighing less than six tons), while the heavy vehicle segment is generally defined as the market for vehicles with an allowable weight of more than six tons. In 2011, approximately 76.8 million light vehicles were produced on a worldwide basis (*source*: IHS Global Insight Automotive (March 2012)).

The automotive production value chain is broken down into OEMs, such as Daimler, Ford, Toyota and Volkswagen, and automotive part suppliers, such as us, BorgWarner, Continental and ZF Friedrichshafen. The automotive part supplier space can be further segmented into three different Tiers. Tier 1 automotive suppliers sell their products directly to OEMs. Tier 2 suppliers sell products to Tier 1 suppliers, and in turn are supplied by Tier 3 suppliers. In general, suppliers develop components and systems on the basis of agreements with OEMs to meet their technological and regulatory requirements.

In addition to sales to OEMs, some components are sold directly to the aftermarket, representing a smaller but typically more profitable and stable revenue source for many automotive suppliers. The term "aftermarket" refers to the market of spare parts that are used in the maintenance and repair of passenger cars and commercial vehicles. Such spare parts include mechanical parts, electrical parts and electronics, body parts (including headlights), assembly parts, tires, oils and lubricants, car paint, other chemical products, accessories and windows. The same products supplied to OEMs are generally also distributed in the aftermarket sector.

## Automotive—OEM

### *Growth drivers*

The most important driver of the automotive supply industry is the overall vehicle production volume, driven, in turn, by vehicle sales volume. Although suppliers will have contracts for particular vehicle platforms, which typically have an average life of five to seven years, the actual production volume is rarely fixed and may vary depending on macro and other contingent factors. The economic environment generally has the largest impact, with more

minor impacts from regulations and government policies (such as the scrappage schemes introduced in the United States and Europe in 2009). Other specific factors that can influence automotive production include changing demographics (growing population, increase of median age, urbanization), consumer preferences (*e.g.*, low cost cars for basic transportation), specific levels of disposable income, replacement of old vehicles and affordability.

***Key trends***

The automotive supply industry is influenced by a range of complementary trends, which, together, influence the performance of the individual participants. The key trends are described below:

*Megatrends*

The automotive industry is currently impacted by a number of key growth trends ("megatrends") which primarily derive from regulations, technological development as well as increasing consumer standards. These trends include:

- *Increased fuel efficiency and reduced $CO_2$ emissions:* Tightening environmental standards for vehicles globally are imposing a need to develop more environmentally-friendly technologies, aimed at lower fuel consumption and, consequently, at reduced $CO_2$ emissions. This can generally be achieved by enhancing the efficiency, or reducing the weight, of existing technologies or by developing new alternative technologies. Powertrain and transmission related technologies are expected to be critical for OEMs' ability to comply with stricter standards. For example, the emergence of hybrid and electric propulsion systems represent a fundamental change to established vehicle technology. Given the Schaeffler Group's general R&D activities to reduce friction in a wide range of its components for engine and transmission solutions, it is well positioned to further drive and benefit from this trend.
- *Improved driver safety:* Stricter legal requirements, particularly in Western markets, customer preference for safer vehicles and increasing volumes of traffic all over the world are driving demand for active and passive safety components and other solutions to enhance driver safety. The Schaeffler Group is actively working on solutions for rear-wheel steering that enhance steering dynamics.
- *Enhanced comfort and convenience:* OEMs are constantly looking for ways to enhance driving experience, comfort and convenience through new technologies. Examples of this include the significant increase in electronic components per vehicle, with many car functions now controlled electronically (*e.g.*, front axle steering or fully variable valve control systems), various driver assistance systems (*e.g.*, leveling systems and anti-roll stabilization) and solutions that improve ride, for example, in terms of noise and vibration control (*e.g.*, dual-mass flywheels, balancer shat dampers and crankshaft dampers).
- *Improved driving dynamics and drive design:* Customers in the premium segment increasingly base their purchase decisions on driving dynamics. Together with selected OEM customers, the Schaeffler Group develops solutions to this end, *e.g.*, allowing higher curve speed or improved gravel road driving with sporting cars.

Suppliers that provide solutions that enable OEMs to address these trends and meet regulatory standards are well positioned to experience above average growth and establish themselves as key future technology partners for OEMs.

*OEM trends*

Changes in the development, sourcing and production strategy of OEMs can also influence the automotive supplier market. These include:

- *Global vehicle platforms and consolidation of supplier base*: Over the past decade, OEMs have increasingly shifted to global vehicle platforms with the aim of maximizing the

commonality of components and systems and to derive cost savings via economies of scale. Consequently, OEMs are looking for global suppliers that can provide standardized components worldwide, at a competitive cost level and with close proximity to OEM production sites. Typically, OEMs would use two to three suppliers globally per component and platform to ensure a degree of multiple sourcing and in order to avoid overdependence on a single supplier. This trend benefits suppliers, such as Schaeffler Group, with global presence and scale, and the ability to deliver the same technological / quality standard at competitive costs across regions.

- *Outsourcing:* OEMs are increasingly outsourcing the engineering and production of modules and systems to their suppliers. The development costs are initially and primarily borne by Tier 1 suppliers, who aim to subsequently recover these R&D costs over the components' lifecycle. Larger automotive suppliers tend to be better placed to act as system providers and component integrators, provided they have a larger capital base.

*Growth trends*

Certain market segments are more attractive for automotive suppliers due to their higher growth, profitability and / or resilience in a downturn. These include:

- *Emerging markets:* The increase in disposable income, low existing vehicle penetration as well as the development of efficient road infrastructure are driving the demand for light vehicles in emerging markets. As a result of high and rapidly growing local demand combined with low manufacturing costs, global OEMs are expanding their production and sales networks in these markets. At the same time, local vehicle manufacturers, particularly in China, India and Russia, are also gaining significant scale. Large scale suppliers with strong OEM relationships and resources to invest in their production footprint are well positioned to tap growth opportunities in emerging markets, both with existing and new local OEM customers.
- *Premium segment:* Increasing wealth (particularly in China and other emerging markets) is driving demand for premium and luxury cars. Suppliers with strong relationships with leading global premium car makers, such as Audi, BMW and Mercedes are likely to have above average growth. Given the generally higher profitability of premium car makers, their focus on new technologies and quality of components (rather than price) and lower competitive pressures, suppliers are also typically able to generate higher margins from premium OEM customers.

***Historical and forecast market development***

*Production*

The following table shows historical and forecast light vehicle production in key regions and selected key countries in which the Schaeffler Group operates for the 2008-2016 period, as well as annualized growth rates in production for 2008-2011 and 2011-2016. Both historical and forecast data is based on data published by IHS Global Insight Automotive in March 2012.

There can be no assurance that any of the forecasts presented below will prove to be accurate.

| | Production of light vehicles (units in millions) | | | | | | | | | CAGR | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E | 2015E | 2016E | 2008-11 | 2011-16E |
| ***Developed markets*** | | | | | | | | | | | |
| Western Europe | 14.7 | 12.1 | 13.7 | 14.1 | 13.2 | 13.8 | 14.7 | 15.2 | 15.7 | (1.3)% | 2.1% |
| US / Canada | 10.6 | 7.1 | 9.7 | 10.6 | 11.8 | 12.4 | 13.2 | 13.5 | 13.6 | 0.2% | 5.1% |
| Japan | 11.1 | 7.7 | 9.3 | 8.1 | 9.5 | 8.7 | 8.8 | 8.6 | 8.7 | (10.1)% | 1.5% |
| Korea | 4.3 | 3.7 | 4.5 | 5.0 | 4.9 | 4.8 | 4.8 | 4.6 | 4.7 | 5.2% | (1.3)% |
| Australia | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | (7.5)% | 5.2% |
| *Sub-total* | *41.0* | *30.8* | *37.4* | *38.0* | *39.6* | *39.9* | *41.7* | *42.2* | *43.0* | *(2.4)%* | *2.5%* |

| | Production of light vehicles (units in millions) | | | | | | | | | CAGR | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E | 2015E | 2016E | 2008-11 | 2011-16E |
| ***Emerging markets*** | | | | | | | | | | | |
| Eastern Europe | 5.9 | 4.6 | 5.6 | 6.3 | 5.9 | 6.4 | 6.9 | 7.1 | 7.3 | 2.0% | 3.2% |
| Latin America | 5.6 | 5.0 | 6.1 | 6.5 | 7.0 | 7.5 | 8.1 | 8.9 | 9.3 | 5.5% | 7.2% |
| Asia (ex-Japan / Korea) | 13.7 | 17.7 | 23.5 | 24.1 | 26.3 | 29.4 | 32.1 | 34.7 | 36.9 | 20.7% | 8.8% |
| Middle-East and Africa | 1.4 | 1.4 | 1.8 | 1.9 | 1.9 | 2.1 | 2.2 | 2.2 | 2.5 | 9.8% | 6.3% |
| *Sub-total* | *26.6* | *28.7* | *37.0* | *38.8* | *41.1* | *45.4* | *49.3* | *52.9* | *56.0* | *13.4%* | *7.6%* |
| **Total** | **67.6** | **59.5** | **74.4** | **76.9** | **80.7** | **85.4** | **91.0** | **95.2** | **99.0** | **4.4%** | **5.2%** |
| Selected countries | | | | | | | | | | | |
| Germany | 5.6 | 4.9 | 5.6 | 6.1 | 5.8 | 5.9 | 6.3 | 6.7 | 6.8 | 2.5% | 2.4% |
| Brazil | 2.8 | 2.9 | 3.1 | 3.2 | 3.3 | 3.6 | 3.8 | 4.1 | 4.2 | 3.6% | 5.8% |
| Russia | 1.3 | 0.5 | 0.9 | 1.3 | 1.3 | 1.4 | 1.6 | 1.8 | 1.8 | 1.9% | 6.3% |
| India | 2.1 | 2.4 | 3.2 | 3.5 | 3.8 | 4.3 | 4.8 | 5.4 | 5.8 | 19.0% | 10.3% |
| China | 8.7 | 12.9 | 16.8 | 17.2 | 18.4 | 20.4 | 22.2 | 23.8 | 25.4 | 25.5% | 8.1% |
| **BRIC as % of total** | **22.1%** | **31.5%** | **32.4%** | **32.8%** | **33.2%** | **34.8%** | **35.7%** | **36.9%** | **37.6%** | – | – |
| Mexico | 2.1 | 1.5 | 2.3 | 2.6 | 2.7 | 2.9 | 3.3 | 3.7 | 3.9 | 6.5% | 8.8% |
| Thailand | 1.6 | 1.2 | 1.9 | 1.7 | 2.3 | 2.7 | 2.9 | 3.1 | 3.2 | 1.9% | 13.3% |
| Indonesia | 0.5 | 0.4 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 | 1.2 | 1.3 | 14.5% | 12.0% |

Source: IHS Global Insight Automotive (March 2012).

The recent global economic crisis had a major impact on the global automotive industry with light vehicle production volumes, seeing significant declines in 2009 in many of the markets in which the Schaeffler Group operates, in particular in Europe and North America. The weakness in most developed markets was significantly offset by growth in emerging markets, such as China, India and Brazil, which in some cases was supported by important government incentive programs. In total, worldwide production of light vehicles fell by 12.0% from 2008 to 2009. All major vehicle production regions returned to positive growth in 2010 and total global light vehicle production recovered strongly by 25.0% year-on-year to approximately 74.4 million units in 2010, above the pre-crisis level. The worldwide automotive market performed well in 2011. With a total of 76.8 million passenger cars and light commercial vehicles, production grew by 3.2% from the high level of 2010.

Production of light vehicles is increasingly moving towards emerging markets which accounted for 50.5% of global production volume in 2011, compared to 39.3% in 2008. This trend has been led by China where production of light vehicles more than doubled from 8.7 million units in 2008 to 17.2 million units in 2011, with the country becoming the largest single light vehicle production market globally (22.4% of global production in 2011 vs. 12.9% in 2008).

In the years 2011 to 2016, global growth in light vehicle production will be led by emerging markets, which are expected to account for 56.6% of global production volume in 2016 (compared to 50.5% in 2011). The growth is expected to remain robust across BRIC countries with forecast annualized growth rates of 10.3% in India, 6.3% in Russia, 8.1% in China and 5.8% in Brazil from 2011 to 2016. Thailand and Indonesia are becoming increasingly important production locations with forecast annualized growth rates of 13.3% and 12.0%, respectively. The main developed light vehicle regions, such as Western Europe and North America, are expected to have five consecutive years of positive growth at annualized rates of 2.1% and 5.1%, respectively. In total, global light vehicle production volume is expected to grow at an annualized rate of 5.2% from 2011 to 2016.

## Automotive aftermarket

The *Automotive Aftermarket* business sells automotive products through a comprehensive network of external distribution partners to more than 2,500 customers in over 100 countries worldwide as of March 31, 2012.

### *Growth drivers*

In the aftermarket, the total number of vehicles on the road (also known as "vehicle parc") is the key driver for growth. The development of the vehicle parc is directly related to the number of new registrations in a certain period minus the number of vehicles retired during that same period. The growth of the independent aftermarket depends on a number of different factors, both in terms of demand (dimension, average age and composition of the vehicles on the road, mileage and technological development of the vehicles) and in terms of the service rendered and the range of products offered.

### *Key trends*

Due to its dependence on vehicle parc (rather than new car production), the aftermarket has historically been largely resistant to economic downturns and characterized by stable growth, even during the difficult economic context of the last three years. In addition, due to lower development costs and lower customer pricing power, aftermarket products typically generate higher margins for suppliers.

## Industrial

The Schaeffler Group's Industrial Division is a market and technology leader for bearings and related systems. It maintains its technical leadership by providing the best solutions for all market segments with customer-oriented products and services worldwide.

The Schaeffler Group designs, engineers and manufactures products and offer services to producers of capital goods and other products. These include OEMs and their suppliers (Tier 1 and Tier 2) as well as companies focusing on the industrial aftermarket. The customer range of the industrial segment is highly fragmented. The Schaeffler Group supplies around 60 different industrial sectors, the largest ones being power transmission, production machinery, wind power, heavy industries, aerospace and the industrial aftermarket. Products range from rolling and plain bearings to linear guidance systems and direct drives. The vast majority of the Schaeffler Group's Industrial Division's revenue relates to the production of bearings.

### *Definition, size and structure*

The world bearing market is generally defined as the supply of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. Bearings are used in multiple segments of the industrial sector which follow different drivers and business cycles. Global industrial production is an indicator for the overall trend of the market, as most of the end markets are highly diversified.

In 2010, the global bearing market was worth approximately $49 billion (*source:* Global Industry Analysts: Bearings Report (February 2011)), including bearings for the automotive industry), up by approximately 5% from 2009. Asia-Pacific represents the largest regional market for bearings worldwide (41% of total bearings volume) (*source:* Global Industry Analysts: Bearings Report (February 2011)). Europe and the United States are the other major markets (23% and 16%, respectively, of total bearings volume).

The industrial bearings market is a highly consolidated market. The Schaeffler Group is one of the major global Tier 1 suppliers, along with JTEKT, NSK, NTN, SKF and Timken. All major bearings producers supply bearings to OEMs in a broad range of end-markets. In most applications, bearings are critical components for the functionality of the equipment. This is reflected in significant aftermarket business opportunities, including the sale of replacement parts and service. Companies in this sector try to differentiate their products by offering (i) intelligent products with integrated functionalities like sensors, integrated measuring systems, lubrication reservoirs, clamping and damping elements and (ii) customized products.

In 2009, unmounted roller bearings surpassed unmounted ball bearings to become the largest segment of the world bearing market in value terms (although ball bearings continue to account for the largest share of sales in unit terms).

## Industrial—OEM

### *Growth drivers*

The most important driver in the supply of bearings for industrial OEM customers is the growth in global industrial production volume that, in turn, is driven by megatrends, such as population growth and increased standard of living. The major factors that distinguish suppliers from one another and, thus, are growth drivers for the Schaeffler Group as a leading supplier to the industrial sector, are product quality and availability, application know-how, worldwide customer relation and reliability of supply.

### *Key trends*

The main trends that are shaping the industrial sector in general and the bearings market in particular are:

*Key technology trends*

- *Energy efficiency:* Due to customers' focus on reducing operating costs and emissions, demand for products improving energy efficiency will increase. Wherever mechanical work is done and objects are in motion, the rolling bearing, a universal and very frequently used machine component, reduces friction and, thus, improves energy efficiency. Simulation methods and calculation tools enable suppliers to tailor their products precisely to customer requirements and render higher energy efficiency.
- *Total cost of ownership:* Customers require products that reduce outlay and operating, servicing and maintenance costs. With high quality products, longer maintenance intervals, lower friction and condition monitoring, shut-down times and the cost of ownership can be reduced.
- *Electrification:* The industrial sector has been impacted by the electrification of the drivetrain. This trend will positively impact the growing need for insulated bearings, high speed e-motor applications and mechanical components.

*Key market trends*

Certain regions and market segments are expected to grow at a faster pace than the overall industry. The key trends include:

- *Asia driving global growth:* Growth in the bearings market is expected to be led by Asia Pacific, which is projected to be the fastest growing regional market during the forecast through 2015. A major factor driving growth is the rapidly expanding Chinese market but also other Asian markets, such as India, Thailand, Malaysia, Korea and Indonesia, which play an important role.
- *New applications:* Examples of new applications are high speed trains, railway condition monitoring, tracking systems for solar energy, water power generation, medical diagnostic equipment, intelligent bearings for agriculture machinery and transportation industries.

***Historical and forecast development***

*Global Bearings Market 2008-2015*

| | Annual bearing sales (in billions US dollars) | | | | | | | | CAGR | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E | 2014E | 2015E | 2008-10 | 2010-15E |
| ***Developed markets*** | | | | | | | | | | |
| Europe | 12.6 | 10.8 | 11.2 | 11.7 | 12.2 | 12.8 | 13.5 | 14.3 | (5.8)% | 5.1% |
| US/Canada | 8.9 | 7.5 | 7.8 | 8.2 | 8.6 | 9.0 | 9.6 | 10.2 | (6.2)% | 5.4% |
| Japan | 6.3 | 5.5 | 5.8 | 6.0 | 6.2 | 6.5 | 6.7 | 7.0 | (4.8)% | 4.1% |
| *Sub-total* | *27.8* | *23.8* | *24.8* | *25.8* | *27* | *28.3* | *29.8* | *31.5* | *(5.7)%* | *4.9%* |
| ***Emerging markets*** | | | | | | | | | | |
| Asia-Pacific | 18.4 | 18.9 | 19.9 | 20.9 | 22.1 | 23.5 | 25 | 26.6 | 4.0% | 6.0% |
| Middle East | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 0.7% | 3.4% |
| LatinAmerica | 3.1 | 3.1 | 3.3 | 3.4 | 3.6 | 3.8 | 4 | 4.2 | 3.1% | 5.1% |
| *Sub-total* | *22.4* | *22.9* | *24.1* | *25.3* | *26.7* | *28.3* | *30.0* | *31.9* | *3.8%* | *5.8%* |
| **Total** | **50.2** | **46.7** | **48.8** | **51.1** | **53.7** | **56.6** | **59.8** | **63.4** | **(1.4)%** | **5.4%** |

Source: Global Industry Analysts: Bearings Report (February 2011).

Global demand for ball, roller and plain bearings is expected to increase by 5.4% annually from 49 billion in 2010 to $63 billion in 2015. Market growth is expected to be supported by ongoing economic growth and an improved fixed investment environment in many of the world's developed and developing countries. Among other factors, the growth is based on increasing demand for more expensive, technologically-advanced bearing products, such as custom manufactured, large-diameter bearings used in wind turbines.

The Asia/Pacific region is expected to post the strongest regional sales growth (6.0%) annually from $20 billion in 2010 to $27 billion in 2015, led by strong increases in Chinese demand, accounting for nearly half of all additional bearing demand until 2015. Gains are expected to be supported by the country's ongoing industrialization and growing manufacturing output. Historically, growth in bearing demand in the developed areas of the United States and Canada (CAGR of 5.4% for 2010-2015), Europe (CAGR of 5.1% for 2010-2015) and Japan (CAGR of 4.1% for 2010-2015) has been slower than in the developing world. Growth in developed countries is expected to be supported largely by a recovery in motor vehicle manufacturing and accelerating growth in durable goods manufacturing output. Furthermore, Western manufacturers are generally more likely to possess the technological expertise to produce high-value, technologically advanced bearing products than local suppliers based in developing countries. In addition, the large numbers of bearing-containing equipment in use will help bolster aftermarket bearing demand.

***Historical and projected trends in the end-markets most relevant for the Schaeffler Group***

In order to describe the historical and projected development of the bearings sector, the Schaeffler Group makes reference to trends in the industrial end-markets most relevant to it. The top five OE end markets by revenue for its Industrial Division services include power transmission, production machinery, wind power, heavy industry and aerospace. In addition, the Schaeffler Group derives significant revenue from the industrial aftermarket.

*Power transmission*

The Power Transmission sector develops products for use in construction and agricultural machinery, industrial gearboxes, fluid and conveying technologies, buildings and structures. A proxy of the level of activity in the Schaeffler Group's Power Transmission sector is represented by global demand for construction machinery.

Construction activity in 2011 grew by 0.4% in the EU and declined by 1.0% in the United States. The BRIC countries experienced significant higher growth rates. Construction activity increased by 3.6% in Russia, by 3.5% in Brazil, by 4.4% in India and by 12.6% in China in the same year.

Demand for construction machinery is expected to grow by 1.4% (CAGR 2011-2015) in the EU and by 6.5% (CAGR 2010-2015) in the United States. Brazil, Russia, India and China forecast to generate compound annual growth of 4.9%, 8.5%, 9.2% and 8.2%, respectively, in 2011-2015 (*source:* Oxford Economics Spring 2012).

*Production machinery*

In the Production Machinery sector, the Schaeffler Group provides bearings for a wide range of capital goods. The major end-markets include machine tools and textiles, printing, food processing and packaging machinery. A proxy of the level of activity in the Schaeffler Group's Production Machinery sector is represented by engineering and metal goods developments, which comprises metal products, electrical machinery and mechanical engineering.

Demand for consumer goods increased by 8.0% in the EU and by 9.6% in the United States in 2011. Demand declined in Brazil by 0.2% and in Russia by 1.7%. India experienced a growth rate of 0.9% and China of 14.1% in 2011.

In 2011 to 2015, demand for consumer goods is expected to grow by compound annual rates of 2.8% in the EU and by 4.0% in the United States. In line with economic development, emerging markets are expected to grow above-trend with Brazil at 3.1%, Russia at 4.7%, India at 6.9% and China at 10.6% in 2011 to 2015 on a CAGR basis (*source*: Oxford Economics Spring 2012).

*Wind power*

The Wind Power sector provides bearing supports for wind turbines along with condition-monitoring systems, lubricants, a fitting service and fitting and maintenance tools. A proxy of the level of activity in the Schaeffler Group's Wind Power sector is the production of wind turbines, and, in relation to the aftermarket business, the size of the installed base.

The global wind power market increased by 6.0% in 2011 compared with the previous year primarily due to growth in China and India. These two countries together accounted for over 50% of the global market in 2011 (*source:* Global Wind Energy Council (2012)).

Wind Power is expected to show growth of approximately 5% per annum until 2015. The growth is expected to be driven by continued strong demand from Asia (primarily China), where approximately 90 gigawatts ("**GW**") are expected to be added from 2010 to 2015. Europe is expected to install approximately 70 GW and North America is expected to add approximately 30 GW by 2015. New markets, particularly in Latin America, are expected to contribute to the overall market growth, adding new capacity of approximately 5 GW by 2015 (*source:* Roland Berger Strategy Consultants (November 2011)).

*Heavy industry*

The Heavy Industry sector supports customers (OEM and MRO) worldwide, mainly in raw material recovery, preparation and processing, steel and non-ferrous metals, cellulose, paper and power plant sectors. A proxy of the level of activity in the Heavy Industry sector is represented by the global output for basic metals.

Global output of basic metals increased by 5.0% in the EU and by 9.2% in the United States in 2011. Brazil experienced a decrease by 1.0% in 2011, Russia experienced an increase by 3.3%, India by 8.7% and China by 8.6%.

In 2011 to 2015, demand for base metals is expected to see compound annual growth of 1.2% in the EU and 3.3% in the United States. In line with the economic development, emerging markets are expected to grow (CAGR 2011-2015) above-trend, with Brazil growing at 5.0%, Russia at 6.6%, India at 9.8% and China at 5.1% (*source:* Oxford Economics Spring 2012).

*Aerospace*

The Aerospace sector develops and manufactures rolling bearing systems with integrated adjacent components for aircraft and spacecraft construction. Due to a strong demand, the Aerospace sector has seen an increase of 4.6% in the EU and 8.5% in the United States in 2011. Out of the BRIC markets, Brazil experienced an increase of 5.8% in 2011, Russia of 105.3%, India of 14.3% and China of 21.1%.

Aerospace production is expected to grow by 5.1% (CAGR 2011-2015) in the EU and 5.6% (CAGR 2011-2015) in the United States. Between 2011 and 2015, compound annual growth in BRIC countries is forecast to be 4.8% in Brazil, 8.6% in Russia, 11.1% in India and 7.5% in China (*source:* Oxford Economics Spring 2012).

## Industrial aftermarket

The *Industrial Aftermarket* business sells industrial products through a comprehensive network of more than 6,000 external partners in over 100 countries worldwide as of March 31, 2012.

***Growth drivers***

In the Industrial Aftermarket business, the total installed base of products and applications that include bearings and the further development of this installed base are the key drivers for growth. Future growth of demand is driven by various factors, such as average age and technological development of machinery, dimension of bearings, services rendered and the range of products offered.

Key growth drivers that will help companies to grow faster than the underlying market are:

- *Comprehensive product availability.* Companies that can offer a comprehensive product spectrum are likely to grow above market. The Schaeffler Group offers a complete premium quality core program, including complementary products (*i.e.*, housings, sealings, belts and grease) for the distribution network as well as for certain sectors (such as steel, mining and processing, pulp and paper, wind power, power plants, oil and gas).
- *Localization of technical services.* Companies that can offer local technical know-how and expertise in the various regions will benefit proportionally from market growth. The Schaeffler Group offers immediate customer support whereby dedicated sales engineers and field service technicians handle all technical inquires on-site in the respective time zone.

*Key trends*

Due to its dependence on installed product base, the Industrial Aftermarket business has historically been largely resistant to economic downturns and characterized by stable growth over the past three years. In addition, due to the lower development costs and lower customer pricing power, aftermarket products typically generate higher margins for suppliers.

A strong positioning in the following key areas will allow companies to grow above market:

- *Reducing total cost of ownership.* Suppliers and customers increasingly focus on the total product lifecycle of key machines and the bearings applied. In addition, all hidden costs, such as energy, repair and maintenance, productivity, risk or disposal are taken into account. The Schaeffler Group provides a consistent and systematic framework for customers to compare alternatives, increase productivity and reduce overall costs over the lifetime of the products, which the Schaeffler Group views as a key competitive advantage.
- *Downsizing.* Two key trends can be observed with regard to downsizing: (i) smaller bearing dimensions and the same bearing lifetime or (ii) the same bearing dimensions and an increase of a bearing lifetime (*e.g.*, the Schaeffler Group offers carbonitriding, coating of bearings and use of innovative materials to extend product lives). The Schaeffler Group is well positioned to drive these trends.

- *Energy reduction.* Development and implementation of bearing solutions to reduce energy costs by minimization of friction. The Schaeffler Group offers sealed bearings that reduce lubrication consumption and avoid contamination as well as alignment services of drive systems that save energy costs and increase service lifetime.
- *Growing demand for system solutions.* Systems solutions, such as combined bearings, housings and seals as well as bearings and accordant mounting or monitoring services are increasingly sought after. The Schaeffler Group offers a wide range of such integrated system solutions.
- *Online condition monitoring.* A condition-based maintenance strategy helps to reduce maintenance costs, improves plant availability and ensures product quality. Condition monitoring by means of vibration diagnosis is indispensable with production-critical machinery. The Schaeffler Group offers a wide range of products and service solutions for online condition monitoring.
- *Outsourcing of services.* In the processing industry, annual maintenance cost is in the high percentage range of the assets' acquisition value and is, therefore, a significant cost factor for the customer. As customers increasingly seek to reduce personnel cost associated with maintenance, demand for external services is steadily increasing. The Schaeffler Group offers such maintenance services on a selective basis.

## Competition

The Schaeffler Group has leading market positions in most regions, especially in Europe and North America.

***Schaeffler Group's key competitors***

The Schaeffler Group competes with a wide number of other companies in its business divisions.

Its key competitors in the Automotive Division are in alphabetical order (i) Aisin Seiki Co Ltd, BorgWarner Inc., Denso Corp. and Litens Automotive Group in its Engine business division, (ii) Jatko Ltd., NSK Ltd., Toyota Motor Corp., Valeo S.A. and ZF Friedrichshafen AG in its Transmission business division, (iii) JTEKT Corp., NSK Ltd., NTN Corp. and SKF Group in its Chassis business division and (iv) Eaton Corp., Gates Corp., SKF Group and ZF Friedrichshafen AG in its Automotive Aftermarket business.

The Schaeffler Group's key competitors in the Industrial Division are in alphabetical order (i) JTEKT Corp., NSK Ltd., SKF Group and The Timken Company in its Industrial OEM business division and (ii) JTEKT Corp., NSK Ltd., AB SKF and The Timken Company in its Industrial Aftermarket business.

# Description of the Schaeffler Group

## Business overview

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. The Schaeffler Group supplies high quality and technologically advanced components and systems to a broad range of automotive and industrial customers. Employing a workforce of about 75,000 employees in approximately 50 countries (as of March 31, 2012), the Schaeffler Group is one of the largest family-owned industrial companies in Europe. In the twelve months ended March 31, 2012, it had revenues of approximately €10.9 billion, and EBITDA of approximately €2.2 billion. It believes that it is among the top three manufacturers in each of its core sectors worldwide and has a large presence in rapidly growing emerging markets, such as Asia/Pacific and South America, which together accounted for 28% of its revenues in the twelve months ended March 31, 2012. The Schaeffler Group believes that its industry leading technology platform, high product quality, long-standing and diversified customer relationships, global production and comprehensive product and service offering position it well for future growth.

The Schaeffler Group operates through two main divisions: Automotive and Industrial. Its Automotive Division generated approximately 67% of its revenue in the twelve months ended March 31, 2012, supplying more than 60,000 products to approximately 7,500 customers globally. Its rolling bearings and automotive components and systems are generally engineered for its customers' particular applications and allow its automotive customers to capitalize on megatrends, such as reduced fuel consumption, lower $CO_2$ emissions, optimal safety and quality as well as increased driving pleasure. As a partner for nearly all major global automotive OEMs and for leading Tier 1 suppliers worldwide, the Schaeffler Group offers expertise for the entire drive train, covering engine, transmission and chassis applications for passenger cars and commercial vehicles. On that basis, it divides its Automotive OEM business into three business divisions: Engine, Transmission and Chassis.

The Schaeffler Group's Industrial Division accounted for approximately 32% of its revenue in the twelve months ended March 31, 2012, supplying approximately 90,000 products to approximately 17,000 customers in approximately 60 different industrial sectors. While working closely with its customers, it develops bespoke bearing solutions for numerous tailored applications. The product portfolio ranges from high-speed super-precision bearings of a few millimeters in diameter (*e.g.*, for dentist drills or machine tools) to large heavyweight bearings of over three meters in diameter (*e.g.*, for machine tools, tunnel-drilling machines or wind turbines). Its bearings and related products are used, among others, in power transmission and generation, production machinery, wind power and heavy industries. In aerospace, the Schaeffler Group is a leading manufacturer of precision bearings for airplane and helicopter engines as well as for applications in space travel.

The Schaeffler Group complements its business with a comprehensive aftermarket offering for both of its divisions, which includes the distribution of spare parts and service to customers worldwide. Its aftermarket services are an essential sales support function and also generate good margins as well as more stable and recurring revenues. In the twelve months ended March 31, 2012, 24% of its total revenue was generated from its aftermarket business.

The Schaeffler Group distributes products throughout its markets mainly under three globally recognized brands, LuK, INA and FAG, mainly serving high-quality products to both the premium and volume segments and using different distribution channels. Its LuK brand covers, among others, clutch and transmission systems, dual mass flywheels and torque converters. Its INA brand covers rolling and plain bearings, linear guides, engine components and systems, such as camshaft phasing systems or standard valvetrains and other precision components. Its FAG brand covers a broad range of rolling bearings, high-precision bearings and aerospace applications.

The Schaeffler Group has a strong global presence and divides its business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In addition to the traditional core markets in Europe (59% of revenue in the twelve months ended March 31, 2012; including 27% in Germany) and North America (13% of revenue in the twelve months ended March 31, 2012), its business is increasingly significant in key growth markets, such as Asia/Pacific and South America, which together account for 28% of its revenues in the twelve months ended March 31, 2012. Following its integrated "*in the region, for the region*" approach, the Schaeffler Group has built a global manufacturing footprint with a strong regional foothold of its plants worldwide. As of March 31, 2012, it operates 43 plants in Europe, twelve in North America, two in South America and 13 in Asia/Pacific. All Schaeffler Group plants operate at the same high standards of quality and environmental protection and are certified under international standards.

## Competitive strengths

The Schaeffler Group's principal strengths are:

***Leading positions in attractive growth markets***

*Top three positions in core sectors*

The Schaeffler Group holds leading positions across its core sectors and believes each of its business units is positioned among the top three in their respective markets worldwide in terms of market share measured by revenue. Based on its research, the Schaeffler Group believes its Automotive Division is a leader with the Engine, Transmission and Chassis business divisions. Additionally, its Industrial Division holds top three market positions across the broad spectrum of industries it serves. The Schaeffler Group supports OEMs throughout their full product life cycle from taking part in the early stage of product development to providing critical engineering application know-how and is therefore regarded as a key partner.

*Strong aftermarket business*

Schaeffler Group's products are usually part of platforms that are in service for several years, thereby requiring continuous aftermarket support. In the twelve months ended March 31, 2012, aftermarket revenue from replacement parts and services represented approximately 24% of its total revenue. Based on (i) the increasing size of its installed base, (ii) the high service levels associated with most of the equipment in which its products are installed, (iii) the switching costs faced by customers and (iv) its strong positioning in the replacement part market, the Schaeffler Group is well-positioned to grow its revenues from the aftermarket business in the future. At the same time, the aftermarket business has proven to be very resilient and profitable as it produces stable and recurring revenues and profit margins.

*Attractive growth markets*

The Schaeffler Group benefits from the fact that it has a strong footprint in regional markets and sectors that are growing above average. The Schaeffler Group is very well-positioned in key growth markets, in particular in the Asia/Pacific region, where it has been present for decades in high-growth countries, such as Korea and India. In addition, it has been active in China for approximately 15 years. Furthermore, its key sectors, such as Automotive, Power Transmission, Production Machinery and Aerospace, are expected to grow above GDP forecasts.

In addition to the expected future growth, the Schaeffler Group regards its markets as attractive because of the following characteristics: (i) the requirement of its customers to develop and supply engineered solutions and its expertise to do so and (ii) a preference among automotive and industrial clients for selecting suppliers and partners with extensive industry and engineering experience. Additionally, as its products are critical to the overall performance, safety and durability of the end-product and as its products generally represent only a small

percentage of the overall costs of the end-product, the primary criteria for purchasing decisions by its customers are based on quality and technological considerations rather than price alone.

***Well-balanced business portfolio***

*Broad product and application spectrum*

The Schaeffler Group's revenues are diversified across a wide range of bearings and automotive components and systems, generated by thousands of applications for customers across many diverse end-markets. Within its Automotive Division, the Schaeffler Group sells approximately 60,000 components and systems to both OEMs and the aftermarket sector. Within its Industrial Division, it serves customers in approximately 60 different sectors, selling approximately 90,000 components and systems into a diverse range of applications ranging from wind turbines to aerospace engines and tool machines. This high degree of diversification in its businesses as well as the stability of its aftermarket business supports the resilience of its revenues and profitability. Each of these end-markets is influenced by different economic factors, making the Schaeffler Group less vulnerable to adverse changes in the micro-economic environment or fluctuations of a particular economic parameter in any of its market segments.

*Highly-diversified customer base*

The Schaeffler Group's products are sold to OEMs, Tier 1 and Tier 2 suppliers, aftermarket distributors and service providers in a variety of different sectors. Key customers include top-tier OEMs in the global automotive industry as well as leading industrial OEMs. As of March 31, 2012, the Schaeffler Group offered its products to approximately 7,500 automotive customers and 17,000 industrial customers in approximately 120 countries worldwide. In the year ended March 31, 2012, its top ten customers represented approximately 54% of automotive revenues (with no single customer representing more than 14%), and approximately 16% of industrial revenues (with no single customer representing more than 5%). The Schaeffler Group believes this diversification mitigates counterparty risk and is broader than that of its peers.

*Strong regional diversification*

The Schaeffler Group has a geographically diversified customer footprint and currently operate production facilities in over 20 countries and sales and marketing offices in approximately 150 locations. Based on the "*in the region, for the region*" strategy, it is in close geographic proximity to its customers. As a result, it is perceived as a local supplier in many markets and its global manufacturing and sales platforms allow the Schaeffler Group to market its products and services to a larger and ever-globalizing customer base. Its position as one of the largest global mechanical components and systems manufacturers further allows the Schaeffler Group to capitalize on the growth opportunities associated with globalization and increasing trade flows while making it less susceptible to market risks in a single country or region. It also benefits from low-cost production (*e.g.*, the Schaeffler Group has an extensive production network in Eastern Europe) and local supply chains while still maintaining its industry-leading quality standards through full control of its operations. Further, the Schaeffler Group is well-positioned in rapidly growing emerging markets with 22% of its revenues being generated from the Asia/Pacific region and 6% from South America in the twelve months ended March 31, 2012.

***Technology, quality and innovation leadership***

*Technology leadership and superior quality*

The Schaeffler Group has a high level of expertise in developing high precision mechanical components and systems, including electronics, software and mechatronics. Its technology leadership is recognized by many of its customers and is one of its key competitive advantages.

Many of Schaeffler Group's products are mission-critical to the performance, durability and safety of the equipment in which they are installed. Quality and reliability are the key attributes of its products and services. The Schaeffler Group believes that it achieves failure rates that are significantly lower than the industry average.

Providing superior product quality to its customers is another key success factor of its business model and is paramount to its success. A holistic quality management system in all locations, including all manufacturing plants, worldwide ensures compliance with Schaeffler Group's highest standards that are monitored by means of regular internal audits. With various quality assurance programs, such as "Fit for Quality" and "MOVE" ("*Mehr Ohne Verschwendung*" or "more without waste"), as well as testing and simulation processes, mostly developed in-house, the Schaeffler Group emphasizes its goal of achieving zero-defect quality for the entire supply chain worldwide. The Schaeffler Group has received numerous awards and certifications for its products and services which underline its commitment to the highest industry quality standards. In 2010, for example, the Schaeffler Group was awarded the "Quality Achievement Performance Certificate" by Toyota in Brazil and an award for the "1st Best Bearing Supplier" by Getrag. In 2011, it has received supplier awards from *e.g.* Daimler, Fiat, Goldwind, Great Wall Motors, Motortec, Porsche, Siemens and Volkswagen.

*Outstanding operational excellence*

The Schaeffler Group's manufacturing facilities and processes are among the most efficient in the industry. It focuses on lean manufacturing and continuous improvement and is seen as a reliable partner with a high level of value added for its customers. On average, in the last five years, the Schaeffler Group invested 8% of its annual revenues to open new plants and facilities and acquire new equipment in order to operate state-of-the-art manufacturing plants, simulation processes and testing facilities.

The Schaeffler Group believes that its outstanding know-how in raw materials, such as steel, its proprietary machinery and tool design, its know-how in cold forming technology, its low-cost precision manufacturing processes and its attention to quality and service are competitive advantages that allow it to consistently provide high quality precision products and services. All quality-related work is performed in-house. This allows the Schaeffler Group to ensure that its products maintain a consistently high standard of quality, while its customers benefit from an outstanding price/performance ratio.

*Best-in-class innovation platform*

Innovative, high quality products sold under Schaeffler Group's three globally-recognized brands, INA, LuK and FAG, have formed the backbone of Schaeffler Group's success for many decades. In the financial years 2009, 2010 and 2011, the Schaeffler Group spent approximately 5% of its total revenue on R&D, consistently more than industry peers in percentage of sales (based on its own research), to continuously improve its products and to position it at the forefront of its industry in terms of innovation and quality of design. Most recently, the Schaeffler Group has implemented the world's leading testing facility for large bearings to be used in wind turbines in Schweinfurt, Germany.

As of March 31, 2012, Schaeffler Group's R&D platform comprised nearly 6,000 employees at 40 locations worldwide developing new products, customer product applications, technologies, processes and methods for market-driven solutions. This powerful network of central and regional R&D expertise generated 1,832 new patent applications in 2011, making it the fourth most innovative company in Germany measured by the number of patent applications submitted (according to the German Patent and Trademark Office (DPMA—*Deutsches Patent- und Markenamt*)). In total, as of March 31, 2012, it held approximately 19,000 patents and patent applications.

***Strong track record and experienced management team***

*Above average growth and sector-leading margins*

The Schaeffler Group has consistently achieved above average market growth and a sector-leading average EBITDA margin of approximately 19% over the past five fiscal years. This is the result of its successful business model which is focused on its leading position in rapidly growing regions and product segments, its broad and high quality product offering, its technology and innovation leadership, its proximity to and entrenchment with its customers and its low cost production. For the same reasons, the Schaeffler Group believes it is well-placed to maintain above average market growth and profitability in the future and is well-positioned to benefit from the megatrends in its industry (see "*—Strategy—Focus on innovative components and systems to drive global industry trends*").

*Proven ability to preserve cash flow*

The Schaeffler Group has been able to preserve cash in downturns and maintain a high level of profitability through effective working capital and capital expenditures according to cash flow management as well as cost reductions. In the fiscal year 2009, it achieved an EBITDA margin of approximately 15% despite major volume declines in its end-markets. The reduction of capital expenditures according to cash flow by €657 million and the change in working capital of €546 million contributed more than €1 billion improvement to its free cash flow compared to 2008. As a result, the Schaeffler Group generated free cash flow before the investment in Continental AG shares and net interest paid of €1,064 million in 2009. In addition, cost reductions were achieved by reducing headcount in foreign production plants and introducing short-time work in Germany.

*Experienced management team*

The Schaeffler Group's management team has extensive experience in the automotive and industrial sectors and a proven track record of successfully managing global businesses through economic cycles, including the most recent economic downturn. The management team has a demonstrated track record of achieving long-term profitable growth as well as establishing Schaeffler Group as one of the technology, quality and innovation leaders in the industry. It believes the experience of its management team is a distinct competitive advantage and positions it favorably for future growth.

## Strategy

The Schaeffler Group is one of the leading suppliers of highly-engineered and value-added components and systems for the automotive and industrial sectors worldwide. It intends to further improve the balance of its revenue structure, streamline its cost structure, improve its cash flow generation and maintain its high level of profitability and growth. To this aim, the key focus areas of Schaeffler Group's strategy are to (i) maintain and build its quality and technology leadership, (ii) further expand into growing regions and business areas, (iii) focus on innovative components and systems to drive the global industry trends, (iv) increase its R&D activities to provide a leading systems offering in the field of mechatronics and (v) increase its cooperation with Continental Group.

***Maintain and build Schaeffler Group's quality and technology leadership***

*Leverage its quality and technology leadership*

Schaeffler Group's goal is to provide its customers with a wide, best-in-class range of products and systems as well as consultation and engineering services. It analyzes new product opportunities carefully by taking into account projected market prices, volumes and

manufacturing costs and by only pursuing new product lines that it believes will achieve its stringent profitability targets. It achieves these targets by focusing on premium segments that require the highest quality standards. In addition, Schaeffler Group continues to stay entrenched with its customers at an early stage in the product development process to satisfy their requirements and maintain its competitive edge.

*Rigorously pursue operational excellence*

The Schaeffler Group intends to keep providing maximum quality to its customers. To this end, it strives to maintain and further reduce its industry-leading low failure rates through investments in best-in-class, highly standardized and fully automated manufacturing facilities with the aim of maintaining the highest quality standards in the industry. At the same time, the Schaeffler Group focuses on further reducing its cost base through efficiency gains in its manufacturing processes that will enable it to supply standard, low-cost and tailor-made products to its customers at an attractive cost/performance balance.

***Further expand in attractive regions and business areas***

*Focus on rapidly growing regions*

The Schaeffler Group continues to expand its international presence in rapidly growing emerging markets, in particular in the Asia/Pacific region and South America, which have become significant growth drivers for the automotive and industrial sectors. Over the last ten years, it has built 16 new manufacturing facilities in emerging market economies. Based on its guiding strategy "*in the region, for the region,*" the Schaeffler Group is placing its facilities in close proximity to its customers. In 2010, the Schaeffler Group initiated a €300 million investment program leading to the establishment of two new manufacturing facilities in China and one in India. In 2011, approximately 30% of its total capital expenditures were spent in the Asia/Pacific region. The Schaeffler Group expects to increase its Asia/Pacific revenue share to approximately 25-30% of its group total by 2014, which will further enhance its regional diversification and revenue stability.

Schaeffler Group's focus on further developing its network of manufacturing facilities in high growth countries has increased its exposure to low cost countries over the last ten years. A significant portion of its production network is now located in low cost countries, such as Slovakia, Hungary, Romania, China, India and Mexico. As it continues to increase its production in high growth and lower cost emerging market countries, the relative labor component of its production cost is likely to decline further over time.

As the Schaeffler Group expands its base in emerging markets, it also seeks to further expand its local content in these regions. It is its goal to continue to provide a comprehensive product and service offering to current and new customers globally. The Schaeffler Group strives to fully globalize its product portfolio and to provide an even broader range of components and systems to each customer.

*Focus on attractive business areas*

The Schaeffler Group seeks to retain and extend its current level of diversification and independence from any particular market by further expanding its activities across sectors. It is also levering its core manufacturing and service competencies in order to diversify into additional component and systems solutions and services.

In addition, the Schaeffler Group intends to expand its aftermarket operations by increasing sales to third-party distributors and maintenance repair operations ("**MRO**") for replacement products and to the service business for customer support. Increasing its aftermarket sales of replacement parts and services will further enhance the continuity and predictability of its revenues and increase profitability. The Schaeffler Group believes that further developing its service business provides considerable new opportunities (*e.g.*, condition monitoring).

***Focus on innovative components and systems to drive global industry trends***

The Schaeffler Group is focused on designing, engineering and manufacturing highly-engineered and value-added components, modules and system solutions that address the key fundamental global trends in the automotive and industrial sectors. The trends that drive its end-markets are, in particular, energy efficiency, renewable energies, mechatronic systems and electric mobility. Schaeffler Group's aim is to define new standards in modern engineering with respect to these major trends that will shape its industry and influence its operations. It believes that actively addressing these key trends reinforces its ability to maintain above-market growth.

*Energy efficiency and renewable energies*

Reducing fuel consumption and, consequently, carbon dioxide ($CO_2$) emissions, is a dominant feature in the automotive industry. The Schaeffler Group therefore intends to broaden its current product and systems portfolio for combustion engines by incorporating new and efficient technologies. Key products and systems, available and engineered innovations for electric mobility, such as eDifferential, eWheel Drive and the hybrid synchron motor will be important for automotive producers as they reduce $CO_2$ emissions.

Harnessing renewable energy is a key part of many countries' plans to address climate change and cut $CO_2$ emissions. The Schaeffler Group's Industrial Division is seeking to capitalize on this trend. It offers a comprehensive product portfolio for wind turbines as well as various bearing solutions for other renewable energy technologies, such as solar and water power. It has positioned its Industrial Division early in new growth areas in order to secure and expand its long-term market share and competitiveness.

*Mechatronic systems and electric mobility*

Mechatronic systems (the combination of mechanical engineering with electronics) are increasingly gaining significance as OEMs seek to integrate components into more complex systems. The Schaeffler Group endeavors to be part of such growth by integrating its mechanical and Continental Group's electronic expertise.

Electric mobility is a megatrend in the automotive industry and various industrial sectors. The Schaeffler Group intends to grow its product portfolio for hybrid or electric mobility solutions with eWheel drive, eDifferential, eMotors and other industrial areas into other areas, such as developing a torque sensor bottom bracket for e-bikes, which will help position itself as a major supplier in this field.

***Increase cooperation with Continental Group***

The Schaeffler Group believes that significant competitive advantages can be obtained from increasing its existing cooperation with Continental Group. Combining its mechanical expertise with Continental Group's know-how in electronic controllers will strengthen its presence in the rapidly growing mechatronic segment and will establish the Schaeffler Group as a leading systems provider in this field.

Furthermore, the Schaeffler Group aims to realize cost synergies by expanding its already existing cooperation agreements with the Continental Group in the area of procurement (see "*Description of the Schaeffler Group—Material contracts—Joint procurement cooperation agreement*").

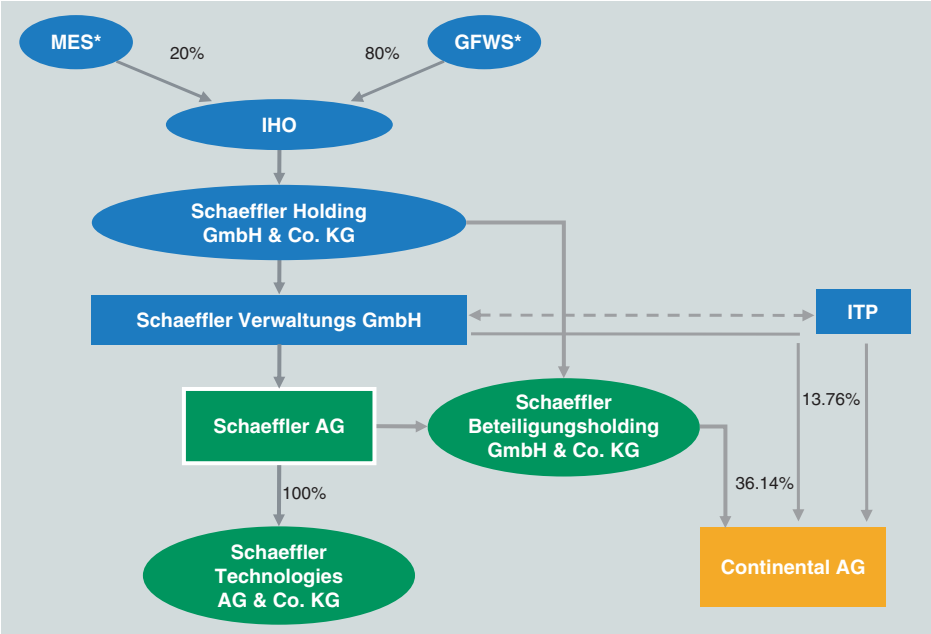
## History

### *Company history until 2008*

In 1946, brothers Dr. Wilhelm and Dr. Georg Schaeffler established INA (Industrie-Nadellager) in Herzogenaurach, Germany and, in 1965, LuK (Lamellen- und Kupplungsbau) GmbH was founded in Bühl, Germany (in cooperation with INA) which was managed as a 50/50 joint venture. In 1999, Schaeffler Group took over the 50% of LuK from Valeo S.A. After Dr. Georg Schaeffler's death in 1996, Maria-Elisabeth Schaeffler and son Georg F. W. Schaeffler acquired the family business to continue his life's work. In 2001, INA took over FAG (FAG Kugelfischer AG). Since 2002, INA, FAG and LuK are the main brands owned by Schaeffler Group.

### *Acquisition of Continental AG shares and subsequent transactions*

In July 2008, the Schaeffler Group initiated the acquisition of Continental Aktiengesellschaft, a publicly listed stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany with its registered office in Hanover, Germany ("**Continental AG**") (Continental AG, together with its subsidiaries and affiliates, the "**Continental Group**") via a public tender offer. Following the tender offer, the Schaeffler Group owned approximately 88.9% of its share interest. In connection with this tender offer and the subsequent share transfers, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) entered into a €16,610 million term loan and multicurrency revolving credit facility, originally dated July 12, 2008 and as amended on August 7, 2008 and November 27, 2008 (the "**Acquisition Facility**"). In this context, Schaeffler AG entered into an investment agreement with Continental AG, in which the Schaeffler Group agreed to hold a maximum of 49.9% of voting capital stock in Continental AG.




For a more detailed description of the Schaeffler Group's corporate structure and certain debt obligations, please see "*Summary—Summary of the Schaeffler Group's corporate and debt structure.*"

As of March 31, 2012, Schaeffler Beteiligungsholding GmbH & Co. KG held 36.1% of the voting interest in Continental AG as a result of the following series of transactions and events:

- In July 2008, the Schaeffler Group initiated the acquisition of Continental AG via a public tender offer at €70.1 per share. The Schaeffler Group subsequently agreed with Continental AG to increase the offer price per share to €75.
- Following a significant drop in equity markets during the tender period as a result of the financial crisis, a majority of the share interest in Continental AG was tendered to the

Schaeffler Group. As a result, it owned approximately 88.9% of the share interest in Continental AG.

- In an investor agreement, the Schaeffler Group agreed with Continental AG to hold a maximum of 49.9% of voting capital stock in Continental AG. As a result, it entered into sale and resale agreements in relation to the shares acquired that exceeded 49.9% of the capital stock in Continental AG with certain independent third parties ("**ITP Banks**"). While the Schaeffler Group has transferred legal ownership and voting rights of the shares, economic risks related to the shares remained with the Schaeffler Group.
- In January 2010, the Schaeffler Group did not participate in the rights offering of Continental AG, resulting in a dilution of its voting interest from 49.9% to 42.2%. The shares held by the ITP Banks were diluted on the same basis from 39.0% to 32.9%.
- In June 2010, the 42.2% share interest in Continental AG was transferred to the Company by way of a hive-down.
- In March 2011, 29,679,196 shares held by the ITP Banks were sold in the market, reducing their shareholding in Continental AG further from 32.9% to 18.1%.
- In addition, in March 2011, Schaeffler Verwaltungs GmbH acquired shares representing approximately 7.7% of Continental AG from the ITP Banks, thereby increasing the total stake of the IHO Group in Continental AG to approximately 49.9%. As a result, the share holding of the ITP Banks in Continental AG was further reduced to 10.4%. Of the IHO Group's 49.9% stake in Continental AG, Schaeffler Verwaltungs GmbH shareholding was 13.8%.
- In May 2011, the Company made a distribution of a dividend in kind in the form of 12,043,528 Continental AG shares to Schaeffler Verwaltungs GmbH, which further reduced the share holding of the Company in Continental AG to 36.1%. and increased the stake of Schaeffler Verwaltungs GmbH to 13.8%.
- In September 2011, Schaeffler AG transferred its share interest of 36.1% in Continental AG to Schaeffler Beteiligungsholding GmbH & Co. KG.

***The Schaeffler Group reorganization***

In 2009 and 2010, the IHO Group, with its ultimate parent company IHO, underwent a significant reorganization with the objective of establishing structures suitable for the capital markets. The major milestones of the reorganization included:

- Establishment of the Company (Schaeffler AG) as the Schaeffler Group's Parent company;
- Hive-down of the operative business of Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) to Schaeffler Technologies GmbH & Co. KG, (now Schaeffler Technologies AG & Co. KG) a directly wholly-owned subsidiary. The following assets were hived down through the following transactions:
  - Hive-down of the investments in subsidiaries and associated companies representing the operating business from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to the Company;
  - Hive-down of the share interest of approximately 42.2% in Continental AG from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to Schaeffler GmbH (now Schaeffler AG) as referred to above in "*—Acquisition of Continental AG shares and subsequent transactions;*" and
  - Hive-down of the Repaid Senior Facilities Agreement from Schaeffler KG (now Schaeffler Holding GmbH & Co. KG), through Schaeffler Verwaltungs GmbH, to Schaeffler GmbH (now Schaeffler AG).

The hive-down (*Ausgliederung*) under the German Transformation Act (*Umwandlungsgesetz*) was undertaken in return for new shares. The reorganization was finalized on June 28, 2010,

when the hive-down to Schaeffler GmbH was registered with the Commercial Register. Following the completion of the Group reorganization, the entire operating activities of the IHO Group are now concentrated in Schaeffler Technologies AG & Co. KG, a wholly-owned subsidiary of Schaeffler AG.

***The Schaeffler Group refinancing***

On July 12, 2008, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) entered into a syndicated term and revolving facilities in an aggregate initial amount of €16.1 billion (subsequently increased to €16.6 billion) in connection with a public take-over offer for the shares in Continental AG (as amended from time to time, the "**Acquisition Facilities Agreement**").

On April 7, 2009, Schaeffler KG (now Schaeffler Holding GmbH & Co. KG) incurred a syndicated revolving liquidity facility in an aggregate amount of €1 billion replacing the €1 billion revolving facility made available under the Acquisition Facilities Agreement (as amended from time to time, the "**Liquidity Facility Agreement**").

On November 20, 2009, the Acquisition Facilities Agreement and the Liquidity Facility Agreement were amended and restated as (i) approximately €7,143 million senior term loan and multicurrency revolving facilities incurred by the Company under a euro senior term loan and multicurrency revolving facility agreement originally dated November 20, 2009 (as subsequently amended and restated) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries (the "**Repaid Senior Facilities Agreement**") and (ii) approximately €4,944 million term loan and revolving credit facilities incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under a euro term loan and revolving facilities agreement originally dated November 20, 2009 (as amended up to and restated on July 1, 2011 and as further amended from time to time) for Schaeffler Holding GmbH & Co. KG and certain of its subsidiaries, with, amongst others, IHO as company (the "**IHO Facilities Agreement**") and a contingent remuneration payment instrument and a contingent upside instrument relating to the facilities made available under the IHO Facilities Agreement were entered into in connection therewith.

Effective April 1, 2011, the Repaid Senior Facilities Agreement and the IHO Facilities Agreement were amended by way of a "Master Agreement" with additional implementation steps to occur on or before July 1, 2011. The relevant implementation agreement was concluded and became effective on July 1, 2011. In this context, the debt incurred by Schaeffler Verwaltungs GmbH and Schaeffler Holding GmbH & Co. KG under and in connection with the IHO Facilities Agreement was partially repaid, refinanced and, as the case may be, reduced (i) from distributions of excess cashflow by the Company, (ii) from the net proceeds of an accelerated bookbuilt offering of shares in Continental AG, (iii) the issue of a zero coupon bond and (iv) a debt push-down to the Company in an amount of €600 million (the "**Push-Down Debt**") (with the related contingent upside instrument having been closed out and the related contingent remuneration payment instrument having been terminated). The facilities made available under the Repaid Senior Facilities Agreement have been correspondingly increased in an amount equal to the amount of the Push-Down Debt.

Further amendments to the Repaid Senior Facilities Agreement and the IHO Facilities Agreement with regard to the holding of shares in Continental AG became effective on September 22, 2011.

On January 27, 2012, the Company entered into a syndicated senior term loan and multicurrency revolving credit facilities agreement with an initial aggregate amount of €8,000 million (as amended, the "**New Senior Facilities Agreement**") to, among others, refinance the facilities made available under the Repaid Senior Facilities Agreement. For details relating to the New Senior Facilities Agreement, see "*Description of other Indebtedness.*"

Concurrently with the New Senior Facilities Agreement, Schaeffler Verwaltungs GmbH entered into an amendment agreement with regard to the IHO Facilities Agreement providing for

certain amendments of the IHO Facilities, in particular, in order to align certain covenants with the covenants in the New Senior Facilities Agreement and to extent the final maturing date to June 30, 2017.

On February 9, 2012, the Issuer issued €800,000,000 in aggregate principal amount of senior secured notes due 2017, $600,000,000 in aggregate principal amount of senior secured notes due 2017, €400,000,000 in aggregate principal amount of senior secured notes due 2019 and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (together, the "**Existing Notes**"). The drawings under the New Senior Facilities Agreement and the net proceeds from the issuance and sale of the Existing Notes were used to repay in full the outstanding amounts under the Repaid Senior Facilities Agreement. For details relating to the Existing Notes, see "*Description of other Indebtedness.*"

## Business operations

### *Schaeffler Group's divisions*

The Schaeffler Group operates through two main divisions, the Automotive Division and the Industrial Division. The Automotive Division is divided into three business divisions, Engine, Transmission and Chassis, and is supported by its Automotive Aftermarket business. The Industrial Division's Industrial OEM business division is further segregated into various sectors as described below and supported by its Industrial Aftermarket business.

*Automotive division*

As of March 31, 2012, Schaeffler Group's Automotive Division offers approximately 60,000 products and system solutions for engines, transmissions, chassis and related products under its brands INA, LuK and FAG, supplemented by a comprehensive service portfolio through its Automotive Aftermarket business in the replacement parts segment. Due to scarce natural resources, growing mobility and increasing environmental awareness of consumers, modern automotive vehicles must meet numerous—and at times seemingly contradictory—requirements: they must be dynamic, powerful, quiet and economical, but also comfortable and safe.

Schaeffler Group's Automotive Division accounted for approximately 67% of revenue and 65% of EBITDA in the twelve months ended March 31, 2012.

*Customers*

As of March 31, 2012, the Schaeffler Group supplied its components and systems to approximately 7,500 automotive customers. Customers of the Automotive Division include all major global automobile manufacturers and Tier 1 and Tier 2 suppliers in the areas of passenger cars as well as light, medium and heavy-duty trucks. Its customer base also comprises aftermarket distributors of automotive products. In the Automotive Division, 84% of the revenue in the twelve months ended March 31, 2012 related to business with OEMs. The remaining 16% of revenue was generated with non-OEM customers relating to the aftermarket.

Customers are serviced and supplied by Schaeffler Group's worldwide sales organizations and production sites in Germany, Europe (excluding Germany), North America, South America and Asia/Pacific.

*Products*

The Automotive Division comprises three business divisions with a distinctive product and service portfolio: (1) Engine, (2) Transmission, (3) Chassis and is supported by the Automotive Aftermarket business.

*Engine*

The business division *Engine* focuses on precision components for the drive unit of a vehicle, such as valve-lash adjustment elements, variable valve train and camshaft phasing systems, chain and belt drives, as well as rolling bearing arrangements. The products are designed to achieve lower fuel consumption and to support the Schaeffler Group's customers in complying with increasingly strict standards for $CO_2$ emissions. In addition, they are aimed at increasing driving comfort and dynamics, while allowing for longer maintenance intervals.

*Transmission*

Through Schaeffler Group's business division *Transmission,* it provides comprehensive components and systems for the transmission unit. The product range comprises manual and automatic transmissions, such as clutch systems, dual mass flywheels, modules for automatic transmissions, continuously variable automatic transmissions ("CVTs") and various bearings used in transmissions. The product portfolio is supplemented by applications for alternative drive concepts, such as the dual clutch technology for hybrid system drives.

*Chassis*

The product portfolio of Schaeffler Group's business division *Chassis* covers bearing solutions for various chassis applications. In addition to its bearing solutions, it has particularly focused on complete mechatronic systems, ranging from integrated sensors for data capture to electromechanical actuators for active chassis applications. A mechatronic system unites the principles of mechanics, electronics and computing. Its chassis products are aimed at cost-efficiency and durability as well as at more safety and comfort, while at the same time meeting its customers expectations with regard to design and fitting. Schaeffler Group's product portfolio is supplemented by bearings for accessory units and special applications for commercial vehicles.

*Automotive aftermarket*

Schaeffler Group's Automotive Aftermarket business represents the brands INA, FAG and LuK in the replacement parts business worldwide.

In addition, the Automotive Aftermarket business offers a wide range of services for repair shops and distributors. These include "RepXpert," an online portal for automotive workshops and dealerships, and "Partslife," a recycling system for the independent automotive aftermarket.

*Sales*

In the twelve months ended March 31, 2012, Schaeffler Group's top ten customers represented approximately 54% of automotive revenues, with no single customer representing more than 14%. The Schaeffler Group operates sales and marketing facilities in approximately 150 locations. Its sales and marketing team plays a crucial role in growing and developing prospects, developing brand awareness, creating a positive market image, coordinating sales and marketing messages and developing a working business intelligence for better decision-making.

Schaeffler Group's sales organization has a global footprint and is active in all key countries with local sales facilities. Commercial and technical sales representatives are supported by engineering specialists from its regional headquarters. Marketing tools, such as catalogues, technical software, fairs, symposiums, advertising in branch specific magazines, support its sales initiatives and complement its market approach.

It sales channels are through (i) OEMs and (ii) its extensive aftermarket network. OEM are mainly served directly. E-commerce solutions are used to streamline business processes with its main customers. Sales conditions are predominantly open deliveries and payments according to

agreed contract conditions that can be framework agreements, single-year or multi-year contracts. As the Schaeffler Group has business locations all over the world, sales channels, sales conditions and terms of sales are different from in each country, depending on the respective economic and financial situation as well as national custom.

*Industrial division*

As of March 31, 2012, Schaeffler Group's Industrial Division offers approximately 90,000 articles under the INA and FAG brands for applications used in approximately 60 different industrial sectors, providing rolling and plain bearings, guides and direct drives.

The Industrial Division accounted for approximately 32% of revenue and 35% of EBITDA in the twelve months ended March 31, 2012.

*Customers*

Schaeffler Group's Industrial Division's customers include, amongst others, OEMs in the area of power transmissions, production and heavy industries machinery and equipment, and wind power turbines as well as airline manufacturers and aerospace customers. In the Industrial Division, OEMs accounted for 61% of the revenue in the twelve months ended March 31, 2012, with the remaining 39% of revenue representing non-OEM customers in the aftermarket.

*Industrial sectors*

*Industrial OEM*

Within the Industrial OEM business division, the Schaeffler Group focuses on the following sectors (based on revenue):

The *Power Transmission* sector develops products for use in industrial gearboxes, construction and agricultural machinery, fluid and conveying technologies, buildings and structures. Most of Schaeffler Group's *Power Transmission* products are designed to meet its customers' requirements for a long product life with low maintenance costs, while other products have to follow certain specifications, such as high shock loads and high acceleration and speeds.

In the *Production Machinery* sector, the Schaeffler Group provides solutions for bearings in machine tools and textile, printing, food processing and packaging machinery. The product portfolio includes rotary table bearings, screw drive bearings, linear guidance systems and high-precision bearings for main spindles. Supplemented by the offering of INA Drives & Mechatronics GmbH & Co. OHG, this sector implements integrated drive solutions for all rotary table and linear applications.

The *Wind Power* sector provides bearing supports for wind turbines along with condition monitoring systems, lubricants, a fitting service and fitting and maintenance tools. The comprehensive product range for wind turbines offers bearing solutions for rotor shafts, gearboxes, generators and wind tracking and blade adjustment arrangements.

For the *Aerospace* sector, the Schaeffler Group develops and manufactures rolling bearing systems with integrated components for aircraft and spacecraft construction. The product range comprises high-precision bearing components for aircraft and helicopter engines. In addition, the Schaeffler Group provides customers with diagnostics and bearing reconditioning to help them reduce life-span costs while maintaining a high level of system reliability.

The *Motorcycles* sector provides several motorcycle OEMs with needle bearings, ball bearings and engine systems for both the premium and low-cost motorcycle segment. This sector emphasizes low-cost manufacturing countries as a supply base as well as splitting customized product engineering between premium and affordable market segments. In addition, this sector is particularly characterized by strong key-account management and a close proximity to markets, particularly with regard to Japanese OEMs.

The *Railway* sector provides solutions for bearing applications in rail vehicles. The product portfolio includes wheelset bearings, including housings as well as bearings and components for traction motors and gearboxes, wagon joints and tilting mechanisms as well as for doors and numerous other applications.

The *Heavy Industries* sector supports end customers worldwide in the raw material recovery, preparation and processing, metal, cellulose/paper and power plant industry.

The *Fluids & Pneumatics* sector offers products for hydraulic systems and fluid pumps. The range includes low-friction plain bearings with high load-supporting capacity for hydraulic systems and efficient rolling and plain bearings for a variety of pumps, such as pumps used to supply drinking water or pumps used to supply water for firefighting.

The *Consumer Products* sector produces rolling bearings for use in household appliances, sports equipment, power tools, motorcycles, electric motors and medical engineering. This sector supplies customers with deep groove ball bearings, drawn cup roller clutches, linear bearings and needle roller bearings.

The *Power Generation* sector manufactures bearings for small and medium-sized turbines as well as plain bearings and bushings for infrastructure projects such as movable bridges or movable roofs for large buildings (*e.g.*, stadiums). It serves primarily manufacturers of prime movers, power stations, hydropower plants and civil engineering products. Currently, R&D efforts are focused on a new market for the Schaeffler Group, such as bearings that are specifically designed for underwater hydropower plants utilizing tidal streams to generate renewable energies.

*Industrial aftermarket*

The *Industrial Aftermarket* business is responsible for the replacement parts and service business with end customers and distributors in all major industrial sectors.

The *Industrial Aftermarket* business sells industrial products through a network of more than 6,000 external partners in over 100 countries worldwide as of March 31, 2012. Schaeffler Group's Industrial Aftermarket business supports the sales activities with products, numerous customer service measures, technical consultation and marketing activities. In addition, Schaeffler Group's international sales and application engineering groups, along with its industrial service company, Schaeffler Service, assist customers with rolling bearing solutions and service concepts for "heavy duty" bearing applications that extend the life-span of machinery and reduce maintenance.

*Sales*

In the twelve months ended March 31, 2012, Schaeffler Group's top ten customers represented approximately 16% of its Industrial Division's revenues, with no single customer representing more than 5%.

Its sales organization has a global footprint and is active in key countries with local sales facilities. Commercial and technical sales representatives are supported by engineering specialists from the regional headquarters. Marketing tools, such as catalogues, technical software, fairs, symposiums, advertising in branch specific magazines, support its sales initiatives and complement its market approach.

Schaeffler Group's sales channels are through (i) OEMs, (ii) MROs and (iii) its extensive distribution network. OEM and selected MRO customers are mainly served directly. The main part of the MRO business is served through its distribution network. E-commerce solutions are used to streamline business processes with its distribution partners. Sales conditions are predominantly open deliveries and payments according to agreed contract conditions that can be framework agreements, single-year or multi-year contracts. As the Schaeffler Group has business locations all over the world, sales channels, sales conditions and terms of sales are

different from in each country, depending on the respective economic and financial situation as well as national custom.

***Schaeffler Group's functions***

*Research and development*

The Schaeffler Group conducts R&D activities on a large scale, focusing on key growth technologies. It has created an R&D management system to develop new products, technologies, processes and methods for market-driven products.

Its R&D expenses amounted to €147 million in the three months ended March 31, 2012, €495 million in 2011, €467 million in 2010 and €384 million in 2009, or approximately 5% of revenue in each fiscal year.

As of March 31, 2012, the Schaeffler Group operates approximately 40 R&D centers worldwide with nearly 6,000 employees. Key locations outside Germany are the United States, China, South Korea, France and Brazil.

The R&D centers work in close cooperation in all key areas of product development with customers of the automotive industry, mechanical engineering and aerospace. The Schaeffler Group uses tools, such as simulation and rapid prototyping, for developing increasingly complex products that involve mechatronics. From individual bearing systems to complete vehicles and machine systems, all necessary tests can be carried out on testing facilities which increases the operating safety of its products and the Schaeffler Group can therefore gain valuable insights for developing and improving its products further. For example, by using coatings developed in-house, the operating life of engine components and bearings can be increased considerably and these components can be integrated into modules. In addition, by integrating measuring technology, drives and controls and calculating programs that are developed in-house, Schaeffler Group's engineers are able to design and develop complete drivetrain systems.

*R&D relating to the Automotive Division*

Schaeffler Group's R&D efforts in relation to the OEM business of the Automotive Division follow two major trends: energy efficiency and enhanced safety and comfort and improved driving dynamics. Energy efficiency through fuel consumption and reduction and, consequently, $CO_2$ emissions is the key trend in the automotive industry today. Inventions in this field range from optimization of classic drive trains with internal combustion engines through hybridization to electric mobility.

The Schaeffler Group has a strong track record with respect to innovation for the automotive market, such as the electro-hydraulic valve control system, "UniAir/MultiAir," which it has co-developed and made suitable for large-scale production. In addition, the demand for the dry double clutch, which also minimizes $CO_2$ emissions, is growing. Other innovative components, such as the wheel bearing with spur gear teeth and the lightweight differential reduce weight and required space while simultaneously improving performance. With the "CO2ncept-10%," a vehicle based on a Porsche Cayenne S, the Schaeffler Group achieved a 10% reduction in fuel consumption and $CO_2$ emissions. In addition, it has presented the Schaeffler Hybrid, a car with elements for hybridization and electric mobility—areas for which the Schaeffler Group offers a continuously growing variety of products, ranging from wheel hub motors to electric drive axles.

*R&D relating to the Industrial Division*

In addition to continuously improving the performance of running products, Schaeffler Group's R&D program in the Industrial Division is designed to capitalize on the main trends regarding energy efficiency and renewable energies as well as demand for system solutions and outsourcing. For example, one of the megatrends—not only in the automotive industry—is electric mobility. Schaeffler Group's Industrial Division has developed sensor bottom brackets,

facilitating the convenient control of electric bicycle drives. The torque sensor bottom bracket, for example, enables the bicycle to detect the need for motor assistance depending on the situation and to control the output accordingly. Renewable energies are also a strategic growth area where its Industrial Division positioned itself early through, *inter alia,* significant R&D endeavors in the field of components for wind power turbines, solar power plants as well as for wave and tidal power plants. Schaeffler Group's Industrial Division is the development partner for numerous projects, creating a basis for advancing the development and cost-effectiveness of renewable energies with application-specific expertise and innovative products, such as wave energy converters that float on the surface like a sea snake and generate energy from the wave action.

Overall, Schaeffler Group's Industrial Division R&D function supports the improvement of existing products, develops new components, modules and systems for new trends, such as sustainability and energy efficiency and focuses on the integration of mechatronics.

*Intellectual property*

The Schaeffler Group has obtained many patents and licenses to cover its products, their design and its manufacturing processes and is continuously seeking to secure further patents on its developments.

As of March 31, 2012, it held approximately 19,000 patents and patent applications with more than 1,600 patents applied for in 2010 and more than 1,800 patents applied for in 2011, which makes the Schaeffler Group the fourth most innovative company in Germany based on number of applications submitted.

The Schaeffler Group considers its intellectual property a competitive advantage of its business. Hence, it devotes significant resources to the filing and monitoring of its patents and other intellectual property rights, to the prosecution of infringements thereof and to the protection of its proprietary information. For example, the Schaeffler Group conducts intensive market studies regarding product counterfeits and, consequently, enforces its claims by legal action. In addition, it monitors patent studies with regards to the competitive situation of its developments. For a detailed description of the risks associated with intellectual property rights, please see "*Risk factors—Legal, taxation and environmental risks—The Schaeffler Group could be unsuccessful in adequately protecting its intellectual property and technical expertise*" and "*Risk factors—Legal, taxation and environmental risks—There is a risk that the Schaeffler Group infringe intellectual property rights of third parties.*"

*Production technologies*

The Schaeffler Group is among the leaders in the fields of cold forming technology, forging, machining, heat treatment, plating technology and assembly. Deep drawing, a process in the field of cold forming, is one of its core technologies. Its expertise in metal forming of precision products enables the Schaeffler Group to manufacture solutions tailored to its customers in high-volume production at an outstanding cost-performance ratio. All work related to quality, such as grinding (*e.g.*, precision grinding) and honing the inner and outer rings of rolling bearings, is carried out in-house.

Assembly is carried out primarily on linked and automated manufacturing lines, ensuring the high standards of quality for its products. Schaeffler Group's in-house special machine and tool manufacturing department develops processing solutions that are specially adapted to the needs of the production process of individual products, enabling it to manufacture its products flexibly and cost-effectively.

*Property, plant and equipment*

Many of Schaeffler Group's plants are "mixed plants" in which products are manufactured for both the Automotive and Industrial Divisions. As of March 31, 2012, it operated

70 manufacturing plants in 21 countries worldwide, all of which are owned by the Schaeffler Group.

The headquarters are situated at Herzogenaurach, Germany. The Schaeffler Group fully owns the area and the building with a surface area of 352,461 square meters.

The following table provides an overview of its most important plants in order of size of property.

| Location | Size of property in square meters | Owned or leased/expiry dated for lease terms |
|---|---|---|
| Herzogenaurach, Germany | 352,460.93 | Owned |
| Schweinfurt, Germany | 329,928.68 | Owned |
| Brasov, Romania | 145,512.76 | Owned |
| Kysucke Nove Mesto, Slovakia | 119,131.89 | Owned |
| Skalica, Slovakia | 102,764.13 | Owned |
| Wuppertal, Germany | 101,122.50 | Owned |
| Bühl, Germany | 100,499.00 | Owned |
| Sorocaba, Brazil | 85,655.00 | Owned |
| Fort Mill, United States | 85,509.00 | Owned |
| Taicang, China | 69,201.00 | Owned |

*Purchasing of raw materials and energy resources*

Steel is the principal raw material used in many of Schaeffler Group's products. The Schaeffler Group purchases raw materials from global sources with whom it works closely to assure steel quality. Steel (raw material only, excluding steel components) comprised approximately 31% of its total production material and energy expenses and approximately 12% of its total cost of goods sold in the twelve months ended March 31, 2012. Other important production materials include castings, turned parts and forgings. The Schaeffler Group obtains raw materials from a variety of sources and in general from more than one supplier. Schaeffler Group's top five and top 100 suppliers accounted for approximately 5% and approximately 33%, respectively, of total purchases in the twelve months ended March 31, 2012.

Prices for raw materials and energy resources continue to remain high compared to historical levels. Prices of raw materials and energy resources are subject to curtailment or change due to, among other things, new laws or regulations, changes in demand levels, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels.

The Schaeffler Group does not actively hedge against the risk of rising prices of raw materials and preliminary products by using derivative financial instruments. Instead, it generally enters into long-term purchasing contracts relating to raw materials and preliminary products on an opportunistic basis. Prices for long products, such as bars, wires, tubes and thereof produced rings are generally fixed with an annual base price, monthly scrap and alloy surcharges. Due to the fact that flat products like hot-rolled and cold-rolled strip have no volatile cost elements in the contracts, prices are fixed on a shorter basis.

For a detailed description of the risks associated with raw materials and energy supply, please see *"Risk factors—Risks related to Schaeffler Group's business operations—The Schaeffler Group depends on a limited number of key suppliers for certain products." and "Risk factors—Risks related to Schaeffler Group's business operations—The Schaeffler Group is exposed to fluctuations in prices of raw materials and energy."*

*IT systems*

The IT infrastructure employed by the Schaeffler Group is characterized by a high level of standardization. Its IT systems and application landscapes rely heavily on SAP software. Its

applications are unified for its divisions. Non-SAP software is only used for office applications and CAD as specified software.

***Schaeffler Group regions***

The Schaeffler Group divides its business operations into five regions: Germany, Europe (excluding Germany), Asia/Pacific, North America and South America. In the twelve months ended March 31, 2012, it generated 27% of its total revenue in Germany, 32% in Europe (excluding Germany), 22% in the Asia/Pacific region, 13% in North America and 6% in South America. Based on its *"in the region, for the region"* strategy, the Schaeffler Group focuses on regional production and relationships with local customers and suppliers. It maintains production and service facilities in close proximity with all its major customers' manufacturing operations.

*Germany*

As of March 31, 2012, the Schaeffler Group operates 24 production locations and 13 R&D facilities in Germany, the largest and most important of which being located in Herzogenaurach, Schweinfurt and Bühl. The headquarters are located in Herzogenaurach.

*Europe (excluding Germany)*

Schaeffler Group's 19 European production plants are closely linked to its plants in Germany, both logistically and operationally. In addition to its large production sites in Western Europe—primarily in France and Spain—the Schaeffler Group has important manufacturing plants in Eastern Europe. Over the past few years, large plants were built in the Czech Republic, Hungary, Romania and Slovakia. As of March 31, 2012, it operates nine testing facilities and development locations across Europe. In addition, numerous distribution companies ensure full customer support with short response times.

*Asia/Pacific*

Schaeffler Group's Asian operations are managed from its regional headquarters established in Shanghai, China in 2007. With its locations in China, Korea, Japan, Taiwan, the Philippines, Malaysia, Vietnam, Thailand, Singapore, Indonesia, Australia and India, the Schaeffler Group is present throughout the region. As of March, 2012, it operates 13 production sites and 10 R&D facilities, providing local support for its Automotive Division and Industrial Division.

*North America*

Headquartered in Fort Mill, South Carolina, USA, the Schaeffler Group has been firmly established in North America for nearly five decades. As of March 31, 2012, it operates twelve production sites and seven R&D facilities in the U.S., Canada and Mexico in close proximity to its most important customers, allowing it to tailor the supply of its products to the North American market. Its R&D center in Troy, Michigan, USA is in close proximity to the main North American OEMs.

*South America*

The Schaeffler Group has been present in South America since 1958. With the headquarters and production facility in Sorocaba, Brazil, it is represented in South America's most important automotive region. In addition, the Schaeffler Group has sales and engineering companies in Argentina, Chile, Colombia and Venezuela.

*Employees*

The table below shows the headcount as of December 31, 2009, 2010, and 2011 and as of March 31, 2011 and 2012 in Schaeffler Group's functional areas.

| | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| **Number of Employees** | **2009** | **2010** | **2011** | **2011** | **2012** |
| | | | | **(unaudited)** | |
| Production | 47,639 | 53,050 | 57,912 | 54,693 | 58, 611 |
| Research and Development | 4,779 | 5,032 | 5,799 | 5,161 | 5,849 |
| Selling | 5,177 | 5,498 | 5,935 | 5,661 | 5,992 |
| General Administration | 3,941 | 3,929 | 4,385 | 4,002 | 4,496 |
| **Total** | **61,536** | **67,509** | **74,031** | **69,517** | **74,948** |

Headcount rose by approximately 8% to around 75,000 during the twelve months ended March 31, 2012, which reflected Schaeffler Group's improved business environment.

The table below shows the headcount as of December 31, 2009, 2010, and 2011 as of March 31, 2011 and 2012 for each of the regions in which the Schaeffler Group operates.

| | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| **Region** | **2009** | **2010** | **2011** | **2011** | **2012** |
| | | | | **(unaudited)** | |
| Germany | 26,661 | 27,938 | 29,443 | 28,495 | 29,718 |
| Europe (excluding Germany) | 17,534 | 20,063 | 22,004 | 20,768 | 22,147 |
| Asia/Pacific | 8,038 | 9,258 | 11,181 | 9,582 | 11,420 |
| North America | 5,118 | 5,866 | 6,781 | 6,104 | 6,936 |
| South America | 4,185 | 4,384 | 4,622 | 4,568 | 4,727 |
| **Total** | **61,536** | **67,509** | **74,031** | **69,517** | **74,948** |

*Relationships with unions and works councils*

Schaeffler Group's employees in Germany are represented by unions, along with many of the employees in other countries. Furthermore, its employees in Germany are represented by works councils.

In Germany, the Schaeffler Group is a member of the metal and electrical industry organization of employers (*Verband der Metall-und Elektronikindustrie*) in all regions and is therefore subject to the various collective bargaining agreements of the association.

According to German law, its German employees established a company works council (*Konzernbetriebsrat*) for all of Schaeffler Group's primary German plants and separate works councils (*Betriebsräte*) for each German plant.

In 2004, the Schaeffler Group entered into a works agreement (*Betriebsvereinbarung*) with the company works council on the protection of plants (*Standortsicherung*). According to this agreement, the German plants of Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) were kept under a 100% protection until the end of 2008. Other measures to secure employees were also negotiated with this agreement. These measures may be terminated with six-months notice and without prejudice.

The Schaeffler Group has a close and constructive relationship with its German works councils and its German unions, evidenced by the fact that it has not experienced any disruptions from strikes or work stoppages in recent years.

Outside Germany, there are several other countries where its employees are represented by unions.

*Pensions*

The Schaeffler Group provides defined benefit pension plans in Germany, the United States, the United Kingdom and certain other countries. As of March 31, 2012, the Schaeffler Group's total pension obligations amounted to approximately €1,765 million. As of March 31, 2012, the Schaeffler Group's net pension obligations for defined benefit pension plans (pension obligations less pension plan assets, funded status) amounted to approximately €1,233 million.

Its externally invested pension plan assets are funded through externally managed investment funds. While the Schaeffler Group prescribes the general investment strategies applied by these funds, it does not determine their individual investment alternatives. The pension plan assets are invested in different asset classes including equity, fixed-income securities, real estate and other investment vehicles.

***Investments***

The Schaeffler Group's investment strategy is tailored towards further enhancing its technological capabilities and cost competitiveness and the increased penetration of high-growth market segments and geographies.

Its material investments in the three months ended March 31, 2012 and the fiscal years ended December 31, 2009, 2010 and 2011 can mainly be categorized as investments in organic growth (*i.e.*, investments in production facilities, equipment and software) and growth through acquisitions.

*Capital expenditures in production plants, buildings, equipment and software*

Schaeffler Group's capital expenditures in production plants, buildings, equipment and IT products in the three months ended March 31, 2012 amounted to €235 million. In the fiscal year ended December 31, 2011 they amounted to €846 million. In the fiscal year ended December 31, 2010, they amounted to €386 million and, in the fiscal year ended December 31, 2009, such capital expenditures accounted for €325 million.

The capital expenditures made in connection with the development of new products and services involved the construction of new production facilities, in particular, in low-cost countries, such as China, India and in Eastern Europe (*e.g.*, Romania and Slovakia). In addition, significant capital expenditures were made in connection with the expansion of existing production capacities in various countries and across all divisions, business divisions and business units.

*Investments for acquisitions of subsidiaries and management units*

In the three months ended March 31, 2012 and the fiscal years ended December 31, 2009, 2010 and 2011, there were no investments for acquisitions of subsidiaries and management units.

As of March 31, 2012 until the date of this Prospectus, no principal investments were made either in property, plant, equipment and software or in subsidiaries and management units.

***Environment, insurance and legal***

*Environment and pollution*

Schaeffler Group's operations are subject to a wide range of environmental laws and regulations in various jurisdictions, including those governing the management and disposal of hazardous materials, the clean-up of contaminated sites and occupational health and safety.

*Hazardous material, soil and groundwater contamination*

Schaeffler Group's operations include the use and storage of hazardous materials and can otherwise have an impact on soil and groundwater. Other environmentally sensitive substances required for the operation of sites, such as fuel and heating and lubricating oil, are used and stored at its sites. In addition, many of the sites at which the Schaeffler Group operates have been used for various industrial purposes for many years. As a result, some of its sites could be affected by soil and groundwater contamination. In some cases, it is obligated to perform further investigation or clean-up operations.

At some of Schaeffler Group's sites, asbestos was used in the construction of buildings. At present, asbestos used at these sites is usually bound in other materials, such as asbestos-containing cement boards used for heat insulation. The replacement of bound asbestos is usually not required under environmental laws. If a building is refurbished or demolished, however, or if asbestos containing materials are in a condition that could cause asbestos to become airborne, precautions for the protection of employees must be taken and the material must be properly disposed of. At some of its sites, asbestos-containing structures will have to be demolished and such materials disposed of in the future.

For a detailed description of the risks associated with the use of hazardous material and possible soil, water and groundwater contamination, please see *"Risk factors—Legal, taxation and environmental risks—The Schaeffler Group could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials."*

*Compliance issues*

All countries in which the Schaeffler Group operates have adopted complex laws, regulations, technical rules and standards concerning environmental protection. The Schaeffler Group is required to obtain and maintain permits from governmental authorities for many of its operations. These laws, regulations and permits are subject to change over time and require the ongoing improvement and retrofitting of plants, equipment and operations, which can, at times, require substantial investments. All its plants are validated according to the EMAS system, ISO 14001 and OHSAS 18001.

*Insurance coverage*

The Schaeffler Group believes that it has economically reasonable insurance coverage with respect to product and environmental liability, property insurance, business interruption insurance and other insurance (*e.g.*, automobile, credit and freight insurance). Furthermore, it considers the insurance coverage level relating to the Schaeffler Group directors and officers (D&O insurance) to be economically reasonable.

*Litigation and administrative proceedings*

*Antitrust investigations*

On November 8, 2011, the EU Commission initiated investigations against several bearing companies, including the Schaeffler Group and other large bearing manufacturers. The DOJ has also issued a grand jury subpoena on November 9, 2011 and commenced its own investigation. On May 23 and 31, 2012, purported class action lawsuits were filed by Florida plaintiffs in the U.S. District Court for the Eastern District of Michigan against Schaeffler AG and certain other defendants in this context. The plaintiffs seek treble damages in an unspecified amount, attorneys' fees and an injunction against the defendants. These proceedings relate to potential infringements in the bearings industry of European and U.S. antitrust laws. The Japanese Fair Trade Commission sent an initial request for information to the Company's Japanese subsidiary on November 30, 2011 and further requests for information on January 10, May 21, and May 28, 2012. The Schaeffler Group is conducting an internal investigation into allegations of misconduct in the automotive and industrial bearings sectors. Pursuant to Schaeffler Group policy, the Company is cooperating fully with the investigating authorities. A successful antitrust

law challenge could result in the imposition of significant fines by one or more authorities (in the case of the EU Commission, up to a maximum of 10% of a company's worldwide annual group revenue). While the Schaeffler Group anticipates the risk of a fine in the EU, at this stage it is not possible to provide a reliable estimate of the amount of any fine. See *"Risk factors—Legal, taxation and environmental risks—The Schaeffler Group is exposed to legal risks regarding antitrust fines and related damage claims."*

*Product liability proceedings*

Although the Schaeffler Group aims to address any product-related risks prospectively through a careful product development procedure and thorough quality management systems, it is frequently subject to product liability lawsuits and other proceedings alleging violations of due care, violation of warranty obligations and claims arising from breaches of contract, recall campaigns or fines imposed by governments. Since 2008, its aggregate settlement costs relating to such claims amounted to less than €50 million on an annual basis. None of these product liability proceedings had material adverse effects on its business, financial condition and results of operations during the last twelve months and none of the currently pending or threatened product integrity proceedings is expected to have such effects in the future.

Furthermore, Schaeffler Group companies are involved in legal or administrative proceedings in Germany and abroad in connection with product liability lawsuits and other proceedings, alleging violations of due care, violations of warranty obligations, treatment errors, breach of contract, recall actions or fines imposed by government or regulatory authorities. Although the outcome of these proceedings is uncertain, the Schaeffler Group anticipates that an unfavorable outcome of such proceedings would not have material adverse effects on its business, financial condition and results of operations.

## Material contracts

***Joint procurement cooperation agreement***

On March 27, 2009, Continental AG entered into a joint procurement cooperation agreement (the "**Cooperation Agreement**") with Schaeffler KG (today Schaeffler Holding GmbH & Co. KG) to improve purchasing conditions and to create a stronger supplier network for both parties, in particular by creating better access to the steel markets and component suppliers. With effect from February 1, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of Schaeffler Group's reorganization, been replaced by Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) will act as independent entities but try to create synergies through worldwide purchasing cooperation. The goal of the Cooperation Agreement is to strengthen the market and negotiation position of each party by cumulating their purchasing volumes, to jointly negotiate lower purchasing prices and to achieve advantageous conditions for the parties, including a better-quality performance of suppliers, which is intended to lead to a higher level of competitiveness and lower prices of the parties' products. The parties are to determine products which will be mutually sourced from suppliers and are to mutually determine suppliers. However, the actual purchase of the products is conducted by each party on its own behalf and for its own account. The agreements with the suppliers are to entitle, but not obligate, each party and its subsidiaries to purchase at the terms and conditions of such agreements. For the purpose of cooperation, the parties stipulate to exchange information regarding (i) the parties' needs for the products, (ii) lists of selected and qualified suppliers, (iii) current prices and frame contracts, (iv) the evaluation of suppliers and (v) the implementation of purchasing and supplier strategies. It will be renewed automatically for consecutive 12-month periods unless one party gives written notice of its intention not to renew at least 90 days prior to the end of the then-current term.

*Investment Agreement*

On August 20, 2008, Continental AG entered into an investment agreement (the **"Investment Agreement"**) with Schaeffler Holding GmbH & Co. KG (formerly Schaeffler KG), Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler and former German Chancellor Dr. Gerhard Schröder as **"Controller."** With effect as of June 28, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of Schaeffler Group's reorganization, been replaced by Schaeffler AG (formerly Schaeffler GmbH) as a party to the Investment Agreement. On May 4, 2011 Schaeffler Verwaltungs GmbH and on September 26, 2011 Schaeffler Beteiligungsholding GmbH & Co. KG acceded the Investment Agreement in the context of certain transfers of shares in Continental AG by Schaeffler GmbH to Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG. Pursuant to the Investment Agreement, Schaeffler AG, Schaeffler Verwaltungs GmbH, Schaeffler Beteiligungsholding GmbH & Co. KG and/or Schaeffler Group's other members are committed to limit their position to a shareholding in Continental AG of up to 49.99% of the voting rights until August 31, 2012, unless the executive board (*Vorstand*) of Continental AG grants its consent to a higher shareholding in advance, to support the strategy determined by Continental AG's executive board considering Continental AG's current business model and to maintain its existing market and brand appearance. Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated not to undertake, cause or support without the consent of the executive board, certain material structural measures (such as changes to Continental AG's form of incorporation, its corporate seat, the location of its headquarters or business divisions, a delisting on any stock exchange, the entering into of enterprise agreements (*Unternehmensverträge*), any divestitures or an increase of Continental AG's debt). Furthermore, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated to inform Continental AG and the Controller of any intended sale of more than 5% of the shares held in Continental AG in the aggregate and of the potential acquirer. If Continental AG and the Controller object to the person of the potential acquirer for good reasons, *i.e.* such intended sale would cause an impairment of the interests of Continental AG, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated to submit a sale offer to a potential acquirer proposed by the Controller, unless the interests of Continental AG or Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are impaired by the person of such acquirer.

To safeguard the interests of Continental AG's employees, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obliged not to conduct or support without the consent of Continental AG's executive board, any measures directed at changing the shop agreements or collective bargaining agreements or aiming at the abolishment of the employees' co-determination rights. Furthermore, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG are obligated to respect the rights of the employees, works councils and the labor unions under applicable laws, agreements, regulations and contracts in force at Continental AG. The parties undertook to examine possibilities for strategic cooperation projects between the Schaeffler Group and Continental AG based on the principals of an alliance of equals between two productive and independent companies without undue delay after completion of the takeover offer.

With regard to the composition of the supervisory board (*Aufsichtsrat*), Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG undertook not to propose for election or elect more than four persons who are shareholders, board members or employees of Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG or of their affiliates within the meaning of Section 15 of the German Stock Corporation Act (*Aktiengesetz*). Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG promised not to undertake or support actions that would result in a change of the composition of the executive board, unless there is good cause or if the shareholders' meeting should withdraw its confidence in any particular board member. Furthermore, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding

GmbH & Co. KG may not, without the consent of the executive board, undertake or support actions to cause a payment of a special dividend or a change of the dividend policy of Continental AG.

Pursuant to the Investment Agreement, Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG must compensate Continental AG in the amount of up to a maximum of €522 million for possible adverse effects resulting from a change of control in connection with existing financing agreements of Continental AG and the loss of tax carryforwards resulting from Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG's shareholding. This compensation is limited as follows: (i) compensation for the loss of tax carryforwards is limited to an amount of up to €122 million in the event of a shareholding by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG of at least 30% and (ii) compensation for adverse effects is limited to an amount of up to €400 million in the event of a shareholding by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG of more than 49.99%.

Failure to comply with the terms of the Investment Agreement regarding (i) the restrictions concerning structural and management measures, (ii) the provisions concerning the rights of employees and their representatives, (iii) the obligation not to change the composition of the executive board, or (iv) the restrictions regarding sales of more than 5% of the shares in Continental AG held by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG, will result in an obligation on Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG to pay a penalty of €10 million to Continental AG for every instance of non-compliance.

Continental AG is obligated not to undertake, initiate or support any action which could hinder or delay the success of Schaeffler KG's (today Schaeffler Holding GmbH & Co. KG) takeover offer with the exception of measures (i) required to fulfill obligations imposed by law on the executive board or supervisory board of Continental AG; or (ii) which a prudent and conscientious manager of a company not affected by a takeover bid would have taken.

The Investment Agreement has an unlimited term and cannot be terminated by the parties before the end of the shareholders' meeting of Continental AG in 2014, with the exception that the provisions regarding the limitation of Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG's shareholding in Continental AG and the restrictions regarding sales of more than 5% of the shares in Continental AG held by Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG have a separate term until August 31, 2012. Former German Chancellor Dr. Gerhard Schröder, as Controller, is entitled and empowered to protect the interest of Continental AG, its shareholders, its employees and other stakeholders. He is empowered to claim fulfillment of the obligations of Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG at any time during the term of the Investment Agreement by legal action or out of court. In this regard he is entitled to request information from Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG about the company's level of compliance with its obligations under the Investment Agreement. Any amendment of the Investment Agreement or waiver of rights granted under the Investment Agreement is subject to the Controller's consent. Schaeffler AG, Schaeffler Verwaltungs GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG and Continental AG share costs for the Controller's expenses and remuneration equally.

# Regulatory framework

The Schaeffler Group is subject to environmental and regulatory laws governing its business activities in the countries in which it operates. This includes, *inter alia,* provisions on (i) air emissions, (ii) water protection, (iii) waste treatment, (iv) soil and groundwater contamination, (v) handling, storage and transport of hazardous goods and (vi) chemical substances. Further, the Schaeffler Group is subject to requirements on product safety, occupational health and safety as well as export control regulations. Application of the various regulations depends on the specific facilities, installations and activities at the business locations and the type and use of the products manufactured by the Schaeffler Group. For example, the permits and notifications required for a specific facility depend on many individual factors, including the specific purpose of the facility, its capacity and physical structure, the emissions produced by the facility, and the existence of any auxiliary facilities.

Moreover, the products manufactured by the Schaeffler Group have to comply with various legal requirements.

The provisions under environmental and regulatory law applicable to the Schaeffler Group and its products are subject to change. They are continuously being adapted, at the national and international levels (especially by the European Union), to the level of technical sophistication, the increased need for safety and recognition of environmental aspects in political decisions.

Since a large number of the Schaeffler Group's subsidiaries and/or production sites are located in member states of the European Union and since the Schaeffler Group generates a significant portion of its turnover within the European Union, the following description of particularly relevant legal provisions focuses on acts adopted by European institutions. These acts may be complemented by implementing and additional (stricter) requirements established by specific member states. In addition, this section comprises summaries of the regulatory framework for its products in the United States and in Japan, two markets outside the EU that are important for the Schaeffler Group from a sales perspective.

## Regulatory framework for the Schaeffler Group's operations

The industrial sites operated by the Schaeffler Group have to comply with several environmental and regulatory requirements. In addition, environmental liabilities can occur due to public or civil environmental laws. In the following, the main legal sources in the European Union for such obligations or liabilities are summarized.

### *Permits and Compliance*

For the construction, operation and alteration of industrial facilities, such as production plants, the Schaeffler Group may generally need emission control permits or, alternatively, building permits and permits under water laws. In the application process for such permits, the authority assesses whether the specific facility the permit has been applied for will be in compliance with applicable provisions of environmental and regulatory law, in particular, with regard to emissions, building planning and building regulations law, waste disposal, nature protection, occupational health and safety and—in the case of permits under water law—use and disposal of water are examined. As a general rule, the permits cover most of additional environmental and regulatory requirements that have to be met (*e.g.*, with respect to emissions and occupational health and safety). Some application procedures include public participation, *e.g.* the application procedure for an emission control permit includes a public participation not limited to specific stakeholders. As a result of the public participation objections may be raised and thereby complicate and delay procedures. Moreover, permits may be subject to legal proceedings initiated by third parties, namely neighbors and environmental non-governmental organizations whose participation rights have been expanded by the EU public participation directive (Directive 2003/35/EC) and its interpretation by the European Court of Justice (recently with a ruling of 12 May 2011 (C-115/09)).

Non-compliance with the requirements set out in specific permits and their ancillary conditions may trigger administrative fines, the responsible individuals may also be subject to criminal prosecution. Furthermore, as a worst case scenario the authority may order a (partial) shutdown of the facility and, under certain circumstances, revoke the permit.

*Integrated Pollution Prevention and Control*

Directive 2008/1/EC of the European Parliament and of the Council of January 15, 2008, as amended by Directive 2009/31/EC of the European Parliament and of the Council of April 23, 2009, (the "**IPPC Directive**") stipulates that industrial activities with a high pollution potential, including installations for the production and processing of metals, require a permit. This permit can only be issued by the competent authority if certain environmental conditions are met so that the companies themselves bear responsibility for preventing and reducing any pollution they may cause.

The legal requirements for emissions will become even stricter as the member states of the European Union are obliged to implement the new Directive 2010/75/EU on industrial emissions ("Industrial Emission Directive," "**IED**") by January 7, 2013 at the latest. The IED includes, *inter alia,* stricter emission threshold levels. In addition, activities subject to a permit requirement under the IED have to reach the standard of the "best available techniques" ("**BAT**"). The EU Commission will draw up, review and, where necessary, have updated the BAT standards and issue the binding BAT conclusions for the application of BAT in practice (*e.g.*, specific thresholds, monitoring measures, consumption levels). These binding BAT conclusions are published in best available technique reference documents ("**BREF**"). As an example, the Commission has started drafting a new BREF related to the processing of ferrous metals.

The IED requires a periodical review of the ancillary conditions in existing permits and, if necessary, amendments of these conditions to ensure compliance with the IED. For example, this is a novelty in the German system where permits under the Federal Emission Control Act are as a rule unlimited in time and only subject to subsequent amendments to the extent they are proportionate. The requirement of iterative amendments of existing permits may also apply to the installations operated by the Schaeffler Group as these installations fall within the scope of the IED.

***Emissions from production processes***

*Greenhouse gas emissions trading*

In the EU, the third trading phase for greenhouse gas emissions will start on January 1, 2013. The EU Commission upheld its commitment to the European Emission Trading Scheme ("**EU ETS**") despite the expiry of the States' initial obligations under the Kyoto Protocol at the end of 2012. At the Durban Conference in November/December 2011 a prolongation of the Kyoto Protocol has generally been agreed, but no comprehensive global agreement on specific greenhouse gas emissions reductions has been concluded.

Directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003 ("**Emission Trading Directive**") established the EU ETS, which has been in place since January 1, 2005. It aims at reducing greenhouse gases, particularly emissions of carbon dioxide by the industry and power sector. The EU ETS makes use of market-based mechanisms to encourage the reduction of greenhouse gas emissions in a cost-effective and economically-efficient manner, while maintaining the environmental integrity of the system.

The basic principle of the EU ETS includes a reduction of greenhouse gases (mainly carbon dioxide) by the allocation of emission allowances to operators of specific facilities. Each operator receives a decreasing amount of allowances in each year of a specific trading period (*e.g.*, 2008-2012). In each year of a specific trading period, the operator is obliged to surrender an amount of allowances equal the amount of *e.g.* carbon dioxide emitted by its facilities (*e.g.*, 6,000 allowances for 6,000 tons of emitted carbon dioxide) except for carbon dioxide emitted

from the use of biomass as fuel. If the operator fails to surrender the specific amount of allowances completely the operator has to pay a fine (*e.g.*, in Germany, €100 is due for each allowance not surrendered). As the amount of allocated allowances decreases each year, the EU ETS forces the operator to either reduce the greenhouse gas emissions of its facilities or to purchase additional allowances on the allowances market. Allowances are tradable like credits. If an operator has to surrender fewer allowances than received (*e.g.*, due to the use of biomass as fuel or technical measures of emission reduction), it can sell the surplus allowances on the market. An allowance for the emission of *e.g.* carbon dioxide is valued at a price which is determined by the (trading) market.

The total number of available allowances, however, remains limited. Thus, the additional purchase of allowances is only possible if a reduction of carbon dioxide output has been achieved elsewhere.

The Emission Trading Directive was last amended by Directive 2009/29/EC of April 23, 2009 which relates to the new trading period from 2013 to 2020 (including). The new trading period includes *inter alia* new sectors like aviation activities and a limitation of allowances at EU level (as opposed to national limitations in the former trading period).

Currently, only one of the Schaeffler Group's manufacturing sites (Herzogenaurach) is subject to EU ETS. It is envisaged to downsize the heating plant to a level of thermal output that falls below the threshold for the obligation to participate in the EU ETS. It plans to achieve this by improving the efficiency of its energy use.

*Volatile organic compound emissions*

The Schaeffler Group operates installations using volatile organic compounds ("**VOC**"). These installations are therefore subject to the Council Directive 1999/13/EC of March 11, 1999, complemented and amended by Directive 2004/42/EC of the European Parliament and of the Council of April 21, 2004 and Directive 2008/112/EC of the European Parliament and of the Council of December 16, 2008 ("**VOC Directive**"). Hence, it is obliged to comply with its requirements as implemented by applicable national regulations. The VOC Directive covers emissions of organic solvents from stationary commercial and industrial sources, such as coating activities or surface cleaning. For most of the activities concerned, the Directive specifies a consumption threshold. The VOC Directive will be repealed as of January 7, 2014 as VOC emissions will then be regulated by the IED. The IED does not explicitly provide stricter emission limits for VOC. It strengthens, however, the importance of BAT in the permitting procedure as well as in the course of a permit review. These BAT standards may impose more stringent emission limit values compared to the VOC Directive. The IED may therefore constitute a ratcheting up of the current regulatory framework for VOC emissions.

***Waste from production processes***

As of December 12, 2010, Directive 2008/98/EC of the European Parliament and of the Council of November 19, 2008 (the "**Waste Framework Directive**") established the framework on waste treatment within the EU, the Schaeffler Group has to comply with the requirements of the Waste Framework Directive as implemented by the national laws. This relates in particular to the disposal of waste from production processes. The measures provided for in the Waste Framework Directive apply to all substances or objects which the holder discards or intends or is required to discard. They do not apply to gaseous effluents, waste waters and some other types of waste which are subject to specific Community rules.

The Waste Framework Directive introduces a new waste hierarchy, *i.e.*, the members states should take the following measures for the treatment of their waste (listed in order of priority): (i) prevention, (ii) preparing for reuse, (iii) recycling, (iv) other recovery including, notably, energy recovery and (v) disposal. Yet, as regards specific waste streams, member states may depart from the hierarchy where this is justified by life-cycle thinking on the overall impacts of the generation and management of such waste.

Member states must prohibit the abandonment, dumping or uncontrolled disposal of waste. Member states must ensure that any holder of waste has it handled himself (according to the requirements of the Waste Directive on waste handling) or by a (i) private or public waste collector, (ii) broker or (iii) disposal undertaking or establishment. Undertakings or establishments treating, storing or tipping waste on behalf of third parties must obtain a permit from the competent authority relating, in particular, to the types and quantities of waste to be treated, the general technical requirements and the precautions to be taken. The competent authorities may periodically check that the conditions of the permit are complied with. They also monitor undertakings which transport, collect, store, tip or treat their own waste or third parties' waste. Waste treatment facilities and undertakings disposing of their own waste also require a permit. In accordance with the "polluter pays" principle, the cost of disposing of waste must be borne by the holder who has waste handled by a waste collector or an undertaking and/or by previous holders or the producer of the product giving rise to the waste.

Further, the Waste Framework Directive strengthens waste prevention through the instruments of producer responsibility and waste prevention programs. It also supports the recovery of waste by stating obligations to separate waste and recycling targets for certain types of waste. Furthermore, it establishes a procedure to define criteria for by-products and the end of waste status for specific production processes and waste streams, which will ensure legal certainty and improve the acceptance of quality recycling products. It also clarifies the distinction between energy recovery and disposal of waste by introducing energy efficiency criteria.

*Soil and groundwater contamination*

The Schaeffler Group is liable for soil and groundwater contamination present on sites currently used. Currently, it carries out remediation measures related to soil and groundwater contamination on 16 manufacturing sites. The Schaeffler Group estimates the total costs for such measures at approximately €5.5 million. Moreover, there are at least nine further sites which are suspected for soil and groundwater contamination. It may further be liable for soil and groundwater contamination on former sites as well as adjacent sites. It cannot exclude that remediation measures related to these sites may be required in the future. In addition, the Schaeffler Group cannot exclude that soil and groundwater contamination may be identified on further currently used sites.

On the European level liability for contamination of soil and groundwater has not, to date, been subject to specific regulations or a protection policy. Some soil protection aspects can be found scattered in various legal documents, hence different Community policies can contribute to protect soil. This is the case with many provisions in the existing environmental Community legislation in areas such as water, waste, chemicals, industrial pollution prevention, nature protection and pesticides. However, these provisions do not establish a comprehensive soil protection regime including liability for soil and groundwater contamination. The European Commission therefore strives to establish a common framework to protect soil on the basis of the principles of preservation of soil functions, prevention of soil degradation, mitigation of its effects, restoration of degraded soils and integration in other sectoral policies. It has published a proposal for a directive on soil protection (COM (2006) 232 final dated September 22, 2006). This draft directive deals, *inter alia,* with precautionary measures, an approach to soil sealing, measures to limit the introduction of dangerous substances into the soil and national strategies for remediation of the contaminated sites identified. However, it still remains unclear whether or when a European soil protection regime will enter into force and to which extent it will stipulate provisions concerning soil protection which are stricter than current national requirements. On February 13, 2012, the European Commission has published a report on ongoing activities in the field of soil protection (COM (2012) 46 final) according to which no progress has been made on the implementation of the proposed European directive on soil protection.

For example, in Germany liability for soil and groundwater contamination is laid down in the Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*) in conjunction with the Federal Soil

Protection and Contamination Regulation (*Bundes-Bodenschutz- und Altlastenverordnung*). Both require specific measures if certain thresholds of hazardous substances are exceeded. These measures include that contamination of soil and groundwater must be explored, removed, reduced or, at least, prevented from spreading onto adjacent sites or that its spreading is mitigated in the long term. If there is reasonable suspicion that contamination of soil and groundwater may be present on a site, the authority may order investigation measures to explore the contamination. If the suspicion is confirmed, the authority may order remediation or containment measures.

Under the German Federal Soil Protection Regime, both the present owner and the party currently having control of the premises may be held liable by the authorities to undertake such measures which often imply significant costs. The same applies to the former owner if it transferred ownership after March 1, 1999 and was or must have been aware of the harmful changes to the soil or contamination. Further, if a legal entity is liable for soil and groundwater contamination under the aforementioned provisions it cannot be ruled out that the shareholders in this entity may be held liable (piercing of the corporate veil) in evident cases of circumvention of liability for soil and groundwater contamination. In all cases of liability for soil and groundwater contamination, it may be subject to controversy who actually caused an existing contamination. Although the competent authorities are allowed to address remediation orders against all parties potentially liable for soil and groundwater contamination, they usually aim for the most efficient remediation by addressing such order to the party with the largest financial resources. The "polluter pays principle" is taken into consideration but will be left aside if approaching the polluter may endanger an efficient and quick execution of the ordered measures. If a party is held liable by the authorities for soil and groundwater contamination it may be indemnified by other liable parties under the Federal Soil Protection Act. Yet, contractual agreements under civil law (*e.g.*, guarantees and indemnities) do not protect against authority action. Such agreements may only provide reimbursement. Further, contractual agreements may protect from compensation claims of other liable persons under the Federal Soil Protection Act.

***Water use and protection***

The Schaeffler Group is subject to the regulations on water use and protection (implemented by the applicable national laws) as it extracts water (*e.g.*, from groundwater wells), uses and disposes of it in the course of its production processes.

Directive 2000/60/EC of the European Parliament and of the Council of October 23, 2000, as last amended by Directive 2009/31/EC of the European Parliament and of the Council of April 23, 2009 (the "**Water Framework Directive**"), includes a comprehensive approach to water protection. By means of this Directive, the EU provides for the management of inland surface waters, groundwater, transitional waters and coastal waters in order to prevent and reduce pollution, promote sustainable water use, protect the aquatic environment, improve the status of aquatic ecosystems and mitigate the effects of floods and droughts. Member states must ensure that water pricing policies provide adequate incentives for users to use water resources efficiently and that the various economic sectors contribute to the recovery of the costs of water services, including those relating to the environment and resources. Moreover, member states must introduce arrangements to ensure that effective, proportionate and dissuasive penalties are imposed in the event of breaches of the provisions of this Water Framework Directive. A list of priority substances selected from among the ones which present a significant risk to or via the aquatic environment has been drawn up using a combined monitoring-based and modeling-based procedure.

Groundwater is protected by both Council Directive 80/68/EEC of December 17, 1979 ("**Groundwater Directive**"), which will be repealed by the Water Framework Directive as of December 22, 2013, and the Directive 2006/118/EC of the European Parliament and of the Council of December 12, 2006 ("**Groundwater Daughter Directive**") which is a daughter directive to the Water Framework Directive. In particular, the Groundwater Daughter Directive

lays down detailed quality criteria for the assessment of the groundwater's chemical status including standards set on Community level and requirements for threshold values to be set at member state level. Further, it contains criteria for the identification and reversal of pollution trends and requires member states to establish measures to prevent the input of hazardous substances into the groundwater and limit the introduction of other pollutants. Until the Groundwater Directive is repealed, authorization procedures required under such Directive have to take the requirements of the Groundwater Daughter Directive into account.

***Chemicals and hazardous substances***

*REACH*

"**REACH**" is the Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (Regulation (EC) No 1907/2006 of the European Parliament and of the Council of December 18, 2012, as last amended by Commission Regulation (EU) No 125/2012 of February 14, 2012). As the Schaeffler Group uses several chemical substances and mixtures in the course of its production processes, it is subject to REACH as importer or downstream user. REACH entered into force in stages, firstly on June 1, 2007 to streamline and improve the former legislative framework on chemicals of the EU. Its main objectives include improving the protection of human health and the environment from the risks that can be posed by chemicals and ensuring the free circulation of substances on the internal market of the EU.

REACH places greater responsibility on the industry to manage the risks that chemicals may pose to the health and the environment. Other legislation regulating chemicals (for example, on cosmetics, detergents) or related legislation (*e.g.*, on health and safety of workers handling chemicals, product safety, construction products) not replaced by REACH will continue to apply.

REACH applies to all chemical substances, however, under certain conditions substances are exempted from all or a part of the obligations under REACH. In principle, all manufacturers and importers of chemicals must identify and manage risks linked to the substances they manufacture and market. For substances produced or imported in quantities of one ton or more per year per company, manufacturers and importers need to demonstrate that they have appropriately done so by means of a registration dossier, which shall be submitted to the European Chemicals Agency ("**ECHA**"). ECHA may then check that the dossier is compliant with the Regulation and will evaluate testing proposals to ensure that the assessment of the chemical substances will not result in unnecessary testing, especially on animals. Where appropriate, authorities may also select substances for a broader substance evaluation to further investigate substances of concern.

REACH also foresees an authorization system aiming to ensure that substances of very high concern are adequately controlled, and progressively substituted by safer substances or technologies or only used where there is an overall benefit for society of using the substance. These substances will be prioritized and gradually included in Annex XIV to REACH. Once they are included, the industry will have to submit applications to ECHA on authorization for continued use of these substances which are otherwise prohibited. In addition, EU authorities may impose restrictions on the manufacture, use or placing on the market of substances causing an unacceptable risk to human health or the environment.

Manufacturers and importers must provide their downstream users with the risk information they need to be able to use the substance safely. This will be done via the classification and labeling system and Safety Data Sheets (*SDS*), where needed.

*Handling and transport of hazardous goods*

The Schaeffler Group takes part in the carriage of hazardous goods *e.g.* as loader and unloader of such goods and is therefore subject to specific requirements related to such carriage. For example, at the international level the European Agreement concerning the International Carriage of Dangerous Goods by Road as of September 30, 1957 (*Accord européen relatif au*

*transport international des marchandises Dangereuses par Route,* "**ADR**") as amended on January 1, 2011 includes provisions applicable to the carriage of dangerous goods on roads. Pursuant to ADR, dangerous goods, as a general rule, may be carried internationally in road vehicles subject to compliance with a number of conditions, such as packaging and labeling requirements. Specific dangerous goods (e.g. goods which are poisonous and explosive at the same time) are excluded from carriage on the road. The ADR has been implemented and supplemented by many member states (such as Germany).

***Employee health and safety***

According to national and international provisions, the Schaeffler Group is in most jurisdictions obliged to take measures related to health and safety at work. In general, compliance with employment safety regulations is subject to regulatory supervision.

***Laws on state aid***

State aid may be granted by the EU, the EU member states or state authorities in various forms, including subsidies, loans or guarantees at favorable conditions, or infrastructure measures realized specifically for one company. Pursuant to Article 107 of the Treaty on the Functioning of the European Union, (TFEU), state aid or aid granted through state resources, in any form whatsoever, that distorts or threatens to distort competition by favoring certain businesses or manufacturing sectors, is incompatible with the Common Market of the European Community insofar as it affects trade between member states.

The European Commission verifies on an ongoing basis whether member states are in compliance with the existing rules on state aid. If the European Commission classifies a state aid scheme or single subsidies as prohibited aid, it may order that various measures be taken by the relevant EU member state. In particular, the European Commission could require that the aid be clawed back. In this case, the aid beneficiary will be obliged to return or refund any payments received to the institution that granted the aid. If the prohibited aid was granted under ongoing contracts, the beneficiary will have to repay the subsidy equivalent (*i.e.*, the difference between the fair market price of the performance and the aid granted) or, in certain circumstances, the respective contracts will have to be rescinded. Rescission could entail the premature termination of important contracts.

Part of the Schaeffler Group's investment requirements for developing and expanding its production capacity is covered by state aid, such as subsidies, loans at favorable conditions or tax reductions or exemptions. The respective decisions on granting public aid received by the Schaeffler Group contain various conditions, *e.g.*, regarding the creation of jobs or specific R&D activities.

***Road safety and technical standards***

The Schaeffler Group's products for the automotive sector have to comply with road safety and technical standards and requirements.

For the purpose of (passenger) safety and to ensure the proper functioning of the internal market of the EU, vehicle components and technical units have to comply with various requirements stipulated in a large number of European legal acts. For instance, Directive 2007/46/EC of the European Parliament and of the Council of September 5, 2007 (last amended by Commission Regulation (EU) No 65/2012 of January 24, 2012) established a framework for the approval of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles which member states were required to transpose into national law. In Appendix 4, the Directive lists 63 separate regulatory requirements for the purpose of EC type-approval of various models of vehicles.

A further example is Regulation (EC) No 661/2009 of the European Parliament and of the Council of July 13, 2009 (last amended by Commission Regulation (EU) No 407/2011 of

April 27, 2011), which establishes requirements for the type-approval of motor vehicles and their trailers including systems, components and separate technical units intended therefor with regard to their safety. It includes, *inter alia,* requirements related to steering, braking and electronic stability and, with respect to fuel efficiency and $CO_2$ emissions, for gear shift indicators. As a general rule, this Regulation has come into effect on November 1, 2011.

As part of its "Roadmap on Regulations and Standards for the Electrification of Cars" of December 15, 2010, the European Commission plans to propose electric safety requirements for vehicle-type approval. This standardization process is still ongoing.

***Emissions from vehicles***

Regulatory requirements related to emissions from vehicles as set out below do not apply to the Schaeffler Group or its products directly, but to its customers in the automotive industry. The Schaeffler Group assists these customers to fulfill the regulatory requirements relating to both noise and pollutants emissions by continuously developing its products according to the needs of its customers.

*Noise emissions*

Noise emissions are regulated by Council Directive 70/157/EEC of February 6, 1970, as last amended by Commission Directive 2007/34/EC of June 14, 2007. The Directive lays down limits for the noise level of the mechanical parts and exhaust systems of the vehicles concerned. The limits range from 74 dB(A) for motor cars to 82 dB(A) for high-powered goods vehicles. On December 9, 2011, the European Commission has published a proposal to replace Directive 70/157/EEC by a regulation on the sound level motor vehicles (COM (2011) 856 final) according to which the limits for the noise level will be decreased in three phases, starting two, five and seven years after publication of the regulation. In the final phase, the proposed limits range from 68 dB(A) for light motor cars to 80 dB(A) for high-powered goods vehicles with off-road capabilities.

*Pollutant emissions*

Pollutant emissions are regulated separately for light-duty vehicles (cars and light vans) and for heavy-duty vehicles (trucks and buses). Both categories of vehicles have to comply with various (emission) standards. As regards two- and three-wheelers and quadricycles, the European Commission announced in April 2010 that it will propose a Regulation on type-approval requirements for such vehicles in 2010 that will set emission standards (COM/2010/0186, MEMO/19/153). On May 6, 2011, the Commission's draft of a regulation was presented to the Committee on the Internal Market and Consumer Protection of the European Parliament.

With regard to carbon dioxide emissions of new passenger cars, Regulation (EC) No 443/2009 of the European Parliament and of the Council of April 23, 2009 ("**Regulation 443/2009**") limits the average carbon dioxide emissions of the new car fleet in the EU from 2012 at 130g of carbon dioxide per km by means of improvement in vehicle engine technology. From 2020 onwards, this Regulation sets a target of 95g of carbon dioxide per km for the new car fleet in the European Union. The emissions limit set by Regulation 443/2009 applies to new passenger cars registered in the EU (produced by manufacturers inside or outside the EU) and is calculated as a function of their mass. Manufacturers may form a pool in order to meet their targets. Where two or more manufacturers form a pool, the pool will be treated as if it were one manufacturer for the purposes of determining its compliance with the targets. From 2012 onwards, manufacturers who do not meet their targets must pay an excess emissions premium.

With regard to carbon dioxide emissions of light commercial vehicles (class N1), Regulation (EU) 510/2011 of the European Parliament and of the Council of May 11, 2011 (last amended by Commission Delegated Regulation (EU) No 205/2012 of January 6, 2012) limits the average emissions of the fleet of new vehicles in the EU at 175g of carbon dioxide per km. From 2020 onwards, a target of 147g of carbon dioxide per km for new light commercial vehicles applies

subject to confirmation of its feasibility. Corresponding to Regulation 443/2009, each manufacturer (inside or outside the EU) has to fulfill an individual emissions target calculated on the basis of the individual manufacturer's fleet. Further, from 2014 onwards, manufacturers exceeding their individual target have to pay an excess emissions premium.

Moreover, the European Union aims to promote the use of biofuels as a replacement for diesel or gas in order to reduce greenhouse gas emissions. Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009, which repealed Directive 2003/30/EC as of January 1, 2012, requires the member states to ensure that, as from 2020, the share of energy from renewable sources (*e.g.*, biofuels which includes liquid or gaseous fuels used for transport and produced from biomass, *i.e.*, biodegradable waste and residue from, for example, agriculture and forestry) in all forms of transport is at least 10% of the final consumption of energy in transport in that member state. These legal requirements necessitate the use of modern components.

As part of its "European strategy on clean and energy efficient vehicles" issued in April 2010 (COM/2010/0186, MEMO/10/153), the European Commission aims to promote electric vehicles. For this purpose the Commission will, *inter alia,* elaborate or review relevant regulatory provisions. For example it plans to propose electric safety requirements (cf. above) and to review crash safety requirements and potential risks due to the quietness of electric vehicles. Moreover, the European Commission will consider changes to existing legislation on the recycling of batteries to adjust to new market circumstances.

***Disposal, reuse, recycling and recovery of motor vehicles***

Regulatory requirements related to disposal, reuse, recycling and recovery of motor vehicles as set out below apply to the Schaeffler Group's customers in the automotive industry. Further, the Schaeffler Group is legally obliged to support its customers in fulfilling such requirements. It therefore assists its customers by continuously developing its products according to the needs of its customers.

Directive 2000/53/EC of the European Parliament and of the Council of September 18, 2000, last amended by Commission Directive 2011/37/EU of March 30, 2011, stipulates measures to prevent waste arising from end-of-life vehicles and to promote the collection, re-use and recycling of vehicle components. Waste prevention is the priority objective of the Directive. To this end, it stipulates that vehicle manufacturers supported by material and equipment manufacturers like the Schaeffler Group must (i) endeavor to reduce the use of hazardous substances when designing vehicles; (ii) design and produce vehicles which facilitate the dismantling, re-use, recovery and recycling of end-of-life vehicles; (iii) increase the use of recycled materials in vehicle manufacture; and (iv) ensure that components of vehicles placed on the market after July 1, 2003 do not contain mercury, hexavalent chromium, cadmium or lead, except in a limited number of applications.

***Product safety and liability***

*Product safety*

The Schaeffler Group has to comply with requirements on product safety unless specific provisions apply (*e.g.*, as regards automotive products).

Directive 2001/95/EC of the European Parliament and the Council of December 3, 2001, as last amended by Regulation (EC) No 596/2009 of the European Parliament and of the Council of June 18, 2009, on general product safety applies in the absence of specific provisions among the Community regulations governing the safety of products concerned, or if sectoral legislation is insufficient. Under this Directive, manufacturers must put on the market only products which comply with the general safety requirement. A safe product is one which poses no threat or only a reduced threat in accordance with the nature of its use and which is acceptable in view of maintaining a high level of protection for the health and safety of persons. In addition to

compliance with the safety requirement, manufacturers must provide consumers with the necessary information in order to assess a product's inherent threat, particularly when this is not directly obvious, and take the necessary measures to avoid such threats (for example, withdraw products from the market, inform consumers, recall products which have already been supplied to consumers, etc.). Distributors are also obliged to supply products that comply with the general safety requirement, to monitor the safety of products on the market and to provide the necessary documents ensuring that the products can be traced. If the manufacturers or the distributors discover that a product is dangerous, they must notify the competent authorities and, if necessary, cooperate with them. Unsafe products may be listed in an EU-wide publicly accessible database.

*Product liability*

The Schaeffler Group is subject to provisions on product liability and may therefore be held liable in cases of damage caused by a defective product manufactured by us.

Council Directive 85/374 EEC of July 25, 1985, as amended by Directive 1999/34/EC of the European Parliament and of the Council of May 10, 1999, (the "**Product Liability Directive**") applies to movables which have been industrially produced, whether or not incorporated into another movable or into an immovable. It establishes the principle of objective liability, *i.e.*, liability without fault of the producer, in cases of damage caused by a defective product. Producer means any participant in the production process, the importer of the defective product, any person putting the name, trade mark or other distinguishing feature on the product, and any person supplying a product the actual producer of which cannot be identified. Defectiveness means lack of the safety which the general public is entitled to expect given, *inter alia,* the presentation of the product and the use to which it could reasonably be put. The Product Liability Directive applies to damage caused by death or by personal injuries and damage to an item of property intended for private use or consumption other than the defective product, with a lower threshold of €500 caused by defective products. The Product Liability Directive does not in any way restrict compensation for non-material damage under national legislation.

## Export control regulations

The Schaeffler Group manufactures products (*e.g.*, bearings and power transmissions) which can be used for both civil and military purposes. Such products are defined as dual use goods under Council Regulation (EC) No. 428/2009 of May 5, 2009, as last amended by Regulation (EU) No 1232/2011 of November 16, 2011 ("**Dual-Use-Regulation**") which sets forth an EU wide regime for the control of exports, transfer, brokering and transit of dual-use items. Annex I of the Dual-Use-Regulation includes a comprehensive list of dual-use goods which contains, *e.g.*, specific bearings and power transmissions. The export of such goods to destinations outside the EU requires a permit. The competent national authority has a certain discretion as regards the granting of such permit.

Further, the Schaeffler Group also manufactures products for military purposes such as bearings for helicopters. It therefore has to observe export control regulations relating to military products on national as well as on the EU level. Such export control regulations may require notifications of or permits for exports, but also limit or prohibit the export of its products if specific countries, entities or individuals are the destination of such exports. On EU level, such restrictions are set out in specific regulations on sanctioned countries or individuals.

In addition, export control regulations of specific countries may have an impact on its customer or supply relationships even if these relationships do not relate directly to such countries. As an example, under the U.S. Comprehensive Iran Sanctions, Accountability and Divestment Act ("**CISADA**") the Schaeffler Group may face sanctions in the U.S. if it delivers specific goods to Iran even if no U.S. person or entity are engaged in such delivery and the delivery does not touch U.S. territory.

***Regulations on aeronautical products, parts and appliances***

As the Schaeffler Group manufactures aeronautical products, parts and appliances it has to comply with the following regulatory requirements:

The design, production and maintenance of aeronautical products, parts and appliances is regulated by Regulation (EC) No 216/2008 of the European Parliament and of the Council of February 20, 2008, as last amended by Regulation (EC) No 1108/2009 of the European Parliament and of the Council of October 21, 2009 ("**Regulation 216/2008**") as a basic regulation. Detailed requirements for the design and production of aeronautical products are provided by Commission Regulation (EC) No 1702/2003 of September 24, 2003, as last amended by Commission Regulation (EC) No 1194/2009 of November 30, 2009 ("**Regulation 1702/2003**"). Further, detailed requirements for the maintenance of aeronautical products are included in the Commission Regulation (EC) No 2042/2003 of November 20, 2003, as last amended by Commission Regulation (EU) No 1149/2011 of October 21, 2011 ("**Regulation 2042/2003**").

Under Regulation 1702/2003, an organization responsible for the design of products, parts and appliances related to aircraft requires a design organization approval ("**DOA**") according to the Annex to Regulation 1702/2003 (so-called "**Part 21**"), Subpart J. The holder of DOA is entitled to perform design activities under Part 21 within the scope approved in the DOA. Further, the European Aviation Safety Agency will accept specific compliance documents submitted by the holder of the DOA without further verification.

The production of several products, parts and appliances related to aircraft requires a production organization approval ("**POA**") according to Part 21, Subpart. G. The POA demonstrates conformity of the manufactured products, parts and appliances with their applicable design data.

In addition, organizations involved in the maintenance of large aircrafts and related components require a maintenance organization approval ("**MOA**") according to Annex II to Regulation 2042/2003 (so-called "**Part-145**"). The holder of a MOA is entitled to, for example, maintain any aircraft or component at the sites for which the holder is approved according to the MOA and the maintenance organization exposition relating to the MOA.

***Regulations on products for rail vehicles***

As the Schaeffler Group manufactures products for rail vehicles it has to comply with the following regulatory requirements:

Products for rail vehicles are subject to several regulations on EU level. Directive 2008/57/EC of the European Parliament and of the Council of June 17, 2008, as last amended by Commission Directive 2011/18/EU of March 1, 2011, sets out requirements which have to be fulfilled by railway systems in order to achieve interoperability on specific railway lines within the trans-European transport network included in Decision No 661/2010/EU of the European Parliament and of the Council of July 7, 2010 ("**TEN-T**"). These requirements concern the design, construction, placing in service, upgrading, renewal, operation and maintenance of the parts of this system and are further specified by technical specifications for interoperability ("**TSI**"). The TSI are drafted for both the high speed as well as the conventional railway system.

As regards the high speed railway system, TSI for the rolling stock subsystem ("**RST**") have been published on May 30, 2002 and revised by Commission Decision 2008/232/EC of February 21, 2008. Further, applicable technical standards for RST have been published by the European Railway Agency ("**ERA**") on November 13, 2008.

Concerning the conventional railway system, TSI relating to locomotives and passenger rolling stock were published by Commission Decision 2011/291/EU on May 26, 2011. In addition, TSI on freight wagons were published on July 28, 2006 and amended by Commission Decision 2009/107/EC of January 23, 2009. Applicable technical standards for these TSI have been published by ERA on December 8, 2008.

Products for rail vehicles which are not designated for operation within TEN-T are subject to national regulations.

## Regulations on medical devices

The Schaeffler Group manufactures accessories for medical devices (*e.g.*, bearing support systems for computer tomography) and is therefore obliged to comply with the requirements of Council Directive 93/42/EEC of June 14, 1993 last amended by Directive 2007/47/EC of the European Parliament and of the Council of September 5, 2007, (the "**Medical Devices Directive**"). Under the Medical Devices Directive, accessories for medical devices are treated as medical devices in their own right. Hence, Schaeffler Group products have to fulfill specific requirements set out in Annex I of the Medical Devices Directive, in particular as regards product safety and reliability. Further, its products must be CE-marked and are therefore required to pass a conformity assessment the conditions of which are specified in the Medical Devices Directive.

## Regulatory framework for Schaeffler Group products in the United States of America

There are numerous regulations that govern the automotive, aviation and railway sectors in the United States. Vehicles, aircraft, rail cars and their components have to comply with numerous standards that were enacted for safety and environmental reasons. Many of Schaeffler Group products must conform to these standards and regulations.

### *Road safety and technical standards*

The National Highway Traffic Safety Administration ("**NHTSA**") issues Federal Motor Vehicle Safety Standards ("**FMVSS**") to which manufacturers of vehicle equipment must conform. The first standard became effective on March 1, 1967, and NHTSA has issued new standards on a regular basis.

The NHTSA regulations relate primarily to crash avoidance and crashworthiness and cover a wide variety of automotive products and systems, including windshield wipers, brakes, hydraulic systems, tires, mirrors, seat belts, head restraints and fuel systems. In general, the regulations are written in terms of minimum safety performance requirements for motor vehicles or items of motor vehicle equipment. These requirements are specified in such a manner that the public is protected against unreasonable risk of crashes occurring as a result of the design, construction, or performance of motor vehicles and is also protected against unreasonable risk of death or injury in the event crashes do occur.

NHTSA also regularly revises existing standards for the purpose of accelerating the introduction of new automotive technologies. In 2007, a final rule established FMVSS No. 126, which required the installation of electronic stability control ("**ESC**") systems on passenger cars, multipurpose passenger vehicles, trucks and buses with a gross vehicle weight rating of 10,000 pounds or less. According to NHTSA, ESC systems use automatic computer-controlled braking of individual wheels to assist the driver in maintaining control in critical driving situations in which the vehicle is beginning to lose directional stability at the rear wheels (spin out) or directional control at the front wheels (plow out). With certain exceptions, 100% of model year 2012 vehicles covered by the standard must have an ESC system.

In 2009, NHTSA released a new braking standard for truck tractors. The standard requires that a tractor-trailer travelling at 60 miles per hour come to a complete stop in 250 feet. The old standard required a complete stop within 355 feet. This revised standard will require manufacturers to incorporate advanced brake technology into new truck tractors equipped with air brakes.

NHTSA also responds to legislative mandates. In 2000, the U.S. Congress passed the Transportation Recall Enhancement, Accountability, and Documentation Act ("**TREAD Act**") that directed NHTSA to adopt a new regulation requiring vehicle and tire manufacturers to provide

quarterly reports to NHTSA of death and injury claims and notices and the numbers of warranty claims, consumer complaints, property damage claims and field reports received by those manufacturers about all motor vehicles and tires sold by them in the ten years prior to the report. These rules were adopted in 2002.

The TREAD Act also required NHTSA to adopt new standards improving the safety performance of passenger vehicle tires in several critical areas. As a result of this latter mandate, in 2003, NHTSA issued a final rule to improve tire safety, concentrating particularly on tire endurance and speed performance to reduce failure. The TREAD Act also required NHTSA to adopt new standards related to tire pressure monitoring systems, which has been accomplished. All new light duty vehicles sold in the United States must be equipped with tire pressure monitoring systems that comply with the new NHTSA standard.

In 2010, following a series of high-profile recalls by Toyota relating to an unintended acceleration defect, the House of Representatives and the Senate each introduced slightly different versions of a bill to require motor vehicle safety standards relating to vehicle electronics. The draft "Motor Vehicle Safety Act 2010" would have required NHTSA to initiate rule-making proceedings aiming at the adoption of additional new motor vehicle safety standards, including braking systems capable of overriding the accelerator, minimum floor pedal distances and electronic systems performance requirements, as well as enhanced NHTSA hazard response authority and consumer notice provisions. Although this legislation has not moved forward in the Congress, the NHTSA has announced its intention to pursue key elements of the proposals, including considering rule-making on topics such as brake override systems, keyless ignition systems, pedal placement, and crash event data recorders.

Among NHTSA's other stated vehicle safety objectives for the next two years are research and potential rule-making on advanced technologies for collision avoidance, automatic braking, vehicle communications, lane departure prevention, blind spot and pedestrian detection, as well as stability control for heavy vehicles and additional occupant protection measures.

There are also state laws dealing with product safety and liability that apply to vehicles and vehicle parts. The exact standards can differ across state jurisdictions.

***Emissions from Vehicles***

NHTSA regulates fuel economy through the Corporate Average Fuel Economy ("**CAFE**") standards that apply to passenger vehicles and light trucks. The CAFE regulations were enacted in 1975 and were first used to set fuel economy standards in 1978. The CAFE fuel economy standards, which take into account technological feasibility, economic practicality, the effect of other standards on fuel economy, and the need of the nation to conserve energy, are set years in advance of production to allow manufacturers time to comply with the standards. The standards apply to the average of a manufacturer's fleet of vehicles, rather than to each individual vehicle.

Fuel economy standards were dramatically impacted by the Energy Independence and Security Act of 2007 (EISA). The Act set a goal for national fuel economy of 35 miles per gallon for both cars and light trucks by 2020. Thus, NHTSA must periodically raise CAFE standards to meet this goal, and recent developments indicate that more ambitious goals may still be evolving within government and the industry.

On April 1, 2010, NHTSA and the Environmental Protection Agency ("**EPA**") finalized a joint final rule entitled "Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards." The joint final rule sets CAFE standards for passenger cars, light-duty trucks and medium-duty passenger vehicles with model years 2012-2016. They require these vehicles to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, or 35.5 miles per gallon, if the automakers were to meet this carbon dioxide level solely through fuel economy improvements.

Furthermore, on August 9, 2011, the NHTSA and the EPA established similar fuel efficiency and greenhouse gas emissions rules for medium and heavy duty trucks with model years 2014 through 2018. They also plan to soon propose CAFE and greenhouse gas emissions standards for light duty vehicles with model years 2017 through 2025, and President Obama recently announced a fuel standards agreement with thirteen major automakers to pursue increasing fuel economy to 54.5 miles per gallon for cars and light duty trucks by model year 2025.

***Aviation equipment standards***

The Federal Aviation Administration ("**FAA**") issues and enforces regulations and minimum standards covering manufacturing, operating and maintaining aircraft. Among other key roles with respect to regulating civil, commercial and military aviation, the FAA is charged with ensuring the safety and environmental acceptability of U.S.-registered civil aircraft operating in air commerce as well as airworthiness certification or acceptance of civil aeronautical products imported into the United States.

The FAA prescribes and periodically revises minimum standards of safety for appliances and for the design, material, construction, quality of work, and performance of aircraft, aircraft engines and propellers.

The Schaeffler Group currently maintains an Air Agency Certificate issued by the FAA for operation of an approved repair station in Germany, pursuant to Part 145 of Title 14 of the Code of Federal Regulations and a Bilateral Aviation Safety Agreement between the United States and the European Community on Cooperation in the Regulation of Civil Aviation Safety.

## Regulatory framework for Schaeffler Group products in Japan

In Japan, vehicles need a "type approval," *i.e.*, new models have to be registered with the competent authority, before they may be operated on public roads. The Road Trucking Vehicle Act (Act No. 185 of 1951, as amended; the "**RTVA**") provides for detailed safety requirements which a new vehicle model has to meet for its approval. The safety requirements under the RTVA cover a broad range of items, such as standards for tires, brakes, locks, wheels, petrol tanks, body structure, seat belts, air-bags, lights, etc. The Ministry of Land, Infrastructure, Transport and Tourism (the "**MLIT**") publishes notices which provide for more detailed technical specifications.

The levels of carbon dioxide emissions of vehicles are regulated in connection with the levels of fuel efficiency. The MLIT publishes a list of target levels of fuel efficiency classifying these levels by vehicle type and weight in accordance with the relevant guidelines. These guidelines are based on the Act on the Rational Use of Energy (Act No. 49 of 1979, as amended), which is under the jurisdiction of the Ministry of Economics, Trade and Industry (the "**METI**"). The MLIT and the METI have been tightening the target levels of fuel efficiency according to the so-called "Top Runner Method." Under this method, the levels of fuel efficiency are determined on the basis of the expected future technology level considering the most efficient vehicle in the respective category of currently commercialized vehicles. The MLIT and the METI published new "Top Runner" efficiency standards regarding (i) heavy vehicles (trucks and buses) and (ii) passenger vehicles, small buses and small cargo vehicles in July 2007, both with the target to achieve the respective standards by 2015. For example, the actual target for passenger cars is to increase fuel efficiency by 2015 by 23.5% compared to the level of fuel efficiency as of 2004. This is equivalent to an increased average level of fuel efficiency from 13.6 km/liter to 16.8 km/liter. Manufacturers or importers of automobiles have to improve the energy efficiency of vehicles accordingly. If levels provided in the above-mentioned list are not met by a manufacturer or importer, the METI may recommend such manufacturer or importer to improve the efficiency of their vehicles. If the manufacturer or importer does not properly react to the recommendation of the METI, the METI may disclose its name to the public, *e.g.*, through a publication on METI's website and/or give an order to react in accordance with the

recommendation. If the manufacturer or importer does not comply with the order, they would be fined up to JPY1 million. However, so far there are no precedents of such disclosures or any further measures taken by the METI and the MLIT to react to a manufacturer's or importer's non-compliance with METI's recommendations.

In addition, the RTVA and various regulations issued by municipal governments regulate the emission of other toxic gases, such as smoke, nitrogen oxide and carbon monoxide, etc.

Under the Civil Aeronautics Act of Japan (Act No. 231 of 1952, as amended), no person, in principle, may operate an aircraft which does not have a valid airworthiness certificate. To issue such certificate, the authorities shall inspect the design, manufacturing process and current conditions of an aircraft to check whether the aircraft complies with certain standards (*e.g.*, standards with regard to strength, structure and performance to ensure the safety of an aircraft, noise standards, standards with regard to emissions from engines). Certain inspections can be omitted in relation to an aircraft in a type which has a valid type certificate, an aircraft which previously had a valid airworthiness certificate, etc.

# General Information on the Issuer

## History and development

The legal and commercial name of the Issuer is Schaeffler Finance B.V.

Schaeffler Finance B.V. was incorporated on October 14, 2011 for an indefinite period of time under the laws of the Netherlands. It is registered at the Dutch Commercial Register. Schaeffler Finance B.V.'s registration number is 53761790.

Schaeffler Finance B.V.'s registered office is located at Gildeweg 31, 3771 NB Barneveld, The Netherlands. Its phone number is +31 (0)342—403288.

Schaeffler Finance B.V. is incorporated as a private limited liability company under the laws of the Netherlands.

On February 9, 2012, Schaeffler Finance B.V. issued €800,000,000 principal amount of its 7.75% Senior Secured Notes due 2017, $600,000,000 principal amount of its 7.75% Senior Secured Notes due 2017, €400,000,000 principal amount of its 8.75% Senior Secured Notes due 2019 and $500,000,000 principal amount of its 8.50% Senior Secured Notes due 2019 (together, the "**Existing Notes**"). Since this issuance there have been no relevant recent events particular to Schaeffler Finance B.V. which are to a material extent relevant to the evaluation of Schaeffler Finance B.V.'s solvency.

## Articles of association

Pursuant to Article 3 of the Articles of Association of Schaeffler Finance B.V. dated October 14, 2011, it is the objective of Schaeffler Finance B.V. to (i) borrow, lend and raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned activities; (ii) incorporate, participate in any way whatsoever in, manage or supervise businesses and companies; (iii) finance businesses and companies; (iv) render advice and services to businesses and companies with which the Issuer forms a group and to third parties; and (v) grant guarantees, bind the Issuer and pledge its assets for obligations of businesses and companies with which it forms a group and on behalf of third parties.

## Business activity

The Issuer has been established as a special purpose vehicle for the purpose of financing transactions, such as the issuance of the Existing Notes and the issuance of the Notes.

## Selected financial information

The Issuer has been established on October 14, 2011 and its audited financial statements for the year ended December 31, 2011 cover the period from October 14, 2011 to December 31, 2011. The Issuer's current and fixed assets as of December 31, 2011 amount to €18,661. Its shareholders' equity amounts to €18,000 issued capital less €5,562 unappropriated result (retained profit) as of December 31, 2011. Its net cash flow (changes in cash and cash equivalents) amounts to €16,402 as of December 31, 2011. The Issuer is a special purpose vehicle and acts as a financing company for the Schaeffler Group with regard to its funding needs through borrowing, lending and fundraising. Please see *"Selected financial information"* for the key performance indicators of the Schaeffler Group.

## Organizational structure

Schaeffler Finance B.V. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

## Administrative, management and supervisory bodies

Schaeffler Finance B.V. is managed by a management board, which is comprised of two members: Cornelis Bol (56) and Dietmar Heinrich (48).

Cornelis Bol is also CFO of Schaeffler Nederland Holding B.V., Schaeffler Nederland B.V. and Radine B.V. Dietmar Heinrich is also CFO of the Schaeffler Group Europe (employed by Schaeffler Technologies AG & Co. KG). He is also a member of the supervisory boards of FAG Magyarorszag Ipary KFT and Schaeffler Portugal S.A. Besides these activities, there are no principal activities performed by the managing directors outside of Schaeffler Finance B.V.

Schaeffler Finance B.V. is represented by its management board. If the management board consists of two or more managing directors, any two managing directors acting jointly shall also be authorized to represent the Issuer.

The members of the Issuer's managing board may be contacted at Schaeffler Finance B.V., Gildeweg 31, 3771 NB Barneveld, The Netherlands.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler Finance B.V. and their private interests and/or other duties.

## Board practices

Schaeffler Finance B.V. is not an exchanged-listed company, therefore, the Dutch corporate governance code, as amended from time to time, is not applicable. Accordingly, Schaeffler Finance B.V. is not required to make and has not made a declaration of conformity pursuant to Article 2:391, paragraph 5, of the Netherlands Civil Code.

## Share capital

The authorized share capital of Schaeffler Finance B.V. as of December 31, 2011 amounts to €90,000, divided into 90,000 shares of €1.00 nominal value each. The issued capital of Schaeffler Finance B.V. as of December 31, 2011 amounts to €18,000, divided into 18,000 shares with a nominal value of €1.00 each, all of which are fully paid up. All shares are registered.

Due to the issuance of the Existing Notes, the Issuer's indebtedness is approximately €2,000 million as of March 31, 2012.

## Financial statements

The financial year of the Issuer shall begin on January 1 and shall terminate on December 31 of the same year.

The first audited financial statements of the Issuer were produced in relation to the financial year ended December 31, 2011. As of the date of the Prospectus, the Issuer has not produced any interim reports. In the future, the Issuer will produce interim reports as required by Directive 2004/109/EC dated December 15, 2004, as amended (the "**Transparency Directive**").

Besides the proceeds received through the issuance of the Existing Notes, the Issuer does not have any material assets and liabilities.

## Statutory auditors

The independent auditors of the Issuer for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

## Trend information

There has been no material adverse change in the prospects of Schaeffler Finance B.V. since December 31, 2011.

## Legal and arbitration proceedings

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

## Significant change in the financial or trading position of the Issuer

Except for the issue of the Existing Notes, there has been no significant change in the financial or trading position of the Issuer since December 31, 2011.

## Rating

The Issuer has commissioned Standard & Poor's Ratings Services ("**Standard & Poor's**") and Moody's Investors Service ("**Moody's**") to rate the Notes. The rating will be issued prior to the International Offering Closing Date.

The rating will be issued by credit rating agencies established in the European Community and registered under Regulation 1060/2009/EC of the European Parliament and the Council of September 16, 2009 on credit rating agencies, as amended pursuant to Regulation 513/2011/EU of the European Parliament and the Council of May 11, 2011 (the "**CRA Regulation**"). Each of Standard & Poor's, Moody's and Fitch Ratings is established in the European Community and has been registered in accordance with the CRA Regulation. The full list of Credit Rating Agencies that are registered under the CRA Regulation can be found on ESMA's website (*www.esma.europa.eu*).

# General Information on the Parent Guarantor

## History and development

Schaeffler AG (until October 13, 2011, Schaeffler GmbH and, until June 28, 2010, Schaeffler Verwaltung Zwei GmbH) was founded on September 29, 2009 and is registered in the Commercial Register of the Fürth Local Court (*Amtsgericht*) under HRB 13202. The Parent Guarantor's registered office and principal place of business is Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0) 9132 82-0.

The duration of the Parent Guarantor is perpetual (Section 3 of the Parent Guarantor's Articles of Association).

## Articles of association

Pursuant to Section 2 of the Parent Guarantor's Articles of association, the Parent Guarantor is a management holding company which pools other companies under a uniform leadership. The Parent Guarantor may set up subsidiaries and may incorporate, form or acquire other companies.

## Organizational structure

The Parent Guarantor is the parent company of Schaeffler Technologies AG & Co. KG, the operational entity of the Schaeffler Group. The ultimate parent company of the Schaeffler Group is INA-Holding Schaeffler GmbH & Co. KG ("**IHO**") which, jointly with its subsidiaries and affiliates, *i.e.*, including any member of the Schaeffler Group, is referred to as the "**IHO Group.**" For a more detailed description of the Schaeffler Group's corporate structure and certain debt obligations, please see *"Summary—Summary of the Schaeffler Group's corporate and debt structure."*

## Administrative, management and supervisory bodies

The Parent Guarantor's governing entities are the board of managing directors (*Vorstand*), the supervisory board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The powers vested in these bodies are governed by the German Stock Corporation Act (*AktG*) and the Articles of Association (*Satzung*).

Schaeffler Group is managed by its board of managing directors and its executive board.

***Board of managing directors***

The board of managing directors is responsible for managing the Parent Guarantor in accordance with applicable laws, and the provisions of the Articles of Association, taking into account the resolutions adopted by the general shareholders' meeting. The board of managing directors represents the Parent Guarantor in its dealings with third parties. The board of managing directors is required to ensure the establishment and operation by the Parent Guarantor of an appropriate risk management and internal monitoring system facilitating the timely identification of developments that might jeopardize the continued existence of the Parent Guarantor. The board of managing directors is obligated to report to the supervisory board. In particular, the board of managing directors is obligated to inform the supervisory board on a regular, timely and comprehensive basis about all issues of relevance to the Parent Guarantor with respect to planning, the course of business, risks, risk management, and strategic measures. In this regard, the board of managing directors is also required to describe and explain any deviations in the course of business from plans and targets that have been set. In addition, the chairman of the supervisory board is to be advised of any other important developments. Furthermore, the supervisory board may at any time request a report concerning the affairs of the Parent Guarantor.

Members of the board of managing directors are appointed by the supervisory board and can be dismissed for good cause. The supervisory board is required to supervise and advise the board of managing directors in its management of the Parent Guarantor. Generally, a member of the Parent Guarantor's supervisory board cannot simultaneously serve as a member of its board of managing directors. For a limited period of time set in advance and not exceeding one year, the supervisory board can appoint members of the supervisory board to act in place of members of the board of managing directors who are absent or incapacitated. While serving in lieu of board of managing directors members, a supervisory board member is not permitted to perform any function as a supervisory board member. Under German stock corporation law, management tasks may not be assigned to the supervisory board.

The members of the board of managing directors and the supervisory board have a duty of care and loyalty to the Parent Guarantor. A broad spectrum of interests, especially those of the Parent Guarantor, its shareholders, employees, creditors, and the general public must be taken into account when discharging these duties. The board of managing directors must take particular account of the rights of shareholders to equal treatment and equal information.

The following table sets forth certain information concerning the members of the board of managing directors *(Vorstand).*

| Name | Age | Position | Appointed Until |
|---|---|---|---|
| Dr. Jürgen M. Geißinger | 52 | Chairman, CEO | 12/31/2014 |
| Wolfgang Dangel | 48 | Head of the Automotive Division | 09/30/2015 |
| Prof. Dr. Peter Gutzmer | 58 | Head of Research and Development | 12/31/2014 |
| Kurt Mirlach | 55 | Head of Human Resources and Labor Director | 12/31/2015 |
| Klaus Rosenfeld | 46 | CFO | 09/30/2016 |
| Robert Schullan | 54 | Head of the Industrial Division | 12/31/2015 |

The members of the board of managing directors can be contacted at the Parent Guarantor's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

The above members of the board of managing directors do not have potential conflicts of interest between any duties to the Parent Guarantor and their private interests or other duties.

**Dr. Jürgen M. Geißinger** is Schaeffler Group's CEO. He studied mechanical engineering at the University of Stuttgart where he also received his doctorate in engineering in 1989. He previously worked at Heidelberger Druckmaschinen AG and held various positions as officer and managing director at ITT Automotive, ITT Industries Europe and ITT Industries, Inc., USA. Since 1998, Dr. Geißinger has been president and CEO of INA-Holding Schaeffler KG and, since 2001, additionally president and CEO of FAG Kugelfischer Georg Schäfer AG in Schweinfurt. In 2004, he became chairman of the FAG's board of directors. He is also the vice president of the VDA (*Verband der Automobilindustrie*—German Association of the Automotive Industry) and a member of the supervisory board of MTU Aero Engines, Munich. Since 2012, Dr. Geißinger is also a member of the board of directors of Sandvik AB, Stockholm.

**Wolfgang Dangel** is Schaeffler Group's Head of the Automotive Division and president of the Business Division Chassis Systems. He studied business administration and finance at the University of Munich as well as economics at the University of Applied Sciences in Rosenheim. He has held various positions at Mannesmann and Bosch Rexroth and previously served as president and CEO of Bosch Rexroth Corporation. Since 2007, he has been president of Schaeffler Group Asia/Pacific.

**Prof. Dr. Peter Gutzmer** is Schaeffler Group's Head of Research and Development. He studied mechanical engineering at the University of Stuttgart. He held various positions at Porsche Automobil SE. From 2009 to 2010, he was executive vice president of Continental powertrain and president of Continental AG's business unit engine systems. Since 2001, he has served as a board member of Schaeffler Group and also as Chief Technology Officer.

**Kurt Mirlach** is Schaeffler Group's Head of Human Resources and Labor Director. He studied economics at the University of Augsburg. He was previously human resources director at Digital Equipment GmbH, Porsche Weissach and Audi Neckarsulm. Since 1999, he has been head of human resources of INA Group, and since 2003, he has served as board member for human resources of Schaeffler Group.

**Klaus Rosenfeld** is Schaeffler Group's CFO. He studied business administration and economics at the University of Münster after a trainee program at Dresdner Bank. He rejoined Dresdner Bank where he held, amongst others, various positions in the Investment Banking division and the Finance and Controlling department. From 2002 to 2009, he was a member of the board of managing directors of Dresdner Bank AG and CFO of Dresdner Bank Group.

**Robert Schullan** is Schaeffler Group's Head of the Industrial Division. He studied mechanical engineering at Munich University of Applied Sciences. He joined the Schaeffler Group in 1985, where he held various positions. In 1998, he was appointed executive vice president of the Schaeffler Group. In 2004, he also became CEO at FAG Kugelfischer AG. Robert Schullan, together with Rainer Hundsdörfer, is jointly responsible for the Industrial Division of Schaeffler Group. He further represents the interests of sector colleagues outside the Parent Guarantor within the association VDMA (*Verband Deutscher Maschinen- und Anlagenbau*—German Engineering Federation).

The aggregate compensation of the Schaeffler AG's executive board (in its then current composition) for the fiscal year ended December 31, 2011 was €18.9 million (2010: €16.9 million; 2009: €13.1 million) and comprised for the fiscal year ended December 31, 2011 short-term employee benefits of €17.2 million (prior year: €15.9 million) including €10.2 million to members of the statutory board of directors and post-employment benefits of €1.7 million (prior year €1.0 million).

Schaeffler Group's main operating entity Schaeffler Technologies AG & Co. KG is managed by an executive board comprising the six members of the Parent Guarantor's board of managing directors as well as the five managing directors of INA Beteiligungsgesellschaft mit beschränkter Haftung. The five managing directors of INA Beteiligungsgesellschaft mit beschränkter Haftung are:

| Name | Age | Position |
|---|---|---|
| Rainer Hundsdörfer . . . . . | 54 | Head of Industrial Operations |
| Norbert Indlekofer . . . . . | 54 | Head of Transmission Systems |
| Oliver Jung . . . . . | 50 | Head of worldwide Operations and Development of Production Methods |
| Prof. Dr. Peter Pleus . . . . . | 57 | Head of Engine Systems |
| Dr. Gerhard Schuff . . . . . | 59 | Head of Purchasing |

**Rainer Hundsdörfer** is Schaeffler Group's Head of Industrial Operations. He studied mechanical engineering and business administration at Esslingen University of Applied Sciences. He previously worked at Fife Europe and Trumpf GmbH & Co. KG. From 2003 to 2008, he was president and CEO of Weinig AG. Mr. Hundsdörfer, together with Robert Schullan, is jointly responsible for the Industrial Division of Schaeffler Group. He is also president of Schaeffler Group Aerospace.

**Norbert Indlekofer** is Schaeffler Group's Head of transmission systems within the Automotive Division. He studied control technology of machine tools and automobiles at the University of Stuttgart. He held various positions at ZF Friedrichshafen and LuK. In 2004, he became president of the Transmission and Chassis-Systems business divisions and was appointed president and CEO of the LuK Group in 2006. From 2005 until the end of 2011, Mr. Indlekofer, together with Dr. Peter Pleus, have been jointly responsible for the Automotive Division of the entire Schaeffler Group. At the end of 2011, Mr. Indlekofer was appointed as a member of the executive board and president of the Transmission Systems Business Division.

**Oliver Jung** is Schaeffler Group's Head of worldwide operations and the development of production methods. He studied mechanical engineering at Karlsruhe University. He held various positions at Robert Bosch GmbH until he became a member of Schmitz Cargobull AG's management board, where he was responsible for production and quality management.

**Prof. Dr. Peter Pleus** is Schaeffler Group's Head of engine systems within the Automotive Division. He studied mechanical engineering at the Swiss Federal Institute of Technology, where he received his doctorate in technical science. He has held various positions at Pleuco GmbH and Mahle Ventiltrieb GmbH. He joined the Schaeffler Group in 2001 as a member of the management board for the Automotive Division. In 2005, he became president of the engine systems business division. From 2005 until the end of 2011, Prof. Dr. Pleus, together with Norbert Indlekofer, have been jointly responsible for the Automotive Division of the entire Schaeffler Group. At the end of 2011, Prof. Dr. Pleus was appointed a member of the executive board and president of Engine Systems Business Division.

**Dr. Gerhard Schuff** is Schaeffler Group's Head of purchasing. He studied business administration at Freie Universität Berlin and engineering at Technische Universität Berlin. For 20 years, he worked at BMW AG and BMW Group in various positions, including head of the purchasing division and head of the powertrain department. Prior to joining Schaeffler Group, his most recent position at BMW Group was head of accessories and aftermarket business. Mr. Schuff is also a member of the supervisory board of SupplyON AG.

The executive board meets from time to time with the three regional heads of Asia/Pacific, North America and South America. The executive board and the three regional heads form the extended executive board. The members of the executive board can be contacted at the Parent Guarantor's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

***Supervisory board***

In accordance with Section 10(1) of the Parent Guarantor's Articles of Association and the German Codetermination Act (*Mitbestimmungsgesetz*), the supervisory board comprises 20 members. Ten members are elected by the shareholders and ten members are elected by the employees according to the Codetermination Act.

The supervisory board elects a chairman and one or more deputy chairmen from among its members for the duration of their term of office on the supervisory board. If the chairman or a deputy chairman resigns during his term of office, the supervisory board will elect a successor without delay.

Pursuant to Section 13(1) of the Parent Guarantor's Articles of Association, the supervisory board reaches a quorum if not fewer than half its members participate in the voting. If a member of the supervisory board is unable to attend the meeting, he/she may authorize another member of the supervisory board to pass on his/her vote prepared by him/her in writing.

Meetings of the supervisory board shall be presided over by the chairman of the supervisory board or, in the event of his being unable to attend, his deputy. The chairman of the meeting shall decide on the manner of voting. Resolutions of the supervisory board shall be taken by a majority of the votes cast, save as otherwise provided for by law. Where voting results in a tie, a further vote shall be carried out on a motion by the chairman of the supervisory board or another member of the supervisory board, to the extent permitted by law. If this second voting also results in a tie, the chairman of the supervisory board shall have the casting vote in accordance with Section 29(2) of the German Codetermination Act. If the chairman so stipulates, and provided no member of the supervisory board objects to such stipulation within a reasonable time period set by the chairman and not exceeding one week, resolutions can be adopted, without a meeting being called, by writing, telex or telephone voting as well as by voting with the help of other means of telecommunication.

The by-laws of the supervisory board contain further rules governing the confidentiality of the supervisory board members and the avoidance of conflicts of interest.

The following table sets forth certain information concerning the members of the supervisory board.

| Name | Age | Position |
|---|---|---|
| Georg F. W. Schaeffler (Chairman) | 47 | Owner of the Schaeffler Group |
| Maria-Elisabeth Schaeffler (Deputy Chairperson) | 70 | Owner of the Schaeffler Group |
| Jürgen Wechsler (Deputy Chairperson) | 56 | Regional Director of IG Metall Bavaria |
| Prof. Dr. Hans-Jörg Bullinger | 68 | President of Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V. |
| Dr. Eckhard Cordes | 61 | Chairman of the Committee on Eastern European Relations |
| Dr. Hubertus Erlen | 69 | Member of various supervisory and advisory boards |
| Prof. Dr. Bernd Gottschalk | 69 | Managing Partner of AutoValue GmbH |
| Jochen Homburg | 46 | Attorney and Head of Department, IG Metall |
| Franz-Josef Kortüm | 61 | CEO of Webasto AG |
| Norbert Lenhard | 55 | Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the local works council, Schweinfurt plant, Schaeffler Technologies AG & Co. KG |
| Dr. Siegfried Luther | 67 | Managing Director of Reinhard Mohn Verwaltungs GmbH |
| Thomas Mölkner | 49 | Chairman of the European works council, Schaeffler Group and Chairman of the local works council, Herzogenaurach plant, Schaeffler Technologies AG & Co. KG |
| Wolfgang Müller | 64 | Trade Union Secretary of IG Metall, area headquarters Bavaria |
| Tobias Rienth | 47 | Chairman of the works council, Bühl |
| Stefanie Schmidt | 38 | Chairwoman of the local works council, Wuppertal plant, Schaeffler Technologies AG & Co. KG |
| Dirk Spindler | 47 | Chairman of the corporate spokesmen committee of the executive staff, Schaeffler Technologies AG & Co. KG and Senior Vice President Corporate Development, Schaeffler Technologies AG & Co. KG |
| Robin Stalker | 54 | CFO of adidas AG |
| Salvatore Vicari | 45 | Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG |
| Dr. Otto Wiesheu | 67 | President of the Economic Advisory Board of Union e.V. |
| Jürgen Worrich | 57 | Chairman of the central German works council, Schaeffler Group |

The members of the supervisory board can be contacted at the Parent Guarantor's business address: Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

The above members of the supervisory board do not have potential conflicts of interest between any duties to the Parent Guarantor and their private interests or other duties.

**Georg F. W. Schaeffler** is the owner of the Schaeffler Group. He studied business administration at the University of St. Gallen in Switzerland and holds a law degree from Duke University in the United States. He has held various positions at Schaeffler Group and previously worked as a business lawyer in the United States. He is also a member of the supervisory board of Continental AG and a member of its executive committee.

**Maria-Elisabeth Schaeffler** is the owner of the Schaeffler Group. She studied medicine at Vienna University. She is a supervisory board member of Continental AG as well as a supervisory board member of Österreichische Industrieholding AG. She has been a member of the board of directors of the German Chamber of Commerce in Austria since 2003 and has been the vice president of the German Chamber of Commerce since December 2007.

**Jürgen Wechsler** is the regional director of IG Metall Bavaria. He completed his trainee program as an engineer at Siemens in 1974. Since 1972, he has been a member of IG Metall. From 1974 to 1989, he worked for Siemens Trafo Union. Since 1989, he has held various positions at IG Metall.

**Prof. Dr. Hans-Jörg Bullinger** is the president of Fraunhofer Gesellschaft zur Förderung angewandter Forschung e.V. He studied mechanical engineering at the University of Stuttgart after completing his trainee program at Daimler-Benz AG. In 1975, he became head of planning at Fraunhofer IPA and, in 2002, he became director of the Fraunhofer IAO institute. Since 1980, he has been a professor of ergonomics at the University of Hagen and Stuttgart.

**Dr. Eckhard Cordes** is the Chairman of the Committee on Eastern European Relations *(Ost-Ausschuss der Deutschen Wirtschaft)* and former CEO and chairman of the management board of METRO AG (until December 31, 2011). He studied business administration at the University of Hamburg. He held various positions at Daimler-Benz AG before joining the board of management of Daimler-Benz AG in 1996. In 2006, he became chairman of the management board at Franz Haniel & Cie. GmbH.

**Dr. Hubertus Erlen** is a member of various supervisory and advisory boards. He studied process engineering and business administration at Technische Universität Berlin. He held various positions at Schering AG and was appointed to its board of directors in 1985. In 2001, he became chairman of the board of directors of Schering AG and held this position until 2006. He is also the retired chairman of the executive board of Schering AG.

**Prof. Dr. Bernd Gottschalk** is the managing partner of AutoValue GmbH. He studied economics at the Universities of Hamburg and Saarbrücken and Stanford University (USA). He held various positions at Daimler-Benz AG. In 1992, he joined the board of directors of Daimler-Benz AG. From 1996 to 2007, he was president of the VDA (*Verband der Automobilindustrie*—German Association of the Automotive Industry). Since 2001, Prof. Dr. Gottschalk has also been the vice-president of the Federation of German Industry (*Bundesverbandes der Deutschen Industrie e.V.*—BDI) and, since 2007, the CEO of GCG Gottschalk Consult GmbH & Co. KG.

**Jochen Homburg** is the head of department at IG Metall. He studied law, with a concentration in employment law, at Johann-Wolfgang-Goethe University, Frankfurt. He has held various positions at IG Metall since 2004, and most recently, has been responsible for management policy. He is a member of the IG Metall board and serves on several supervisory boards at various multinational corporations.

**Franz-Josef Kortüm** is the CEO and chairman of the board of directors of Webasto AG. He studied business administration at the Universities of Münster and Regensburg. He has held various positions at Daimler-Benz AG. In 1992, he became a member and, in 1993, chairman of the Audi AG board of directors. He joined the Webasto AG board of directors in 1994.

**Norbert Lenhard** is the chairman of Schaeffler Technologies AG & Co. KG's central works council and the local works council (Schweinfurt plant). He completed his trainee program as an engine fitter at FAG in 1979. He has held various positions at JAV. From 2002 to 2004, he was chairman

of central works council FAG Kugelfischer AG as well as chairman of the FAG European works council.

**Dr. Siegfried Luther** is the managing director of Reinhard Mohn Verwaltungs GmbH. He holds degrees in law as well as a doctorate of law from the University of Münster. Since 1974, he worked in several finance-related departments of Bertelsmann AG and from 1990 to 2005, he was a member (2002-2005 vice chairman) of the management board, chief financial officer and head of the corporate center of Bertelsmann AG. Since 2005, he serves as a member of the Auditors Oversight Commission in Germany.

**Thomas Mölkner** is the chairman of the European works council of the Schaeffler Group and chairman of the local works council (Herzogenaurach plant). He received his bachelor professional in metal production technology and operations in 2000 before completing a trainee program as lathe operator at Schaeffler Group.

**Wolfgang Müller** is the trade union secretary of IG Metall, Bavaria. He studied social sciences at the Universities of Bremen and Oldenburg. Since 1999, he has been employed by IG Metall. From 2003 to 2007, he was the workers' representative at Siemens and also served on its supervisory board. Since 2008, he has also been a member of the supervisory board of Audi AG.

**Tobias Rienth** is the chairman of the works council, Bühl. He completed his trainee program as an instrument mechanic. After joining the LuK group in 1990, he has held various positions.

**Stefanie Schmidt** is the chairwoman of the local works council Wuppertal plant. She completed her trainee program as a technical drawer in 1996 and as mechanical engineering technician in 2001. Ms. Schmidt joined in 1993 and has held various positions within the Schaeffler group since then.

**Dirk Spindler** is the chairman of Schaeffler Group's corporate spokesmen committee of the executive staff. He studied mechanical engineering at the University of Kaiserslautern. He has held various positions at Schaeffler Group and has been head of central development since 2010.

**Robin Stalker** is the CFO of adidas AG. He studied business administration at Massey University, New Zealand. Before joining adidas AG in 1996, he worked at several other companies, such as Ernst & Young and Warner Bros. International. Since 2001, Mr. Stalker has also been a member of the adidas AG executive board.

**Salvatore Vicari** is the chairman of the local works council (Homburg/Saar plant). He completed his trainee program at Großklos in 1984. He has worked at various companies as a mechanic and an engine driver. Mr. Vicari joined the Schaeffler Group in 1990.

**Dr. Otto Wiesheu** is the president of the Economic Advisory Board of Union e.V. He studied law at the University of Munich. From 1984 to 1990, he was managing director of Hanns-Seidel-Stiftung. Between 1992 and 2005, Mr. Wiesheu was the Bavarian state minister for Economic Affairs, Transport and Technology. From 2006 until 2009, he was a member of the management board of Deutsche Bahn AG.

**Jürgen Worrich** is the chairman of the central German works council of the Schaeffler Group. He studied mechanical engineering at Technische Universität Carolo-Wilhelmina, Braunschweig. He has held various positions within the Schaeffler Group, including head of CAD.

***Remuneration of the Supervisory Board***

The aggregate compensation of the supervisory board for the fiscal year ended December 31, 2010 and December 31, 2011 was €401,000 and €951,000, respectively.

## Major shareholders

The shares in Schaeffler AG are indirectly held by Maria-Elisabeth Schaeffler (20%) and Georg F. W. Schaeffler (80%). The immediate parent company is Schaeffler Verwaltungs GmbH and the ultimate parent company is INA-Holding Schaeffler GmbH & Co. KG.

## Board practices

***Supervisory board committees***

The supervisory board may form committees from among its members and charge them with the performance of specific tasks. The committees' tasks, authorizations and processes are determined by the supervisory board. Where permissible by law, important powers of the supervisory board may also be transferred to the committees. The supervisory board has established and currently maintains a general committee and an audit committee.

***General Committee (Präsidialausschuss)***

The general committee is responsible for preparing the supervisory board meetings and decisions of the supervisory board regarding matters relating to the board of managing directors. The general committee gives recommendations for the appointment and dismissal of members of the board of managing directors. Furthermore, its approval is required for the conclusion, amendment or termination of the employment contracts of members of the executive board.

The following table sets forth the current members of the general committee:

| Name | Age | Position |
|---|---|---|
| Georg F. W. Schaeffler (Chairman) | 47 | Owner of the Schaeffler Group |
| Maria-Elisabeth Schaeffler | 70 | Owner of the Schaeffler Group |
| Dr. Hubertus Erlen | 69 | Member of various supervisory and advisory boards |
| Jochen Homburg | 46 | Attorney and Head of Department, IG Metall |
| Jürgen Wechsler (Deputy Chairperson) | 56 | Regional Director of IG Metall Bavaria |
| Norbert Lenhard | 55 | Chairman of the central works council, Schaeffler Technologies AG & Co. KG and Chairman of the local works council, Schweinfurth plant, Schaeffler Technologies AG & Co. KG |

***Audit Committee (Prüfungsausschuss)***

The audit committee's tasks relate to the Parent Guarantor's accounting, the audit of the financial statements, and compliance. In particular, the committee performs a preliminary examination of Schaeffler Group's annual financial statements as well as the risk management system, and makes its recommendation to the plenary session of the supervisory board, which then passes resolutions pursuant to Section 171(1) of the German Stock Corporation Act (*AktG*). Furthermore, the committee discusses the Parent Guarantor's draft interim financial reports and is responsible for assuring the necessary independence of auditors, for engaging the auditors, for determining the focus of the audit as required, and for negotiating the fee.

The following table sets forth the current members of the audit committee:

| Name | Age | Position |
|---|---|---|
| Dr. Siegfried Luther (Chairman) | 67 | Managing Director of Reinhard Mohn Verwaltungs GmbH |
| Georg F. W. Schaeffler | 47 | Owner of the Schaeffler Group |
| Wolfgang Müller | 64 | Trade Union Secretary of IG Metall, area headquarters Bavaria |
| Robin Stalker | 54 | CFO of adidas AG |
| Salvatore Vicari | 45 | Chairman of the local works council, Homburg/Saar plant, Schaeffler Technologies AG & Co. KG |
| Jürgen Worrich | 57 | Chairman of the central German works council, Schaeffler Group |

***Corporate governance***

The Parent Guarantor is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

## Share capital

The authorized share capital of the Parent Guarantor amounts to €500,025,000, divided into 500,025,000 no-par-value registered shares with a nominal value of €1.00 each. The issued capital of the Parent Guarantor amounts to €500,025,000 divided into 500,025,000 no-par-value registered shares with a nominal value of €1.00 each, all of which are fully paid up.

## Financial statements

Pursuant to Section 4 of the Parent Guarantor's Articles of Association, the fiscal year is the calendar year.

## Statutory auditors

The independent auditors of the Parent Guarantor for the years ended December 31, 2010 and 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Schaeffler Group's consolidated financial statements as of and for the year ended December 31, 2010 and 2011, which were prepared on the basis of IFRS as adopted by the EU. The consolidated financial statements mentioned above were each issued an unqualified audit opinion. The condensed consolidated financial statements as of and for the three month periods ended March 31, 2011 and 2012, prepared in accordance with IFRS as adopted by the EU, have not been audited.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

## Trend information

There has been no material adverse change in the prospects of the Parent Guarantor since December 31, 2011.

## Legal and arbitration proceedings

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Parent Guarantor is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Parent Guarantor's financial position or profitability other than

the proceedings described under *"Description of the Schaeffler Group—Environment, insurance and legal—Litigation and administrative proceedings."*

## Rating

Standard & Poor's Ratings Services ("**Standard & Poor's**") assigned its 'B' long-term corporate credit rating with a positive outlook to the Parent Guarantor. Moody's Investors Service ("**Moody's**") assigned a B2 corporate rating with a stable outlook to the Parent Guarantor.

The rating was issued by credit rating agencies established in the European Community and registered under Regulation 1060/2009/EC of the European Parliament and the Council of September 16, 2009 on credit rating agencies, as amended pursuant to Regulation 513/2011/EU of the European Parliament and the Council of May 11, 2011 (the "**CRA Regulation**"). Each of Standard & Poor's, Moody's and Fitch Ratings is established in the European Community and has been registered in accordance with the CRA Regulation. The full list of Credit Rating Agencies that are registered under the CRA Regulation can be found on ESMA's website (*www.esma.europa.eu*).

## Significant change in the financial or trading position of the Parent Guarantor

There has been no significant change in the financial or trading position of the Parent Guarantor since March 31, 2012.

# General Information on the Subsidiary Guarantors

## Egon von Ruville GmbH

***History and development***

The legal and commercial name is Egon von Ruville GmbH.

Egon von Ruville GmbH was incorporated on July 9, 1993 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Hamburg, Germany. Egon von Ruville GmbH's registration number is HRB 53325.

Egon von Ruville GmbH's registered office is located at Billbrookdeich 112, 22113 Hamburg, Germany. Its phone number is +49 (0)40 733 44-0.

Egon von Ruville GmbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of Egon von Ruville GmbH dated April 24, 2012, it is the objective of Egon von Ruville GmbH (i) to run a wholesale business with spare parts for motor vehicles; (ii) to manufacture, develop, advertise and distribute all products in the motor vehicle business; and (iii) to continue the business of Egon von Ruville GmbH.

***Principal activities***

Egon von Ruville GmbH is a wholesale dealer for spare parts for cars.

***Organizational structure***

Egon von Ruville GmbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

Egon von Ruville GmbH is managed by its managing directors: Michael Söding and Stefan Bauerreis.

Michael Söding is also a director of Schaeffler Automotive Aftermarket (UK) Limited and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group.

Stefan Bauerreis is CFO of the Schaeffler Group Germany and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group.

As of March 31, 2012, Egon von Ruville GmbH is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly.

The managing directors of the Egon von Ruville GmbH may be contacted at Egon von Ruville GmbH, Billbrookdeich 112, 22113 Hamburg, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Egon von Ruville GmbH and their private interests and/or other duties.

***Board practices***

Egon von Ruville GmbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of Egon von Ruville GmbH amounts to €26,000, all of which is fully paid up.

***Financial statements***

The financial year of Egon von Ruville GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Egon von Ruville GmbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of Egon von Ruville GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Egon von Ruville GmbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Egon von Ruville GmbH's financial position or profitability.

***Significant change in the financial or trading position of Egon von Ruville GmbH***

There has been no significant change in the financial or trading position of Egon von Ruville GmbH since December 31, 2011.

## FAG Aerospace GmbH & Co. KG

***History and development***

The legal and commercial name is FAG Aerospace GmbH & Co. KG.

FAG Aerospace GmbH & Co. KG was incorporated on July 19, 2005 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Schweinfurt, Germany. FAG Aerospace GmbH & Co. KG's registration number is HRA 8476.

FAG Aerospace GmbH & Co. KG's registered office is located at Georg-Schäfer-Strasse 30, 97421 Schweinfurt, Germany. Its phone number is +49 (0)9721 91-0.

FAG Aerospace GmbH & Co. KG is incorporated as a limited partnership with a limited liability company as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of FAG Aerospace GmbH & Co. KG dated November 11, 2009, it is the objective of FAG Aerospace GmbH & Co. KG (i) to manufacture and

distribute bearings of all kinds as well as machines, instruments, devices, goods and tools of all kinds in the aerospace sector and in the sector of other high-precision applications, for engineering, vehicle construction, precision mechanics and all related business and industry sectors and (ii) to provide and distribute related diagnosis and remedial services.

***Principal activities***

FAG Aerospace GmbH & Co. KG manufactures and sells rolling bearings and rolling bearing components for the aircraft and aerospace industry.

***Organizational structure***

FAG Aerospace GmbH & Co. KG is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

FAG Aerospace GmbH & Co. KG is managed by its general partner (*Komplementär*) FAG Aerospace GmbH. FAG Aerospace GmbH is managed by its managing directors: Rainer Hundsdörfer and Dr. Oliver Schellberg.

Rainer Hundsdörfer is Schaeffler Group's Head of Industrial Operations and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

There are no other principal activities performed by Dr. Schellberg outside of FAG Aerospace GmbH & Co. KG.

As of March 31, 2012, FAG Aerospace GmbH & Co. KG is represented by its general partner FAG Aerospace GmbH. FAG Aerospace GmbH is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly.

The managing directors of the general partner of FAG Aerospace GmbH & Co. KG may be contacted at FAG Aerospace GmbH Georg-Schäfer-Strasse 30, 97421 Schweinfurt, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to FAG Aerospace GmbH or FAG Aerospace GmbH & Co. KG and their private interests and / or other duties.

***Board practices***

FAG Aerospace GmbH & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of FAG Aerospace GmbH & Co. KG amounts to €1,000, all of which is fully paid up.

***Financial statements***

The financial year of FAG Aerospace GmbH & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of FAG Aerospace GmbH & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of FAG Aerospace GmbH & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which FAG Aerospace GmbH & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on FAG Aerospace GmbH & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of FAG Aerospace GmbH & Co. KG***

There has been no significant change in the financial or trading position of FAG Aerospace GmbH & Co. KG since December 31, 2011.

## FAG Kugelfischer GmbH

***History and development***

The legal and commercial name is FAG Kugelfischer GmbH.

FAG Kugelfischer GmbH was incorporated on May 9, 2005 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Schweinfurt, Germany. FAG Kugelfischer GmbH's registration number is HRB 4762.

FAG Kugelfischer GmbH's registered office is located at Georg-Schäfer-Strasse 30, 97421 Schweinfurt, Germany. Its phone number is +49 (0)9721 91-0.

FAG Kugelfischer GmbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of FAG Kugelfischer GmbH dated March 22, 2012, the objective of FAG Kugelfischer GmbH is (i) to participate in companies, domestic and abroad, engineering, vehicle construction, precision mechanics and measurement engineering and (ii) to participate in the acquisition, sale, leasing and administration of real estate.

***Principal activities***

FAG Kugelfischer GmbH holds German and foreign companies which have been established for the manufacture and sale of rolling bearings, engine building, manufacture of vehicles, precision engineering or measurement technology and the acquisition, sale, management and lease of real estate properties.

***Organizational structure***

FAG Kugelfischer GmbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

FAG Kugelfischer GmbH is managed by its managing directors: Dr. Jürgen M. Geißinger and Klaus Rosenfeld.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, FAG Kugelfischer GmbH is represented by its managing directors or by one managing director together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly.

The managing directors may be contacted at FAG Kugelfischer GmbH, Georg-Schäfer-Strasse 30, 97421 Schweinfurt, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to FAG Kugelfischer GmbH and their private interests and/or other duties.

***Board practices***

FAG Kugelfischer GmbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of FAG Kugelfischer GmbH amounts to €156,435,000, all of which is fully paid up.

***Financial statements***

The financial year of FAG Kugelfischer GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of FAG Kugelfischer GmbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of FAG Kugelfischer GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which FAG Kugelfischer GmbH is aware) in the

twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on FAG Kugelfischer GmbH's financial position or profitability.

***Significant change in the financial or trading position of FAG Kugelfischer GmbH***

There has been no significant change in the financial or trading position of FAG Kugelfischer GmbH since December 31, 2011.

## IAB Holding GmbH

***History and development***

The legal and commercial name is IAB Holding GmbH.

IAB Holding GmbH was incorporated on October 16, 2009 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. IAB Holding GmbH's registration number is HRB 12149.

IAB Holding GmbH's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

IAB Holding GmbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of IAB Holding GmbH dated December 13, 2010, it is the objective of IAB Holding GmbH (i) to manage holdings in commercially operating companies; (ii) to manage and supervise the businesses of these companies; (iii) to participate in such companies and (iv) to provide management services.

***Principal activities***

IAB Holding GmbH acquires, holds and manages participations in commercial companies.

***Organizational structure***

IAB Holding GmbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

IAB Holding GmbH is managed by its managing directors: Dr. Jürgen M. Geißinger and Klaus Rosenfeld.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, IAB Holding GmbH is represented by its managing directors or by one managing director together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly.

The managing directors of the IAB Holding GmbH may be contacted at IAB Holding GmbH, Industriestr. 1- 3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to IAB Holding GmbH and their private interests and/or other duties.

***Board practices***

IAB Holding GmbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of IAB Holding GmbH amounts to €75,000, all of which is fully paid up.

***Financial statements***

The financial year of IAB Holding GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of IAB Holding GmbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of IAB Holding GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which IAB Holding GmbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on IAB Holding GmbH's financial position or profitability.

***Significant change in the financial or trading position of IAB Holding GmbH***

There has been no significant change in the financial or trading position of IAB Holding GmbH since December 31, 2011.

## IAB Verwaltungs GmbH

***History and development***

The legal and commercial name is IAB Verwaltungs GmbH.

IAB Verwaltungs GmbH was incorporated on July 27, 2009 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. IAB Verwaltungs GmbH's registration number is HRB 12036.

IAB Verwaltungs GmbH's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

IAB Verwaltungs GmbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of IAB Verwaltungs GmbH dated July 9, 2009, the objective of IAB Verwaltungs GmbH is the holding, acquisition and the management of participations in other companies.

***Principal activities***

IAB Verwaltungs GmbH acquires, holds and manages participations in companies.

***Organizational structure***

IAB Verwaltungs GmbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

IAB Verwaltungs GmbH is managed by its managing directors: Dr. Jürgen M. Geißinger and Klaus Rosenfeld.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, IAB Verwaltungs GmbH is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly.

The managing directors of the IAB Verwaltungs GmbH may be contacted at IAB Verwaltungs GmbH, Industriestr. 1- 3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to IAB Verwaltungs GmbH and their private interests and/or other duties.

***Board practices***

IAB Verwaltungs GmbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of IAB Verwaltungs GmbH amounts to €5,265,000, all of which is fully paid up.

***Financial statements***

The financial year of IAB Verwaltungs GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of IAB Verwaltungs GmbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer).*

***Trend information***

There has been no material adverse change in the prospects of IAB Verwaltungs GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which IAB Verwaltungs GmbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on IAB Verwaltungs GmbH's financial position or profitability.

***Significant change in the financial or trading position of IAB Verwaltungs GmbH***

There has been no significant change in the financial or trading position of IAB Verwaltungs GmbH since December 31, 2011.

## INA Beteiligungsverwaltungs GmbH

***History and development***

The legal and commercial name is INA Beteiligungsverwaltungs GmbH.

INA Beteiligungsverwaltungs GmbH was incorporated on November 21, 2005 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. INA Beteiligungsverwaltungs GmbH's registration number is HRB 10398.

INA Beteiligungsverwaltungs GmbH's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

INA Beteiligungsverwaltungs GmbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of INA Beteiligungsverwaltungs GmbH dated December 20, 2010, the objective of INA Beteiligungsverwaltungs GmbH is asset management, including property leasing, licensing of rights and granting loans.

***Principal activities***

INA Beteiligungsverwaltungs GmbH holds and manages its own assets, including the lease of such property and the granting of financial assistance and licenses.

***Organizational structure***

INA Beteiligungsverwaltungs GmbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

INA Beteiligungsverwaltungs GmbH is managed by its managing directors: Dr. Jürgen M. Geißinger and Klaus Rosenfeld.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, INA Beteiligungsverwaltungs GmbH is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly.

The managing directors of INA Beteiligungsverwaltungs GmbH may be contacted at INA Beteiligungsverwaltungs GmbH, Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to INA Beteiligungsverwaltungs GmbH and their private interests and/or other duties.

***Board practices***

INA Beteiligungsverwaltungs GmbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of INA Beteiligungsverwaltungs GmbH amounts to €888,835, all of which is fully paid up.

***Financial statements***

The financial year of INA Beteiligungsverwaltungs GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of INA Beteiligungsverwaltungs GmbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer)*.

***Trend information***

There has been no material adverse change in the prospects of INA Beteiligungsverwaltungs GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which INA Beteiligungsverwaltungs GmbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on INA Beteiligungsverwaltungs GmbH's financial position or profitability.

***Significant change in the financial or trading position of INA Beteiligungsverwaltungs GmbH***

There has been no significant change in the financial or trading position of INA Beteiligungsverwaltungs GmbH since December 31, 2011.

## Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung

### *History and development*

The legal and commercial name is Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung.

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung was incorporated on March 27, 1953 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung's registration number is HRB 462.

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is incorporated as a private limited liability company under the laws of Germany.

### *Articles of association*

Pursuant to Article 2 of the Articles of Association of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung dated December 13, 2005, the objective of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is the management of its own assets, in particular real estate and acquisition and management of participations in other companies.

### *Principal activities*

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung manages its own assets, in particular its business property, and the acquisition and management of participations in other companies.

### *Organizational structure*

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

### *Administrative, management and supervisory bodies*

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is managed by its managing directors: Dr. Jürgen M. Geißinger and Klaus Rosenfeld.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly. However, Dr. Jürgen M. Geißinger is authorized to represent Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung by himself.

The managing directors of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung may be contacted at Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung, Industriestrasse 1-3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung and their private interests and/or other duties.

***Board practices***

Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung amounts to €65,000, all of which is fully paid up.

***Financial statements***

The financial year of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer).*

***Trend information***

There has been no material adverse change in the prospects of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung's financial position or profitability.

***Significant change in the financial or trading position of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung***

There has been no significant change in the financial or trading position of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung since December 31, 2011.

## LuK GmbH & Co. KG

***History and development***

The legal and commercial name is LuK GmbH & Co. KG.

LuK GmbH & Co. KG was incorporated on March 6, 1987 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Mannheim, Germany. LuK GmbH & Co. KG's registration number is HRA 210932.

LuK GmbH & Co. KG's registered office is located at Industriestrasse 3, 77815 Bühl, Germany. Its phone number is +49 (0)7223 941-0.

LuK GmbH & Co. KG is incorporated as a limited partnership with a limited liability company as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of LuK GmbH & Co. KG dated December 16, 2010, it is the objective of LuK GmbH & Co. KG to develop, manufacture and distribute clutch systems, gear parts and other components for motor vehicles, machines and instruments.

***Principal activities***

LuK GmbH & Co. KG develops, sells and manufactures clutch systems, transmission parts and other components for motor vehicles, machinery and instruments.

***Organizational structure***

LuK GmbH & Co. KG is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

LuK GmbH & Co. KG is managed by its general partner *(Komplementär)* LuK Vermögensverwaltungsgesellschaft mbH. LuK Vermögensverwaltungsgesellschaft mbH is managed by its managing directors Norbert Indlekofer and Klaus Rosenfeld.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

As of March 31, 2012, LuK GmbH & Co. KG is represented by its general partner LuK Vermögensverwaltungsgesellschaft mbH or by its general partner together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly. However, the general partner is authorized to represent LuK GmbH & Co. KG by itself. LuK Vermögensverwaltungsgesellschaft mbH is represented by its managing directors or by one managing director together with an authorized representative *(Prokurist)* or by two authorized representatives together, in each case acting jointly.

The managing directors of the general partner of LuK GmbH & Co. KG may be contacted at LuK Vermögensverwaltungsgesellschaft mbH, Industriestr. 3, 77815 Bühl, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to LuK Vermögensverwaltungsgesellschaft mbH or LuK GmbH & Co. KG and their private interests and/or other duties.

***Board practices***

LuK GmbH & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of LuK GmbH & Co. KG amounts to €20,962,967.13, all of which is fully paid up.

***Financial statements***

The financial year of LuK GmbH & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of LuK GmbH & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer).*

***Trend information***

There has been no material adverse change in the prospects of LuK GmbH & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which LuK GmbH & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on LuK GmbH & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of LuK GmbH & Co. KG***

There has been no significant change in the financial or trading position of LuK GmbH & Co. KG since December 31, 2011.

## LuK Vermögensverwaltungsgesellschaft mbH

***History and development***

The legal and commercial name is LuK Vermögensverwaltungsgesellschaft mbH.

LuK Vermögensverwaltungsgesellschaft mbH was incorporated on August 30, 1999 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Mannheim, Germany. LuK Vermögensverwaltungsgesellschaft mbH's registration number is HRB 211135.

LuK Vermögensverwaltungsgesellschaft mbH's registered office is located at Industriestrasse 3, 77815 Bühl, Germany. Its phone number is +49 (0)7223 941-0.

LuK Vermögensverwaltungsgesellschaft mbH is incorporated as a private limited liability company under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of LuK Vermögensverwaltungsgesellschaft mbH dated December 16, 2010, it is the objective of LuK Vermögensverwaltungsgesellschaft

mbH to (i) manage holdings in commercially operating companies; (ii) manage and supervise the businesses of these companies; (iii) participate in such companies and (iv) provide management services.

***Principal activities***

LuK Vermögensverwaltungsgesellschaft mbH holds and manages participations in operational companies and manages such companies.

***Organizational structure***

LuK Vermögensverwaltungsgesellschaft mbH is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

LuK Vermögensverwaltungsgesellschaft mbH is managed by its managing directors: Norbert Indlekofer and Klaus Rosenfeld.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

As of March 31, 2012, LuK Vermögensverwaltungsgesellschaft mbH is represented by its managing directors or by one managing director together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly.

The managing directors of the LuK Vermögensverwaltungsgesellschaft mbH may be contacted at LuK Vermögensverwaltungsgesellschaft mbH, Industriestr. 3, 77815 Bühl, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to LuK Vermögensverwaltungsgesellschaft mbH and their private interests and/or other duties.

***Board practices***

LuK Vermögensverwaltungsgesellschaft mbH is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of LuK Vermögensverwaltungsgesellschaft mbH amounts to €51,235, all of which is fully paid up.

***Financial statements***

The financial year of LuK Vermögensverwaltungsgesellschaft mbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of LuK Vermögensverwaltungsgesellschaft mbH for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer).*

***Trend information***

There has been no material adverse change in the prospects of LuK Vermögensverwaltungsgesellschaft mbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which LuK Vermögensverwaltungsgesellschaft mbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on LuK Vermögensverwaltungsgesellschaft mbH's financial position or profitability.

***Significant change in the financial or trading position of LuK Vermögensverwaltungsgesellschaft mbH***

There has been no significant change in the financial or trading position of LuK Vermögensverwaltungsgesellschaft mbH since December 31, 2011.

## Schaeffler Automotive Aftermarket GmbH & Co. KG

***History and development***

The legal and commercial name is Schaeffler Automotive Aftermarket GmbH & Co. KG.

Schaeffler Automotive Aftermarket GmbH & Co. KG was incorporated on January 16, 2003 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Offenbach am Main, Germany. Schaeffler Automotive Aftermarket GmbH & Co. KG's registration number is HRA 31654.

Schaeffler Automotive Aftermarket GmbH & Co. KG's registered office is located at Paul-Ehrlich-Strasse 21, 63225 Langen, Germany. Its phone number is +49 (0)6103 753-0.

Schaeffler Automotive Aftermarket GmbH & Co. KG is incorporated as a limited partnership with a limited liability company as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of Schaeffler Automotive Aftermarket GmbH & Co. KG dated January 26, 2011, it is the objective of Schaeffler Automotive Aftermarket GmbH & Co. KG to distribute components for motor vehicles at the automotive aftermarket and to provide other related services.

***Principal activities***

Schaeffler Automotive Aftermarket GmbH & Co. KG sells automotive components, amongst others, at the automotive aftermarket and therewith in association with services.

***Organizational structure***

Schaeffler Automotive Aftermarket GmbH & Co. KG is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure

of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Automotive Aftermarket GmbH & Co. KG is managed by its general partner (*Komplementär*) LuK Vermögensverwaltungsgesellschaft mbH. LuK Vermögensverwaltungsgesellschaft mbH is managed by its managing directors: Norbert Indlekofer and Klaus Rosenfeld.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Klaus Rosenfeld is Schaeffler Group's CFO and he is also member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

As of March 31, 2012, Schaeffler Automotive Aftermarket GmbH & Co. KG is represented by its general partner LuK Vermögensverwaltungsgesellschaft mbH or by its general partner together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly. However, the general partner is authorized to represent Schaeffler Automotive Aftermarket GmbH & Co. KG by itself. LuK Vermögensverwaltungsgesellschaft mbH is represented by its managing directors or by one managing director together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly.

The managing directors of the general partner of Schaeffler Automotive Aftermarket GmbH & Co. KG may be contacted at LuK Vermögensverwaltungsgesellschaft mbH, Industriestr. 3, 77815 Bühl Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to LuK Vermögensverwaltungsgesellschaft mbH or Schaeffler Automotive Aftermarket GmbH & Co. KG and their private interests and/or other duties.

***Board practices***

Schaeffler Automotive Aftermarket GmbH & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of Schaeffler Automotive Aftermarket GmbH & Co. KG amounts to €1.00, all of which is fully paid up.

***Financial statements***

The financial year of Schaeffler Automotive Aftermarket GmbH & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Automotive Aftermarket GmbH & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Automotive Aftermarket GmbH & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Automotive Aftermarket GmbH & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Automotive Aftermarket GmbH & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Automotive Aftermarket GmbH & Co. KG***

There has been no significant change in the financial or trading position of Schaeffler Automotive Aftermarket GmbH & Co. KG since December 31, 2011.

## Schaeffler Beteiligungsholding GmbH & Co. KG

***History and development***

The legal and commercial name is Schaeffler Beteiligungsholding GmbH & Co. KG.

Schaeffler Beteiligungsholding GmbH & Co. KG was incorporated on September 20, 2011 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. Schaeffler Beteiligungsholding GmbH & Co. KG's registration number is HRA 9740.

Schaeffler Beteiligungsholding GmbH & Co. KG's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

Schaeffler Beteiligungsholding GmbH & Co. KG is incorporated as a limited partnership with a limited liability company as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of Schaeffler Beteiligungsholding GmbH & Co. KG dated September 1, 2011, it is the objective of Schaeffler Beteiligungsholding GmbH & Co. KG (i) to participate in other companies and (ii) to perform any other legal economical and profitable activity.

***Principal activities***

Schaeffler Beteiligungsholding GmbH & Co. KG holds participations in other companies and performs other legal economical and profitable activities.

***Organizational structure***

Schaeffler AG is the limited partner (100%) and Schaeffler Familienholding Drei GmbH & Co. KG is the general partner of Schaeffler Beteiligungsholding GmbH & Co. KG. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Beteiligungsholding GmbH & Co. KG is managed by its general partner (*Komplementär*) Schaeffler Familienholding Drei GmbH & Co. KG. Schaeffler Familienholding Drei GmbH & Co. KG is managed by its general partner Schaeffler Familienholding Eins GmbH.

Schaeffler Familienholding Eins GmbH is managed by its managing directors: Maria-Elisabeth Schaeffler and Georg F. W. Schaeffler.

Maria-Elisabeth Schaeffler is the owner of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Georg F. W. Schaeffler is the owner of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

As of March 31, 2012, Schaeffler Beteiligungsholding GmbH & Co. KG is represented by its general partner (*Komplementär*) Schaeffler Familienholding Drei GmbH & Co. KG. Schaeffler Familienholding Drei GmbH & Co. KG is represented by its general partner Schaeffler Familienholding Eins GmbH. Familienholding Eins GmbH is represented by its managing directors, acting solely.

The managing directors of the general partner of the Schaeffler Familienholding Drei GmbH & Co. KG as general partner of Schaeffler Beteiligungsholding GmbH & Co. KG may be contacted at Schaeffler Familienholding Eins GmbH, Industriestr. 1-3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler Familienholding Eins GmbH, Schaeffler Familienholding Drei GmbH & Co. KG or Schaeffler Beteiligungsholding GmbH & Co. KG and their private interests and/or other duties.

***Board practices***

Schaeffler Beteiligungsholding GmbH & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of Schaeffler Beteiligungsholding GmbH & Co. KG amounts to €1.00, all of which is fully paid up.

***Financial statements***

The financial year of Schaeffler Beteiligungsholding GmbH & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Beteiligungsholding GmbH & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Beteiligungsholding GmbH & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Beteiligungsholding GmbH & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Beteiligungsholding GmbH & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Beteiligungsholding GmbH & Co. KG***

There has been no significant change in the financial or trading position of Schaeffler Beteiligungsholding GmbH & Co. KG since December 31, 2011.

## Schaeffler Technologies AG & Co. KG

***History and development***

The legal and commercial name is Schaeffler Technologies AG & Co. KG.

Schaeffler Technologies AG & Co. KG was incorporated on November 13, 2009 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. Schaeffler Technologies AG & Co. KG's registration number is HRA 9349.

Schaeffler Technologies AG & Co. KG's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

Schaeffler Technologies AG & Co. KG is incorporated as a limited partnership with a stock corporation as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of Schaeffler Technologies AG & Co. KG dated May 25, 2012, it is the objective of Schaeffler Technologies AG & Co. KG to develop, manufacture and distribute bearings, linear technology products, motor vehicle and engine components of all kinds and components for machines and devices. Schaeffler Technologies AG & Co. KG is entitled to establish or close branch offices at home and abroad, to acquire interests in other enterprises and, in whole or in part, to divest or to transfer its operations to other enterprises or to close down operations, and to undertake all other measures suitable to promote its purpose.

***Principal activities***

Schaeffler Technologies AG & Co. KG develops, manufactures and sells rolling bearings, linear technology products, all types of vehicle and engine components and components for machines and devices.

***Organizational structure***

Schaeffler Technologies AG & Co. KG is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Technologies AG & Co. KG is managed by its general partner (*Komplementär*) Schaeffler AG and by its limited partner (*Kommanditist*) INA Beteiligungsgesellschaft mit beschränkter Haftung. Schaeffler AG is managed by its board of managing directors, which is comprised of six members: Dr. Jürgen M. Geißinger, Wolfgang Dangel, Prof. Dr. Peter Gutzmer, Kurt Mirlach, Klaus Rosenfeld and Robert Schullan.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Wolfang Dangel is Schaeffler Group's Head of Automotive Division and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group.

See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Prof. Dr. Peter Gutzmer is Schaeffler Group's Head of Research and Development and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Kurt Mirlach is Schaeffler Group's Head of Human Resources and Labor Director and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Klaus Rosenfeld is Schaeffler Group's CFO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Robert Schullan is Schaeffler Group's Head of the Industrial Division and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

INA Beteiligungsgesellschaft mit beschränkter Haftung is managed by its managing directors: Rainer Hundsdörfer, Norbert Indlekofer, Oliver Jung, Dr. Peter Pleus, Dr. Gerhard Schuff.

Rainer Hundsdörfer is Schaeffler Group's Head of Industrial Operations and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Oliver Jung is Schaeffler Group's Head of worldwide operations and the development of production methods and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Prof. Dr. Peter Pleus is Schaeffler Group's Head of engine systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Dr. Gerhard Schuff is Schaeffler Group's Head of purchasing and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

As of May 25, 2012, Schaeffler Technologies AG & Co. KG is represented by its general partner (*Komplementär*) Schaeffler AG, by its authorized limited partner (*rechtsgeschäftlich bevollmächtigte Kommanditistin*) INA Beteiligungsgesellschaft mit beschränkter Haftung or by its general partner together with an authorized representative (*Prokurist*) or two authorized representatives together, in each case acting jointly. However, the Schaeffler AG as general partner, INA Beteiligungsgesellschaft mit beschränkter Haftung as authorized limited partner (*rechtsgeschäftlich bevollmächtigte Kommanditistin*) and Dr. Jürgen M. Geißinger as authorized representative are authorized to represent Schaeffler Technologies AG & Co. KG acting solely. Schaeffler AG is represented by its board of managing directors. Each member of the board of managing directors is authorized to represent the Schaeffler AG with another member of the

board of managing directors together or one member of the board of managing directors together with an authorized representative (*Prokurist*) or two authorized representatives together, in each case acting jointly. INA Beteiligungsgesellschaft mit beschränkter Haftung is represented by its managing directors or by one managing director together with an authorized representative (*Prokurist*) or by two authorized representatives together, in each case acting jointly.

The members of the board of managing directors of the general partner of Schaeffler Technologies AG & Co. KG may be contacted at Schaeffler AG, Industriestr. 1-3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler AG or Schaeffler Technologies AG & Co. KG and their private interests and/or other duties.

***Board practices***

Schaeffler Technologies AG & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of Schaeffler Technologies AG & Co. KG amounts to €1.00, all of which is fully paid up.

***Financial statements***

The financial year of Schaeffler Technologies AG & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Technologies AG & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Technologies AG & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Technologies AG & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Technologies AG & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Technologies AG & Co. KG***

There has been no significant change in the financial or trading position of Schaeffler Technologies AG & Co. KG since December 31, 2011.

## WPB Water Pump Bearing GmbH & Co. KG

***History and development***

The legal and commercial name is WPB Water Pump Bearing GmbH & Co. KG.

WPB Water Pump Bearing GmbH & Co. KG was incorporated on April 19, 1996 for an indefinite period of time under the laws of Germany. It is registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Fürth, Germany. WPB Water Pump Bearing GmbH & Co. KG's registration number is HRA 6573.

WPB Water Pump Bearing GmbH & Co. KG's registered office is located at Industriestrasse 1-3, 91074 Herzogenaurach, Germany. Its phone number is +49 (0)9132 82-0.

WPB Water Pump Bearing GmbH & Co. KG is incorporated as a limited partnership with a limited liability company as general partner under the laws of Germany.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of WPB Water Pump Bearing GmbH & Co. KG dated March 22, 2012, it is the objective of WPB Water Pump Bearing GmbH & Co. KG to develop, manufacture and distribute water pump systems of all kinds and other components for motor vehicles, machines and devices.

***Principal activities***

WPB Water Pump Bearing GmbH & Co. KG designs, manufactures and sells water pump systems as well as other components for machinery, equipment and vehicles.

***Organizational structure***

WPB Water Pump Bearing GmbH & Co. KG is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

WPB Water Pump Bearing GmbH & Co. KG is managed by its general partner (*Komplementär*) WPB Water Pump Bearing Beteiligungsgesellschaft mbH. WPB Water Pump Bearing Beteiligungsgesellschaft mbH is managed by its managing directors: Prof. Dr. Peter Pleus and Frank Mayer.

Prof. Dr. Peter Pleus is Schaeffler Group's Head of engine systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Frank Mayer does not perform any principal activities outside the WPB Water Pump Bearing Beteiligungsgesellschaft mbH.

As of March 31, 2012, WPB Water Pump Bearing GmbH & Co. KG is represented by its general partner WPB Water Pump Bearing Beteiligungsgesellschaft mbH. WPB Water Pump Bearing Beteiligungsgesellschaft mbH is jointly represented by its managing directors.

The managing directors of the general partner of WPB Water Pump Bearing GmbH & Co. KG may be contacted at WPB Water Pump Bearing Beteiligungsgesellschaft mbH, Industriestr. 1-3, 91074 Herzogenaurach, Germany.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to WPB Water Pump Bearing Beteiligungsgesellschaft mbH or WPB Water Pump Bearing GmbH & Co. KG and their private interests and/or other duties.

***Board practices***

WPB Water Pump Bearing GmbH & Co. KG is not a listed stock corporation and is therefore not required to declare its compliance with the German corporate governance code pursuant to Section 161 of the German Stock Corporation Act (*Aktiengesetz—AktG*).

***Share capital***

The authorized share capital of WPB Water Pump Bearing GmbH & Co. KG amounts to €51,129.19, all of which is fully paid up.

***Financial statements***

The financial year of WPB Water Pump Bearing GmbH & Co. KG shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of WPB Water Pump Bearing GmbH & Co. KG for the year ended December 31, 2011 were KPMG AG Wirtschaftsprüfungsgesellschaft, Ganghoferstrasse 29, 80339 Munich, Germany.

KPMG AG Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

## Trend information

There has been no material adverse change in the prospects of WPB Water Pump Bearing GmbH & Co. KG since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which WPB Water Pump Bearing GmbH & Co. KG is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on WPB Water Pump Bearing GmbH & Co. KG's financial position or profitability.

***Significant change in the financial or trading position of WPB Water Pump Bearing GmbH & Co KG***

There has been no significant change in the financial or trading position of WPB Water Pump Bearing GmbH & Co. KG since December 31, 2011.

## Schaeffler Austria GmbH

***History and development***

The legal and commercial name is Schaeffler Austria GmbH.

Schaeffler Austria GmbH was incorporated on January 30, 1959 for an indefinite period of time under the laws of Austria. It is registered in the companies register (*Firmenbuch*) of the local court (*Landesgericht*) of Wiener Neustadt. Schaeffler Austria GmbH's registration number is FN 85104 d.

Schaeffler Austria GmbH's registered office is located at Ferdinand Pölzl-Strasse 2, 2560 Berndorf-St. Veit, Austria. Its phone number is +43 (2672) 202-0.

Schaeffler Austria GmbH is incorporated as a private limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of Austria.

***Articles of association***

Pursuant to Article 3 of the Articles of Association of Schaeffler Austria GmbH dated November 12, 2008, it is the objective (*Unternehmensgegenstand*) of Schaeffler Austria GmbH to (i) distribute products under the brand name "Schaeffler" and under other brand names, in particular bearings and other components for machines, devices and vehicles; (ii) use the brand name "Schaeffler", particularly in Austria; (iii) distribute, package and manufacture components for the linear technology sector, in particular, under the brand name "Schaeffler" and under other brand names and (iv) participate in other, identical or similar companies as well as to assume the position as personally liable partner in a non-incorporated firm, in each case excluding actions which constitute banking business (*Bankgeschäfte*) or such actions which would require a license under the Austrian Securities Supervisions Act (*Wertpapieraufsichtsgesetz 2007—WAG 2007*).

***Principal activities***

Schaeffler Austria GmbH sells products, especially rolling bearings, units for machines, apparatus and vehicles as well as design sale, packaging and manufacturing of linear systems.

***Organizational structure***

Schaeffler Austria GmbH is a wholly-owned subsidiary of Industriewerk Schaeffler INA-Ingennieurdienst-, Gesellschaft mit beschränkter Haftung and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Austria GmbH is managed by its managing directors: Oliver Lödl and Johann Hirschegger.

There are no principal activities performed by the managing directors outside of Schaeffler Austria GmbH.

If two or more managing directors are appointed, Schaeffler Austria GmbH is represented by any two managing directors acting jointly or any one managing director acting together with an authorized representative (*Gesamtprokurist*). The general meeting of shareholders may provide managing directors with sole power to act, even though two or more managing directors are appointed.

The managing directors of Schaeffler Austria GmbH may be contacted at Schaeffler Austria GmbH, Ferdinand Pölzl-Strasse 2, 2560 Berndorf-St. Veit, Austria.

In addition, Schaeffler Austria GmbH has a supervisory board which is comprised of the following members: Robert Schullan, Oliver Jung, Dietmar Heinrich, Ali Akyildiz and Andreas Weißner.

Robert Schullan is Schaeffler Group's Head of Industrial Division and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Oliver Jung is Schaeffler Group's Head of worldwide operations and the development of production methods and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Dietmar Heinrich is CFO of the Schaeffler Group Europe and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Issuer—Administrative, management and supervisory bodies."*

There are no other principal activities performed by Ali Akyildiz and Andreas Weißner outside of Schaeffler Austria GmbH.

***Board practices***

Schaeffler Austria GmbH is not a stock-exchange listed company, therefore, the Austrian corporate governance code, as amended from time to time, is not applicable. Accordingly, Schaeffler Austria GmbH is not required to make and has not made a declaration of conformity pursuant to Article 243b of the Austrian Commercial Code (*UGB*).

***Share capital***

The nominal share capital (*Stammkapital*) of Schaeffler Austria GmbH amounts to €700,000, all of which is fully paid up. The sole shareholder is Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung.

***Financial statements***

The financial year of Schaeffler Austria GmbH shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Austria GmbH for the year ended December 31, 2011 were KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna, Austria.

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft is a member of the Austrian Chamber of Public Accountants (*KWT-Kammer der Wirtschaftstreuhänder*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Austria GmbH since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Austria GmbH is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Austria GmbH's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Austria GmbH***

There has been no significant change in the financial or trading position of Schaeffler Austria GmbH since December 31, 2011.

## Schaeffler Brasil Ltda.

***History and development***

Schaeffler Brasil Ltda. was incorporated on June 20, 1967 for an indefinite period of time under the laws of Brazil. It is registered at the Board of Trade of the State of São Paulo. Its registration number is 35.200.834.231.

Schaeffler Brasil Ltda's registered office is located at Av. Independência, 3500-A Bairro Éden, 18087-101 Sorocaba, São Paulo, Brazil. Its phone number is +55 15 3335 1500.

Schaeffler Brasil Ltda. is incorporated as a private limited liability company under the laws of Brazil.

***Articles of association***

Pursuant to Article 3 of the Articles of Association of Schaeffler Brasil Ltda. dated February 24, 2012, it is the objective of Schaeffler Brasil Ltda. to (1) manufacture, trade and distribute, import and export parts, components and accessories in general for the automotive industry; (2) render administrative services, technical assistance, manufacture, remodel, maintain and trade machines, equipment and tools in general; (3) recover used gearings; (4) machine and assemble parts and components in general; (5) represent other national and foreign companies; and (6) participate in other companies.

***Principal activities***

Schaeffler Brasil Ltda. (1) manufactures, trades and distributes, imports and exports parts, components and accessories, in general, for the automotive industry; (2) renders administrative services, technical assistance, manufactures, remodels, maintains and trades machines, equipment and tools; (3) recovers used gearings; (4) machines and assembles parts and components; (5) represents other national and foreign companies; and (6) participates in other companies.

***Organizational structure***

Schaeffler Brasil Ltda is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Brasil Ltda. is managed by a management board, which is comprised of four members: Ricardo Reimer (President), Romeu Massonetto Junior, Sergio Pin, Wolfgang Franz Schaeffer Niemann.

Ricardo Reimer is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies in South America.

Romeu Massonetto Junior is also a director of LuK do Brasil Embreagens Ltda.

Sergio Pin does not perform any principal activities outside Schaeffler Brasil Ltda.

Wolfgang Franz Schaeffer Niemann is also is Schaeffler Group's CFO for the region South America and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies in South America.

Any two managing directors acting jointly shall be authorized to represent Schaeffler Brasil Ltda. It is also possible that Schaeffler Brasil Ltda. is represented by one of its managing directors together with a proxy holder, or two proxy holders, if they are duly empowered to do so, except for the matters involving transfer and constitution of guarantees over Schaeffler Brasil Ltda.'s assets, when only two members of the management board are authorized to jointly represent the company.

The members of the Schaeffler Brasil Ltda's management board may be contacted at Schaeffler Brasil Ltda., Avenida Nova Independência, 3500-A, Bairro Éden, CEP 18087-101, Sorocaba/SP, Brazil.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler Brasil Ltda. and their private interests and/or other duties.

***Board practices***

Schaeffler Brasil Ltda. is a limited liability company (LTDA) and follows the respective rules of the applicable Brazilian law (*Código Civil Brasileiro*).

***Share capital***

The authorized and issued share capital of Schaeffler Brasil Ltda. amounts to R$ 323,267,052 divided into 323.267.052 shares of R$1.00 nominal value each. All shares are fully paid up. All shares are registered.

***Financial statements***

The financial year of Schaeffler Brasil Ltda. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Brasil Ltda. for the year ended December 31, 2011 were KPMG, Av. Barão de Itapura, 950 - 6th floor, Edifício Tiffany Office Plaza, 13020-431 Campinas - SP, Brasil.

KPMG is a member of the Federal Accounting Council (*Conselho Federal de Contabilidade*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Brasil Ltda. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Brasil Ltda. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Brasil Ltda.'s financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Brasil Ltda.***

There has been no significant change in the financial or trading position of Schaeffler Brasil Ltda. since December 31, 2011.

## Schaeffler France SAS

***History and development***

The legal and commercial name is Schaeffler France SAS.

Schaeffler France SAS was incorporated on December 1, 1956 for a period of 99 years under the laws of France. It is registered at the "*Registre du Commerce et des sociétés de Strasbourg.*" Its registration number is 568504161.

Schaeffler France SAS's registered office is located at 93 route de Bitche, BP 30186, F-67500 Haguenau, France. Its phone number is +33-388-63-4040.

Schaeffler France SAS is incorporated as a "small" public limited company (SAS) under the laws of France.

***Articles of association***

Pursuant to Article 2 of the Articles of Association of Schaeffler France SAS dated November 2, 2010, it is the objective of Schaeffler France SAS to manufacture and distribute bearings, linear technology products, components of all kinds for vehicles and engines and components for machines, devices and all similar products.

***Principal activities***

Schaeffler France SAS manufactures and distributes rolling bearings, linear technology products, all types of vehicle and engine components and components for machines and devices and related products.

***Organizational structure***

Schaeffler France SAS is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler France SAS is managed by three officers: Marc Becker (*Président*), Basile Aguado (*Directeur Général*) and Daniel Schubert (*Directeur Général*).

Marc Becker also holds the responsibility as "Président" for the (dormant) company "FAG France SAS."

There are no other principal activities performed by the officers outside of Schaeffler France SAS.

The officers of Schaeffler France SAS may be contacted at Schaeffler France SAS, 93 route de Bitche, BP 30186, F-67500 Haguenau, France.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler France SAS and their private interests and/or other duties.

***Board practices***

Schaeffler France SAS is a "small" public limited company (SAS) and follows the respective rules of the applicable French law (*Code de Commerce*).

***Share capital***

The authorized and issued share capital of Schaeffler France SAS amounts to €27,721,600 divided into 173,260 shares of €160.00 nominal value each. All shares are fully paid up. All shares are registered.

***Financial statements***

The financial year of Schaeffler France SAS shall begin on January 1 and shall terminate on December 31 of the same year. According to French law, the statutory accounts are published at the *Tribunal de Commerce*.

***Statutory auditors***

The independent auditors of Schaeffler France SAS for the year ended December 31, 2011 were KPMG Audit, Est Strasbourg, B.P. 20002 — Schiltigheim, 67013 Strasbourg Cedex, France.

KPMG Audit is a member of the French Chamber of Public Accountants (*Compagnie Régionale des Commissaires aux Comptes*).

***Trend information***

There has been no material adverse change in the prospects of Schaeffler France SAS since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler France SAS is aware) in the

twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler France SAS's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler France SAS***

There has been no significant change in the financial or trading position of Schaeffler France SAS since December 31, 2011.

## Schaeffler Hong Kong Company Limited

***History and development***

The legal and commercial name is Schaeffler Hong Kong Company Limited.

Schaeffler Hong Kong Company Limited was incorporated on January 3, 1990, for an indefinite period of time under the laws of Hong Kong. It is registered at the Companies Registry. Its registration number is 269064.

Schaeffler Hong Kong Company Limited's registered office is located at Unit 3404-5 & Unit 3406B, 34/F., Tower One, Lippo Centre, No 89 Queensway, Hong Kong, China. Its phone number is +852-22132410.

Schaeffler Hong Kong Company Limited is incorporated as a limited liability company under the laws of Hong Kong. It is a private company under the laws of Hong Kong.

***Memorandum and Articles of association***

Pursuant to Clause 3 of the Memorandum of Association of Schaeffler Hong Kong Company Limited dated January 3, 1990, it is an objective of Schaeffler Hong Kong Company Limited to import, export and distribute antifriction bearing products and other components of machinery, equipment and vehicles.

***Principal activities***

Schaeffler Hong Kong Company Limited imports, exports and distributes antifriction bearing products and other components of machinery, equipment and vehicles.

***Organizational structure***

Schaeffler Hong Kong Company Limited is a wholly-owned (through Industriewerk Schaeffler INA-Ingenieurdirenst-, Gesellschaft mit beschränkter Haftung as its direct sole shareholder) subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Hong Kong Company Limited is managed by a management board of directors, which is comprised of three members: Wolfgang Dangel, Jianhui Gou and Bruno Krauss.

Wolfgang Dangel is Schaeffler Group's Head of the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Jianhui Gou is an executive of the regional holding company for Asia Pacific, Schaeffler Holding (China) Co., Ltd. He is also member of administrative, management and supervisory bodies in other Schaeffler Group companies.

Bruno Krauss is CFO for the Schaeffler Group's Asia Pacific region and an executive of the Asia Pacific regional holding company, Schaeffler Holding (China) Co., Ltd. He is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies.

The members of the managing board may be contacted at Schaeffler Hong Kong Company Limited. Unit 3404-5 & Unit 3406B, 34/F., Tower One, Lippo Centre, No 89 Queensway, Hong Kong.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to Schaeffler Hong Kong Company Limited and their private interests and/or other duties.

***Board practices***

Schaeffler Hong Kong Company Limited is a private company, not exchange-listed, and is not subject to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. It is neither a licensed corporation licensed by the Securities and Futures Commission nor a registered institution registered by the Securities and Futures Commission.

The board practices are bound by the Hong Kong Companies Ordinance (Cap. 32 of the laws of Hong Kong), the memorandum and articles of association of the Company and other applicable laws and regulations.

***Share capital***

The authorized share capital of Schaeffler Hong Kong Company Limited amounts to HK$1,000,000, divided into ten ordinary shares of HK$100,000 nominal value each. The issued capital of Schaeffler Hong Kong Company Limited amounts to HK$500,000, divided into five ordinary shares with a nominal value of HK$100,000 each, all of which are fully paid up. All shares are registered.

***Financial statements***

The financial year of Schaeffler Hong Kong Company Limited shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Hong Kong Company Limited for the year ended December 31, 2011 were KPMG, 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong.

KPMG is a member of Hong Kong Institute of Certified Public Accountants.

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Hong Kong Company Limited since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Hong Kong Company Limited is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Hong Kong Company Limited's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Hong Kong Company Limited***

There has been no significant change in the financial or trading position of Schaeffler Hong Kong Company Limited since December 31, 2011.

## LuK Savaria Kft.

***History and development***

The legal and commercial name is LuK Savaria Kuplunggyártó Korlátolt Felelősségű Társaság ("**LuK Savaria Kft.**").

LuK Savaria Kft. was incorporated on June 20, 1996 for an indefinite period of time under the laws of Hungary. It is registered in the Company Register of the Court of Justice of Szombathely. Its registration number is Cg. 18-09-102576.

LuK Savaria Kft.'s registered office is located at Zanati u. 31, Szombathely, 9700, Hungary. Its phone number is +36 94 588 100.

LuK Savaria Kft. is incorporated as a limited liability company under the laws of Hungary.

***Articles of association***

Pursuant to Article 4 of the Articles of Association of LuK Savaria Kft. dated April 16, 2012, the main objective of LuK Savaria Kft. is to manufacture parts and accessories for motor vehicles. The further objectives of LuK Savaria Kft. are (i) to manufacture other general purpose machinery not elsewhere classified ("**n.e.c.**"), (ii) to manufacture other special-purpose machinery n.e.c (iii) to provide maintenance and repair of motor vehicles; (iv) wholesale trade of motor vehicle parts and accessories, (v) retail trade of motor vehicle parts and accessories and (vi) other professional, scientific and technical activities n.e.c.

***Principal activities***

Luk Savaria Kft. manufactures components and equipment for vehicles.

***Organizational structure***

LuK Savaria Kft. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

LuK Savaria Kft. is managed by three managing directors: Michael Reinig, Trudbert Kraus and Dr. Jürgen Kroll and one company secretary, János Szöke Szabolcs.

Michael Reinig is also the Plant Manager of LuK Savaria Kft.

Trudbert Kraus is Schaeffler Group's Vice President Operations.

Dr. Jürgen Kroll is Schaeffler Group's Vice President of the business unit Clutch Systems and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group.

LuK Savaria Kft. is represented by its managing directors as follows: any two managing directors acting jointly shall also be authorized to represent LuK Savaria Kft. It is also possible that LuK Savaria Kft. is represented by one of its managing directors together with the company secretary.

The managing directors of the LuK Savaria Kft. may be contacted at LuK Savaria Kft., Zanati u. 31, Szombathely, 9700, Hungary.

In addition, LuK Savaria Kft. has a supervisory board which is comprised of the following members: Norbert Indlekofer, Bernd Wüstner and Zoltán Miklós Oláh.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other

Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Bernd Wüstner is head of divisional controlling automotive.

Zoltán Miklós Oláh was delegated by the works council of LuK Savaria Kft.

There are no other principal activities performed by the supervisory board members outside of LuK Savaria Kft.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to LuK Savaria Kft. and their private interests and/ or other duties.

***Board practices***

The management of LuK Savaria Kft. shall act in accordance with the legal regulations, the articles of association and the resolutions of the quotaholder's meeting. LuK Savaria Kft. is not an exchanged-listed company, therefore, the Hungarian Corporate Governance Recommendations issued by the Budapest Stock Exchange, are not applicable. Accordingly, LuK Savaria Kft. is not required to make and has not made a declaration of conformity pursuant to Article 312 of the Hungarian Companies Act.

***Share capital***

The registered capital of LuK Savaria Kft. amounts to €2,556,459.41, divided into two quotas. The nominal value of the initial contribution of the quotaholder LuK Auslandsholding GmbH amounts to €2,555,879.41 (99.977%), the nominal value of the initial contribution of the quotaholder LuK Vermögensverwaltungsgesellschaft mbH amounts to €580.00 (0.023%). The registered capital consists of cash contribution and has been fully provided to the Company.

***Financial statements***

The financial year of LuK Savaria Kft. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of LuK Savaria Kft. for the year ended December 31, 2011 were KPMG Hungária Könyvvizsgáló-, Adó- és Közgazdasági Tanácsadó Korlátolt Felelősségű Társaság, 1139 Budapest, Váci út 99, Hungary.

KPMG Hungária Könyvvizsgáló-, Adó- és Közgazdasági Tanácsadó Korlátolt Felelősségű Társaság is a member of the Chamber of Hungarian Auditors (*Magyar Könyvvizsgálói Kamara*).

***Trend information***

There has been no material adverse change in the prospects of LuK Savaria Kft. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which LuK Savaria Kft. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on LuK Savaria Kft.'s financial position or profitability.

***Significant change in the financial or trading position of LuK Savaria Kft.***

There has been no significant change in the financial or trading position of LuK Savaria Kft. since December 31, 2011.

## S.C. Schaeffler Romania S.R.L.

***History and development***

The legal and commercial name is S.C. Schaeffler Romania S.R.L.

S.C. Schaeffler Romania S.R.L. was incorporated on September 17, 2002 for an indefinite period of time under the laws of Romania. It is registered with the National Commercial Register Brasov. Its registration number is J08/1477/2002.

S.C. Schaeffler Romania S.R.L.'s registered office is located at Aleea Schaeffler Nr. 3, 507055 Cristian/Braşov, Romania. Its phone number is +40 (268) 505000.

S.C. Schaeffler Romania S.R.L. is incorporated as a limited liability company under the laws of Romania.

***Articles of association***

Pursuant to Article 5.3 of the Articles of Association of S.C. Schaeffler Romania S.R.L. updated on May 25, 2012, it is the main objective of S.C. Schaeffler Romania S.R.L. to manufacture bearings, gears, gear wheels and drive elements.

***Principal activities***

S.C. Schaeffler Romania S.R.L. manufactures bearings, gears, gear wheels and drive elements.

***Organizational structure***

S.C. Schaeffler Romania S.R.L. is a wholly-owned subsidiary of Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see *"General information on the Parent Guarantor—Organizational structure."*

***Administrative, management and supervisory bodies***

S.C. Schaeffler Romania S.R.L. is managed by two directors: Oliver Jung and Alexandru Blemovici.

Oliver Jung is Schaeffler Group's Head of worldwide operations and the development of production methods and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

There are no other principal activities performed by Alexandru Blemovici outside of S.C. Schaeffler Romania S.R.L. that are significant for S.C. Schaeffler Romania S.R.L.

S.C. Schaeffler Romania S.R.L. is represented by two directors acting jointly to represent S.C. Schaeffler Romania S.R.L. In addition, Oliver Jung is authorized to represent S.C. Schaeffler Romania S.R.L. on its own. According to its Articles of Association, S.C. Schaeffler Romania S.R.L. may be represented by one of its directors together with a proxy holder.

The directors of S.C. Schaeffler Romania S.R.L. may be contacted at S.C. Schaeffler Romania S.R.L., Aleea Schaeffler Nr. 3, 507055 Cristian/Braşov, Romania.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to S.C. Schaeffler Romania S.R.L. and their private interests and/ or other duties.

***Board practices***

S.C. Schaeffler Romania S.R.L. is not a stock exchange-listed company. There is no official Romanian corporate governance code, but there are several Romanian laws which apply as

regards mandatory publication of commercial and financial documents of a limited liability company. Compliance with such legislation is assured.

***Share capital***

The authorized and fully paid up share capital of S.C. Schaeffler Romania S.R.L. amounts to RON 879,425,000.00, divided into 8,794,250 shares of RON100.00 nominal value each. All shares are registered.

***Financial statements***

The financial year of S.C. Schaeffler Romania S.R.L. shall begin on January 1 and shall end on December 31 of the same year.

***Statutory auditors***

The independent auditors of S.C. Schaeffler Romania S.R.L. for the year ended December 31, 2011 were KPMG Audit S.R.L., Victoria Business Park, DN1,Sos.Bucuresti-Ploiesti nr.69-71, Sector 1, Bucuresti, 013685, Romania, J 40/4439/2000, fiscal code 12997279.

KPMG Audit S.R.L. is a member of the Romanian Chamber of Financial Auditors (*Camera Auditorilor Financiari din România*).

***Trend information***

There has been no material adverse change in the prospects of S.C. Schaeffler Romania S.R.L. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which S.C. Schaeffler Romania S.R.L. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on S.C. Schaeffler Romania S.R.L.'s financial position or profitability.

***Significant change in the financial or trading position of S.C. Schaeffler Romania S.R.L.***

There has been no significant change in the financial or trading position of S.C. Schaeffler Romania S.R.L. since December 31, 2011.

## INA Kysuce, a.s.

***History and development***

The legal and commercial name is INA Kysuce, a.s.

INA Kysuce, a.s. was incorporated on June 22, 1999 for an indefinite period of time under the laws of Slovakia. It is registered at the Commercial Register of the District Court Žilina, Section Sa, File No. 10193/L. INA Kysuce, a.s.'s identification number is 36 386 553.

INA Kysuce, a.s.'s registered office is located at Dr. G. Schaefflera 1, 024 01 Kysucké Nové Mesto, Slovakia. Its phone number is +421 (41) 4 20 51 11.

INA Kysuce, a.s. is incorporated as a joint-stock company under the laws of Slovakia.

***Articles of association***

Pursuant to Article 4 of the Articles of Association of INA Kysuce, a.s. dated September 7, 2011, it is the main objective of INA Kysuce, a.s. to manufacture rolling bearings and equipment.

***Principal activities***

INA Kysuce, a.s. manufactures rolling bearings and equipment.

***Organizational structure***

INA Kysuce, a.s. is a wholly-owned indirect (through Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung as its direct sole shareholder) subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

INA Kysuce, a.s. is managed by a management board, which is comprised of two members: Ing. Jaroslav Patka and Ing. Miloš Šplhák.

Ing. Jaroslav Patka is also the managing director of INA SKALICA spol. s r.o. There are no other principal activities performed by the managing directors outside of INA Kysuce, a.s.

INA Kysuce, a.s. is represented by its management board. According to the entry in the Commercial Register, two members of the management board represent the company jointly.

The members of INA Kysuce, a.s.'s managing board may be contacted at INA Kysuce, a.s., Dr. G. Schaefflera 1, 024 01 Kysucké Nové Mesto, Slovakia.

In addition, INA Kysuce, a.s. has a supervisory board which is comprised of the following members: Oliver Jung, Wenzel Bina and Ing. Jozef Jančúch.

Oliver Jung is Schaeffler Group's Head of worldwide operations and the development of production methods and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

There are no other principal activities performed by Wenzel Bina and Ing. Jozef Jančúch outside of INA Kysuce, a.s.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to INA Kysuce, a.s. and their private interests and/ or other duties.

***Board practices***

INA Kysuce, a.s. is not a stock exchange-listed company, therefore, the provisions of Act No. 429/2002 Coll. on stock exchange, as amended from time to time, are not applicable. Accordingly, INA Kysuce, a.s. is not required to make and has not made any declaration pursuant to Act No. 429/2002 Coll.

***Share capital***

The authorized share capital of INA Kysuce, a.s. amounts to €36,040,000.00, divided into 1,060,000. shares of €34.00 nominal value each. The issued capital of INA Kysuce, a.s. amounts to the same figures. All shares are registered.

***Financial statements***

The financial year of INA Kysuce, a.s. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of INA Kysuce, a.s. for the year ended December 31, 2011 were KPMG Slovensko spol. s r.o., Dvořákovo nábrežie 10, 811 02 Bratislava, Slovakia.

KPMG Slovensko spol. s r.o. is a member of the Slovak Chamber of Auditors (*Slovenská komora audítorov*).

***Trend information***

There has been no material adverse change in the prospects of INA Kysuce, a.s. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which INA Kysuce, a.s. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on INA Kysuce, a.s.'s financial position or profitability.

***Significant change in the financial or trading position of INA Kysuce, a.s.***

There has been no significant change in the financial or trading position of INA Kysuce, a.s. since December 31, 2011.

## INA SKALICA spol. s r.o.

***History and development***

The legal and commercial name is INA SKALICA, spol. s r.o.

INA SKALICA spol. s r.o. was incorporated on October 31, 1991 (under the previous business name INA - ZVL Skalica, spol. s r.o., since May 25, 1994 under the current business name INA SKALICA spol. s r.o.) for an indefinite period of time under the laws of Slovakia. It is registered at the Commercial Register of the District Court Trnava, Section Sro, File No. 251/T. INA SKALICA spol. s r.o.'s identification number is 30 998 140.

INA SKALICA spol. s r.o.'s registered office is located at Dr. G. Schaefflera 1, 909 01 Skalica, Slovakia. Its phone number is +421 (34) 6 96 11 11.

INA SKALICA spol. s r.o. is incorporated as a limited liability company under the laws of Slovakia.

***Articles of association***

Pursuant to Article 4 of the Articles of Association of INA SKALICA spol. s r.o. dated August 11, 2010, it is the main objective of INA SKALICA spol. s r.o. to manufacture roller bearings and needle roller bearing as well as apparatus/equipment for the automotive industry.

***Principal activities***

INA SKALICA spol. s r.o. manufactures roller bearings and needle roller bearing as well as apparatus/equipment for the automotive industry.

***Organizational structure***

INA SKALICA spol. s r.o. is a wholly-owned indirect (through Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung as its direct sole shareholder) subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

INA SKALICA spol. s r.o. is managed by a management board, which is comprised of two members: Ing. Jaroslav Patka and Ing. Eva Jurkovičová.

Ing. Jaroslav Patka is also the managing director of INA Kysuce a.s. There are no other principal activities performed by the managing directors outside of INA SKALICA spol. s r.o.

INA SKALICA spol. s r.o. is represented by its management board. According to Article 11 of the Articles of Association if the management board consists of two or more managing directors, two managing directors acting jointly shall also be authorized to represent INA SKALICA spol. s r.o.

The members of INA SKALICA spol. s r.o.'s managing board may be contacted at INA SKALICA spol. s r.o., Dr. G. Schaefflera 1, 909 01 Skalica, Slovakia.

None of the persons referred to above has declared that there are potential conflicts of interest between any duties to INA SKALICA spol. s r.o. and their private interests and/ or other duties.

***Board practices***

INA SKALICA spol. s r.o. is not a stock exchange-listed company, therefore, the provisions of Act No. 429/2002 Coll. on stock exchange, as amended from time to time, are not applicable. Accordingly, INA SKALICA spol. s r.o. is not required to make and has not made any declaration pursuant to Act No. 429/2002 Coll.

***Share capital***

The authorized share capital of INA SKALICA spol. s r.o. amounts to €44,828,587.00. The contribution had been made by contribution in kind and contribution in cash by the sole shareholder.

***Financial statements***

The financial year of INA SKALICA spol. s r.o. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of INA SKALICA spol. s r.o. for the year ended December 31, 2011 were KPMG Slovensko spol. s r.o., Dvořákovo nábrežie 10, 811 02 Bratislava, Slovakia.

KPMG Slovensko spol. s r.o. is a member of the Slovak Chamber of Auditors (*Slovenská komora audítorov*).

***Trend information***

There has been no material adverse change in the prospects of INA SKALICA spol. s r.o. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which INA SKALICA spol. s r.o. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on INA SKALICA spol. s r.o.'s financial position or profitability.

***Significant change in the financial or trading position of INA SKALICA spol. s r.o.***

There has been no significant change in the financial or trading position of INA SKALICA spol. s r.o. since December 31, 2011.

## LuK (UK) Limited

***History and development***

The legal and commercial name is LuK (UK) Limited.

LuK (UK) Limited was incorporated on August 28, 1987 for an indefinite period of time under the laws of England and Wales. It is registered at Companies House. Its registration number is 2158744.

LuK (UK) Limited's registered office is located at Waleswood Road, Wales Bar, Sheffield S26 5PN, United Kingdom. Its phone number is 00 44 (0)1909 510500.

LuK (UK) Limited is incorporated as a limited liability company under the laws of England and Wales.

***Memorandum of association***

Pursuant to Clause 3 of the Memorandum of Association of LuK (UK) Limited dated August 28, 1987, it is the objective of LuK (UK) Limited to carry on business as designers, manufacturers, importers, exporters, dealers in, and distributors of engines, motors, tools, machine tools, and machinery, instruments, computers and their component parts, switchgear, hydraulic systems, radar systems, electric motors, engineering equipment and components of all kinds.

***Principal activities***

LuK (UK) Limited engineers and manufactures clutches, drive plates and dampers for passenger car and agricultural tractor industries.

***Organizational structure***

LuK (UK) Limited is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

LuK (UK) Limited is managed by a board of directors. This comprises three directors, Norbert Indlekofer, Dr. Jürgen Kroll, Henrik Hoch and the Company Secretary Peter Evans who is CFO of this company and of Automotive Aftermarket (UK) Ltd. and the director and secretary of other Schaeffler Group companies. There is a local management team lead by the managing director Mr. Hoch which deals with day to day operational matters.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See "*General information on the Parent Guarantor—Administrative, management and supervisory bodies.*"

Dr. Jürgen Kroll is Schaeffler Group's Vice President of the business unit Clutch Systems and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies.

There are no other principal activities performed by the members of the board of directors outside LuK (UK) Limited.

LuK (UK) Limited is represented by its board of directors. If the board consists of two or more directors, any two acting jointly can represent the Company.

The members of the Company's board of directors can be contacted at: LuK (UK) Limited, Waleswood Road, Wales Bar, Kiveton Park, Sheffield, S26 5PN United Kingdom.

None of the persons referred to above has declared any conflicts of interest between their duties to the Company and their private interests.

***Board practices***

LuK (UK) Limited is not an exchange listed company therefore the UK Corporate Governance Code, as amended from time to time, is not applicable. Accordingly LuK (UK) Limited is not

required to state under the Listing Rules how they have complied with the Combined Code in their annual report and accounts.

The Board will hold an Annual General Meeting and may hold other Extraordinary General Meetings during the course of the year.

***Share capital***

Total number of issued and fully paid ordinary shares is 100,000 of £100 each. Total aggregate nominal value is £10,000,000.

***Financial statements***

The financial year of LuK (UK) Limited shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The statutory auditors for the year ended December 31, 2011 were KPMG LLP, 1 The Embankment, Leeds, West Yorkshire, LS1 4DW, United Kingdom.

KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales.

***Trend information***

There has been no material adverse change in the prospects of LuK (UK) Limited since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which LuK (UK) Limited is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on LuK (UK) Limited's financial position or profitability.

***Significant change in the financial or trading position of LuK (UK) Limited***

There has been no significant change in the financial or trading position of LuK (UK) Limited since December 31, 2011.

## Schaeffler (UK) Limited

***History and development***

The legal and commercial name is Schaeffler (UK) Limited.

Schaeffler (UK) Limited was incorporated on October 26, 1955 for an indefinite period of time under the laws of England and Wales. It is registered at Companies House. Its registration number is 556493.

Schaeffler (UK) Limited's registered office is located at Forge Lane, Minworth, Sutton Coldfield, West Midlands, B76 1AP, United Kingdom. Its phone number is +44 (0)121 313 5870.

Schaeffler (UK) Limited is incorporated as a limited liability company under the laws of England and Wales.

***Memorandum of association***

Pursuant to Clause 3 of the Memorandum of Association of Schaeffler (UK) Limited, former INA Needle Bearings Limited, dated October 26, 1955, it is the objective if Schaeffler (UK) Limited to operate as manufacturers of, and dealers in bearings and parts thereof of all kinds and as manufacturers, engineers, dealers and repairers in other business sectors.

***Principal activities***

Schaeffler (UK) Limited sells, markets, engineers and does logistics in the UK for both INA and FAG product brands as well as manufacturing INA automotive engine components.

***Organizational structure***

Schaeffler (UK) Limited is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

The board of directors comprises three statutory directors, Prof. Dr. Peter Pleus, Kathryn Hartigan, John Roger Evans, and the Company Secretary Aaron Brock who is CFO of this company and of The Barden Corporation (UK) Ltd. and the director and secretary of the Schaeffler (UK) Pension Trustee Limited.

Prof. Dr. Peter Pleus is Schaeffler Group's Head of engine systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Kathryn Hartigan leads a local management team which deals with day-to-day operational matters.

There are no other principal activities performed by the statutory directors outside of Schaeffler (UK) Limited.

Schaeffler (UK) Limited is represented by its board of directors. If the board of directors consists of two or more directors, any two directors acting jointly shall also be authorized to represent Schaeffler (UK) Limited.

The board of directors may be contacted at the registered office address.

None of the persons referred to above has declared any conflicts of interest between their duties to the Company and their private interests.

***Board practices***

The Board may hold an Annual General Meeting and may hold other Extraordinary General Meetings during the course of the year.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

***Share capital***

Total number of issued and fully paid ordinary shares is 10,000 of £100 each. Total aggregate nominal value is £1,000,000.

***Financial statements***

The financial year of Schaeffler (UK) Limited shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The statutory auditors for the year ended December 31, 2011 were KPMG LLP, 3 Assembly Square, Brittania Quay, Cardiff, CF10 4AX, United Kingdom.

KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales.

***Trend information***

There has been no material adverse change in the prospects of Schaeffler (UK) Limited since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler (UK) Limited is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler (UK) Limited's financial position or profitability.

***Significant change in the financial or trading position of Schaeffler (UK) Limited***

There has been no significant change in the financial or trading position of Schaeffler (UK) Limited since December 31, 2011.

## Schaeffler Automotive Aftermarket (UK) Ltd. (former LuK Aftermarket-Services Limited

***History and development***

The legal and commercial name is Schaeffler Automotive Aftermarket (UK) Ltd.

Schaeffler Automotive Aftermarket (UK) Ltd. was incorporated on December 4, 1992 for an indefinite period of time under the laws of England and Wales. It is registered at Companies House. Its registration number is 2770881.

Schaeffler Automotive Aftermarket (UK) Ltd.'s registered office is located at Waleswood Road, Wales Bar, Kiveton Park, Sheffield, S26 5PN, United Kingdom Its phone number is 00 44 (0)1432 375700.

Schaeffler Automotive Aftermarket (UK) Ltd. is incorporated as a limited liability company under the laws of England and Wales.

***Memorandum of association***

Pursuant to Clause 3 of the Memorandum of Association of Schaeffler Automotive Aftermarket (UK) Ltd dated December 4, 1992, it is the objective of Schaeffler Automotive Aftermarket (UK) Ltd to operate as a general commercial company.

***Principal activities***

Schaeffler Automotive Aftermarket (UK) Ltd. distributes automotive replacement parts of the three brands: LuK, INA and FAG to the automotive after sales market.

***Organizational structure***

Schaeffler Automotive Aftermarket (UK) Ltd. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Automotive Aftermarket (UK) Ltd. is managed by a board of directors. This comprises the two directors Michael Söding and Nigel Morgan and the Company Secretary Peter Evans who is CFO of this company and of LuK (UK) Limited and the director and secretary of other Schaeffler Group companies.

Michael Söding is also a managing director of Egon von Ruville GmbH and a member of management and supervisory bodies of other Schaeffler Group companies.

Nigel Morgan also leads a local management team which deals with day-to-day operational matters.

Schaeffler Automotive Aftermarket (UK) Ltd. is represented by its board of directors. If the board consists of two or more directors, any two acting jointly can represent the Company.

The members of the company's board of directors can be contacted at: Schaeffler Automotive Aftermarket (UK) Ltd., c/o LuK (UK) Limited, Waleswood Road, Wales Bar, Kiveton Park, Sheffield, S26 5PN United Kingdom.

None of the persons referred to above has declared any conflicts of interest between their duties to the company and their private interests

***Board practices***

Schaeffler Automotive Aftermarket (UK) Ltd. is not an exchange listed company therefore the UK Corporate Governance Code, as amended from time to time, is not applicable. Accordingly Schaeffler Automotive Aftermarket (UK) Ltd. is not required to state under the Listing Rules how they have complied with the Combined Code in their annual report and accounts.

The board will hold an Annual General Meeting and may hold other Extraordinary General Meetings during the course of the year.

***Share capital***

Total number of issued and fully paid ordinary shares is 1,000 of £1 each. Total aggregate nominal value is £1,000.

***Financial statements***

The financial year of Schaeffler Automotive Aftermarket (UK) Ltd. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The statutory auditors for the year ended December 31, 2011 were KPMG LLP, 1 The Embankment, Leeds, West Yorkshire, LS1 4DW, United Kingdom.

KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales.

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Automotive Aftermarket (UK) Ltd. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Automotive Aftermarket (UK) Ltd. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Automotive Aftermarket (UK) Ltd.'s financial position or profitability.

***Significant change in the financial or trading position of Schaeffler Automotive Aftermarket (UK) Ltd.***

There has been no significant change in the financial or trading position of Schaeffler Automotive Aftermarket (UK) Ltd. since December 31, 2011.

## The Barden Corporation (UK) Ltd.

***History and development***

The legal and commercial name is The Barden Corporation (UK) Ltd.

The Barden Corporation (UK) Ltd. was incorporated on March 8, 1948 for an indefinite period of time under the laws of England and Wales. It is registered at Companies House. Its registration number is 450577.

The Barden Corporation (UK) Ltd.'s registered office is located at Plymbridge Road, Estover, Plymouth Devon, PL6 7LH, United Kingdom. Its phone number is + 44 (0)1752 735555.

The Barden Corporation (UK) Ltd. is incorporated as a limited liability company under the laws of England and Wales.

***Memorandum of association***

Pursuant to Clause 3 of the Memorandum of Association of The Barden Corporation (UK) Ltd, former E.M.O. Instrumentation Limited, dated June 23, 1960, it is the objective of The Barden Corporation (UK) Ltd to (i) manufacture and repair measuring instruments and supplies of all kinds; and (ii) to carry on business as precision engineers, mechanical, electrical and general engineers.

***Principal activities***

The Barden Corporation (UK) Ltd. designs and manufactures super precision ball bearings for safety-critical and harsh environment applications in a broad range of market sectors, ranging from aerospace bearings to high performance machine tools.

***Organizational structure***

The Barden Corporation (UK) Ltd. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

The Barden Corporation (UK) Ltd. is managed by a board of directors which comprises the two statutory directors Peter Enright and Ian Burnage and the Company Secretary Aaron Brock who is CFO of this company and of Schaeffler (UK) Limited and the director and secretary of the Schaeffler (UK) Pension Trustee Limited.

Peter Enright also serves on the board of directors of The Barden Corporation, is responsible for the Aerospace business unit and he is also a member of administrative, management and supervisory bodies of other Schaeffler Group companies.

Ian Burnage also leads a local management team which deals with day-to-day operational matters.

There are no other principal activities performed by the statutory directors outside The Barden Corporation (UK) Ltd.

The Barden Corporation (UK) Ltd. is represented by its board of directors. If the board of directors consists of two or more directors, any two directors acting jointly shall also be authorized to represent the Barden Corporation (UK) Ltd.

The members of the Barden Corporation (UK) Ltd. board of directors may be contacted at the registered office address.

None of the persons referred to above has declared any conflicts of interest between their duties to the Company and their private interests.

***Board practices***

The Board may hold an Annual General Meeting and may hold other Extraordinary General Meetings during the course of the year.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

***Share capital***

Total number of issued and fully paid ordinary shares is 160,000 of £1 each. Total aggregate nominal value is £160,000. The authorized share capital is 200,000 shares of £1 each.

***Financial statements***

The financial year of The Barden Corporation (UK) Ltd. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The statutory auditors for the year ended December 31, 2011 were KPMG LLP, Plym House, 3 Longbridge Road, Plymouth, P6 8LT, United Kingdom.

KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales.

***Trend information***

There has been no material adverse change in the prospects of The Barden Corporation (UK) Ltd. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which The Barden Corporation (UK) Ltd. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on The Barden Corporation (UK) Ltd.'s financial position or profitability.

***Significant change in the financial or trading position of The Barden Corporation (UK) Ltd.***

There has been no significant change in the financial or trading position of The Barden Corporation (UK) Ltd. since December 31, 2011.

## LuK Transmission Systems, LLC

***History and development***

The legal and commercial name is LuK Transmission Systems, LLC.

LuK Transmission Systems, LLC was incorporated on December 1, 2004 for an indefinite period of time under the laws of Delaware, United States. Its file number is 3808594.

LuK Transmission Systems, LLC's registered office is located at LuK Transmission Systems, LLC, c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, USA. Its phone number is +330-264-4383.

LuK Transmission Systems, LLC is incorporated as a limited liability company under the laws of Delaware, United States.

***Articles of association***

Pursuant of Article 3 of the LLC Agreement of LuK Transmission Systems, LLC dated December 1, 2004, it is the objective of LuK Transmission Systems, LLC to transact any lawful business or to engage in any lawful activity for which a limited liability company may be organized.

***Principal activities***

LuK Transmission Systems LLC designs and manufactures components for transmission systems (*e.g.*, torque converter, duel mass flywheel).

***Organizational structure***

LuK Transmission Systems, LLC is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

LuK Transmission Systems, LLC is managed by it officers consisting of Marc McGrath (President), Steven Crow (Secretary) and Timothy Zygmont (Treasurer).

Marc McGrath also serves as President of the parent entity, LuK USA LLC, and on its board and the board of several related entities.

Steven Crow is the general counsel for Schaeffler Group USA Inc. and also serves as Secretary for all U.S. subsidiaries.

Timothy Zygmont is treasurer for Schaeffler Group USA Inc. and treasurer for all related U.S. entities.

The board of directors of LuK Transmission Systems, LLC consists of Marc McGrath, Claus Bauer and Norbert Indelkofer.

Marc McGrath's other principal positions are noted above.

Claus Bauer serves as VP & CFO of Schaeffler Group USA Inc. and also serves on the boards of several of its North American subsidiaries.

Norbert Indlekofer is Schaeffler Group's Head of transmission systems within the Automotive Division and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies. See *"General information on the Parent Guarantor — Administrative, management and supervisory bodies."*

The directors and officers may be contacted at the registered office address.

None of the persons referred to above has declared any conflicts of interest between their duties to LuK Transmission Systems, LLC and their private interests.

***Board practices***

LuK Transmission Systems, LLC is not a public company and operates in accordance with all of the relevant laws of the State of Delaware, which is its State of incorporation.

***Share capital***

The LLC Agreement of LuK Transmission Systems, LLC expresses ownership as a percentage of member interest and one hundred percent (100%) of the member interest of LuK Transmission Systems, LLC is owned by LuK USA LLC.

***Financial statements***

The financial year of LuK Transmission Systems, LLC shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of LuK Transmission Systems, LLC for the year ended December 31, 2011 were KPMG LLP, 40 West Broad Street, Suite 260, Greenville, SC 29601, USA.

KPMG LLP is a member of the American Institute of Certified Public Accountants.

***Trend information***

There has been no material adverse change in the prospects of LuK Transmission Systems, LLC since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which LuK Transmission Systems, LLC is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on LuK Transmission Systems LLC's financial position or profitability.

***Significant change in the financial or trading position of LuK Transmission Systems LLC***

There has been no significant change in the financial or trading position of LuK Transmission Systems, LLC since December 31, 2011.

## The Barden Corporation

***History and development***

The legal and commercial name is The Barden Corporation.

The Barden Corporation was incorporated on May 26, 1942 for an indefinite period of time under the laws of Connecticut, United States. Its file number is 0072694. The Barden Corporation's registered office is located at 200 Park Avenue, Danbury, Connecticut 06810, USA. Its phone number is +1 203-744-2211.

The Barden Corporation is incorporated as a domestic stock corporation under the laws of Connecticut, United States.

***Articles of association***

Pursuant to Clause 3 of the Certificate of Incorporation of The Barden Corporation dated May 26, 1942, it is the objective of The Barden Corporation to design, develop, manufacture, deal in and repair all kinds of bearings, machines, vehicles, devices, hydraulic systems and tools.

***Principal activities***

The Barden Corporation designs and manufactures super precision ball bearings.

***Organizational structure***

The Barden Corporation is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

The Barden Corporation is managed by its officers consisting of Peter Enright (President), Robert Hillstrom (VP of Finance), Timothy Zygmont (Treasurer) and Steven Crow (Secretary).

Peter Enright also serves on the board of directors for The Barden Corporation, is responsible for the Aerospace business unit and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies.

Robert Hillstrom is the CFO for the Aerospace business unit and also serves as an officer and director for the Canadian affiliates of The Barden Corporation's parent company, Schaeffler Group USA Inc.

Timothy Zygmont is treasurer for Schaeffler Group USA Inc. and treasurer for all related U.S. entities.

Steven Crow is the general counsel & secretary for Schaeffler Group USA Inc. and he is also a member of administrative, management and supervisory bodies in other Schaeffler Group companies.

The board of directors of The Barden Corporation consists of Peter Enright, Bruce Warmbold and Claus Bauer.

Peter Enright's other responsibilities are discussed above.

Bruce Warmbold also serves as President and CEO of Schaeffler Group USA Inc. and also serves on the boards of many of its North American affiliates.

Claus Bauer serves as VP & CFO of Schaeffler Group USA Inc. and also serves on the boards of several of its North American subsidiaries.

The directors and officers may be contacted at the registered office address.

None of the persons referred to above has declared any conflicts of interest between their duties to The Barden Corporation and their private interests.

***Board practices***

The Barden Corporation is not a public company and operates in accordance with all of the relevant laws of the State of Connecticut, which is its State of incorporation.

***Share capital***

The total number of shares of common stock which the corporation shall have authority to issue is four million (4,000,000) and the par value of each of such shares is one dollar ($1.00). The stockholder is Schaeffler Group USA Inc. which holds one thousand (1,000) shares.

***Financial statements***

The financial year of The Barden Corporation shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of The Barden Corporation for the year ended December 31, 2011 were KPMG LLP, 40 West Broad Street, Suite 260, Greenville, SC 29601, USA.

KPMG LLP is a member of the American Institute of Certified Public Accountants.

***Trend information***

There has been no material adverse change in the prospects of The Barden Corporation since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which The Barden Corporation is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on The Barden Corporation's financial position or profitability.

***Significant change in the financial or trading position of The Barden Corporation***

There has been no significant change in the financial or trading position of The Barden Corporation since December 31, 2011.

## Schaeffler Group USA Inc.

***History and development***

The legal and commercial name is Schaeffler Group USA Inc.

Schaeffler Group USA Inc. was incorporated on August 8, 1969 for an indefinite period of time under the laws of Delaware, United States. Its file number is 0723711. Schaeffler Group USA Inc.'s registered office is located at Schaeffler Group USA Inc., c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, USA. Its phone number is +1 803-548-8500.

Schaeffler Group USA Inc. is incorporated as a stock corporation under the laws of Delaware, United States.

***Articles of association***

Pursuant to Clause 3 of the Certificate of Incorporation of Schaeffler Group USA Inc., former INA Bearing Company Inc., dated August 8, 1969 it is the objective of Schaeffler Group USA Inc. to engage in, promote, and carry on any lawful act or activity.

***Principal activities***

Schaeffler Group USA Inc. engineers, produces, sells and markets the INA, LuK, FAG and Barden brands throughout the United States, Canada, Mexico, Central America and the Carribbean.

***Organizational structure***

Schaeffler Group USA Inc. is a wholly-owned subsidiary of Schaeffler AG and belongs to the Schaeffler Group. For more information on the organizational structure of the Schaeffler Group, please see "*General information on the Parent Guarantor—Organizational structure.*"

***Administrative, management and supervisory bodies***

Schaeffler Group USA Inc is managed by its officers which consists of Bruce Warmbold (President & CEO), Claus Bauer (VP & CFO), Greg Tinnell (VP of Human Resources), Bradley Dineley (VP of Manufacturing), Eric Ovendorf (VP & General Manager of Industrial OEM & Distribution), Timothy Zygmont (Treasurer) and Steven Crow (Secretary).

Bruce Warmbold serves as President and CEO of Schaeffler Group USA Inc. and also serves on the boards of many of its North American affiliates.

Claus Bauer serves as VP & CFO of Schaeffler Group USA Inc. and also serves on the boards of several of its North American subsidiaries.

Timothy Zygmont is treasurer for Schaeffler Group USA Inc. and also serves as Secretary for all U.S. subsidiaries.

Steven Crow is the general counsel for Schaeffler Group USA Inc. and also serves as Secretary for all U.S. subsidiaries.

Greg Tinnell, Bradley Dineley and Eric Ovendorf serve as board members or officers of various related entities in North America.

The board of directors of Schaeffler Group USA Inc. consists of three members: Dr. Jürgen M. Geißinger, Bruce Warmbold and Claus Bauer.

Dr. Jürgen M. Geißinger is Schaeffler Group's CEO and he is also a member of administrative, management and supervisory bodies in other companies of the Schaeffler Group. See *"General information on the Parent Guarantor—Administrative, management and supervisory bodies."*

Bruce Warmbold's other principal activities are noted above.

Claus Bauer's other principal activities are noted above.

The directors and officers may be contacted at the registered office address.

None of the persons referred to above has declared any conflicts of interest between their duties to Schaeffler Group USA Inc. and their private interests.

***Board practices***

Schaeffler Group USA Inc. is a private company and operates in accordance with all of the relevant laws of the State of Delaware, which is its state of incorporation.

***Share capital***

The total number of shares of common stock which the corporation shall have authority to issue is one hundred thousand (100,000) and the par value of each of such shares is one dollar ($1.00) amounting in the aggregate to one hundred thousand dollars ($100,000). The stockholders for Schaeffler Group USA Inc. are FAG Kugelfischer GmbH with 16.5% of shares, LuK Beteiligungsgesellshaft GmbH with 31.01% of shares and Schaeffler Beteiligungsverwaltungs GmbH with 52.49% of shares.

***Financial statements***

The financial year of Schaeffler Group USA Inc. shall begin on January 1 and shall terminate on December 31 of the same year.

***Statutory auditors***

The independent auditors of Schaeffler Group USA Inc. for the year ended December 31, 2011 were KPMG LLP, 40 West Broad Street, Suite 260, Greenville, SC 29601, USA.

KPMG LLP is a member of the American Institute of Certified Public Accountants.

***Trend information***

There has been no material adverse change in the prospects of Schaeffler Group USA Inc. since December 31, 2011.

***Legal and arbitration proceedings***

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Schaeffler Group USA Inc. is aware) in the twelve months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on Schaeffler Group USA Inc.'s financial position or profitability other than the proceedings described under "*Description of the Schaeffler Group—Environment, insurance and legal—Litigation and administrative proceedings.*"

***Significant change in the financial or trading position of Schaeffler Group USA Inc.***

There has been no significant change in the financial or trading position of Schaeffler Group USA Inc. since December 31, 2011.

# Related parties transactions and major shareholders of the Parent Guarantor

## Joint procurement cooperation agreement

On March 27, 2009, Continental AG entered into the Cooperation Agreement with Schaeffler Holding GmbH & Co. KG. With effect from February 1, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of the Schaeffler Group's reorganization, been replaced by Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) as a party to the Cooperation Agreement. Pursuant to the Cooperation Agreement, Continental AG and Schaeffler Technologies GmbH & Co. KG (now Schaeffler Technologies AG & Co. KG) will act as independent entities but try to create synergies through worldwide purchasing cooperation. For a description of the provisions of the Cooperation Agreement, please refer to "*Description of the Schaeffler Group—Material contracts—Joint procurement cooperation agreement.*"

## Investment Agreement

On August 20, 2008, Continental AG entered into the Investment Agreement with Schaeffler Holding GmbH & Co. KG (formerly Schaeffler KG), Mrs. Maria-Elisabeth Schaeffler, Mr. Georg F. W. Schaeffler and former German Chancellor Dr. Gerhard Schröder as Controller. With effect as of June 28, 2010, Schaeffler Holding GmbH & Co. KG has, as a result of the Schaeffler Group's reorganization, been replaced by Schaeffler GmbH (now Schaeffler AG) as a party to the Investment Agreement. On May 4, 2011, Schaeffler Verwaltungs GmbH and on September 26, 2011, Schaeffler Beteiligungsholding GmbH & Co. KG acceded the Investment Agreement. For a description of the provisions of the Investment Agreement, please refer to "*Description of the Schaeffler Group—Material contracts—Investment Agreement.*"

## Special Receivables Loan

On September 22, 2011, a shareholder resolution of Schaeffler GmbH (now Schaeffler AG) had been passed on a dividend to Schaeffler Verwaltungs GmbH, the sole shareholder of Schaeffler GmbH. In fulfillment of the resolution, Schaeffler GmbH and Schaeffler Verwaltungs GmbH agreed in a German law governed loan agreement that Schaeffler GmbH as borrower owes to Schaeffler Verwaltungs GmbH as lender a claim of €600 million. The loan matures on December 31, 2021. For further details, please also see "*Description of other indebtedness—Special Receivables Loan.*"

## IBV Loan

Schaeffler Holding GmbH & Co. KG as lender and INA Beteiligungsverwaltungs GmbH as borrower entered into a German law governed deposit master agreement dated June 23, 2010 (the "**IBV Loan**"). Under the IBV Loan, the lender may place deposits to the borrower with a term of up to one year in an amount not exceeding €65 million. For further details, please also see "*Description of other indebtedness—IBV Loan.*"

# Description of other indebtedness

## New Senior Facilities Agreement

The Company as borrower and the Subsidiary Guarantors and Schaeffler Iberia S.L.U. (*Spain*) as guarantors are parties to a senior term loan and multicurrency revolving credit facilities agreement dated January 27, 2012 (as amended by an amendment agreement dated February 20, 2012, the "**New Senior Facilities Agreement**") providing for credit facilities in the aggregate amount of initially €8,000 million with, among others, BNP Paribas, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc., J.P. Morgan Limited, Landesbank Baden-Württemberg, The Royal Bank of Scotland plc and UniCredit Bank AG as mandated lead arrangers, Deutsche Bank Luxembourg S.A. as facility agent and General Security Trustee and Commerzbank Aktiengesellschaft, Luxembourg branch, as Continental Shares Security trustee and certain banks and financial institutions named therein as original lenders.

Pursuant to the terms and conditions of the New Senior Facilities Agreement, the lenders have made available to the borrowers the following credit facilities:

- a €2,000 million term loan facility ("**Facility A**") which matures on first anniversary of the date of the New Senior Facilities Agreement with a six-month extension option for an amount of up to €1,000 million. Facility A has been voluntarily cancelled in full by the Company on February 9, 2012;
- a €3,000 million term loan facility ("**Facility B**") which has been fully drawn and which matures on third anniversary of the date of the New Senior Facilities Agreement;
- a €2,000 million term loan facility in an aggregate amount of initially €2,000 million ("**Facility C,**" together with Facility A and Facility B, the "**Term Loan Facilities**") which has been fully drawn and which consists of (i) a €600 million term loan facility ("**Facility C1**") and (ii) a €1,400 million term loan facility converted into a €450 million term loan facility ("**Facility C2-EUR**") and a US$1,275 million term loan facility ("**Facility C2-USD**"), and matures on fifth anniversary of the date of the New Senior Facilities Agreement; and
- a €1,000 million multicurrency revolving credit facility (the "**Revolving Facility,**" together with the Term Loan Facilities, the "**Facilities**") of which €100 million has been drawn as of March 31, 2012, and which matures on the third anniversary of the date of the New Senior Facilities Agreement, with options for a total extension of up to two years subject to approval by lenders representing at least 60% of all commitments under the Revolving Facility, provided that only revolving commitments of lenders which have agreed to such extension will be extended (although the Company may require that any lender that does not consent to an extension transfers its Revolving Facility commitment, at par, either to a lender that is willing to consent to such extension, or another lending institution selected by the Company). The Revolving Facility is available for drawing until one month prior to the final maturity date, extended, as the case may be, and may be utilized by way of drawings in cash. In addition, the Schaeffler Group may agree with a lender under the Revolving Facility that such lender (or any affiliate of any such lender) provides an ancillary facility on a bilateral basis in place of all or part of the unutilized revolving commitment of that lender; an ancillary facility may be by way of an overdraft facility, a guarantee or stand-by letter of credit facility, a short term loan facility, a current account or any other facility or accommodation agreed between the Company and the lender. The maximum account of all commitments made available under ancillary facilities must not exceed €350 million. As of March 31, 2012, €49.5 million was drawn under ancillary facilities.

***Interest***

The Facilities bear interest, in case of Euro loans, at a rate of EURIBOR, or, in the case of loans drawn in USD or any other currency other than Euro, LIBOR (provided that EURIBOR in relation to Facility C2-EUR only is, if EURIBOR is below 1.5%, 1.5% and LIBOR in relation to Facility C2-USD

only is, if LIBOR is below 1.25%, 1.25%), plus the applicable margin, plus mandatory cost, if any. The applicable margin in relation to Facility C1 and Facility C2-USD is 4.75% per annum and, if the Leverage Ratio (as defined below) is less than 2.50:1, 4.50% per annum. The applicable margin in relation to Facility C2-EUR is 5.00% per annum and, if the Leverage Ratio (confirmed by a compliance certificate relating to a covenant testing date falling more than nine months after the date of the New Senior Facilities Agreement) is less than 2.50:1, 4.75% per annum. The applicable margin is 4.25% per annum in relation to Facility B and the Revolving Facility until the earlier of the date on which (i) the compliance certificate relating to the first covenant testing date falling more than nine months after the date of the New Senior Facilities Agreement is delivered, (ii) the Company is assigned a long-term credit rating, or such rating is withdrawn or changed, or (iii) all long-term credit ratings previously assigned to the Company are withdrawn, in each case provided that such event is more than nine months after the date of the New Senior Facilities Agreement. Thereafter the applicable margin in relation to Facility B and Revolving Facility will be, in each case, a percentage per annum determined in accordance with certain combined rating/leverage ratchets.

The term loans outstanding under Facility B and Facility C may be used for the general corporate purposes of the Schaeffler Group and are due for repayment in one amount on their respective final maturity dates. The Revolving Facility may be used towards general corporate purposes of the Schaeffler Group. Any loan made available under the Revolving Facility shall be repaid on the last day of its interest period and all amounts outstanding under the Revolving Facility shall be repaid on the final maturity date of the Revolving Facility (extended, as the case may be). Subject to certain conditions, the Schaeffler Group may voluntarily prepay its utilizations and/or permanently cancel all or part of the available commitments under the Facilities. In addition to voluntary prepayments, the New Senior Facility Agreement requires mandatory prepayment of the term loans made available under the Facilities in full or in part in certain circumstances, including (i) with respect to any lender, in full if it becomes unlawful in any applicable jurisdiction for such lender to perform any of its obligations under the New Senior Facilities Agreement or to fund or maintain its participation in any loans, (ii) with respect to any lender who so requires, in full following a specified negotiation period after the occurrence of a Change of Control as defined under "*Description of the Notes*" (although such lender will, at the request of the Company, assign at par its commitment and participation in any facility to another lender willing to accept such assignment, subject to certain conditions) and (iii) in each case subject to certain criteria, from net proceeds received from (A) assets disposals (subject to certain thresholds and a reinvestment period), (B) the sale of certain shares in Continental AG, (C) dividend payments in relation to certain shares in Continental AG, (D) any debt capital issue, loan or other financing, (E) any increase in the share capital of the Company, and from excess cash flow.

***Security and Guarantees***

The New Senior Facilities Agreement requires that (i) the aggregate gross assets (excluding all intra-group items) of the Company and each guarantor represents not less than 75% of the Schaeffler Group's consolidated gross assets; (ii) the aggregate unconsolidated EBITDA of the Company and each guarantor represents not less than 70% of the Schaeffler Group's total unconsolidated EBITDA; and (iii) the aggregate turnover (excluding all intra-group items) of the Company and each guarantor represents not less than 70% of the Schaeffler Group's consolidated turnover.

The New Senior Facilities Agreement also requires that each of the Schaeffler Group's subsidiaries (i) whose unconsolidated gross assets represent 2% or more of the Schaeffler Group's total unconsolidated gross assets; (ii) whose unconsolidated turnover represents 2% or more of the Schaeffler Group's total unconsolidated turnover; or (iii) whose unconsolidated EBITDA represents 2% or more of the Schaeffler Group's total unconsolidated EBITDA ("**Material Subsidiaries**", but excluding the Issuer for as long as it is a finance subsidiary and any Material Subsidiary incorporated or established in South Korea, India, China and Russia) guarantees the New Senior Facilities Agreement.

The Facilities are, or as the case may be, will be secured by security over (i) all shares and interests in each guarantor, each member of the Schaeffler Group which directly or indirectly holds shares or interests in a guarantor (other than the Company), Schaeffler Immobilien AG & Co. KG, Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung and Schaeffler Familienholding Drei GmbH & Co. KG, (ii) all shares held by the Schaeffler Group in Continental AG, (iii) the material cash pooling master accounts (other than any such account maintained in the U.S. or China), (iv) material accounts receivables (and ancillary rights and claims but excluding, inter alia, accounts receivable and the respective ancillary rights of U.S. companies), (v) claims against any hedging counterparty which is not a member of the Schaeffler Group (but excluding any claims under hedging arrangements taken out in order to hedge any currency, interest or pricing rate risk in relation to activities in, or members of the Schaeffler Group incorporated or organized under the laws of, Brazil, India, China, Korea or South Africa) and (vi) certain material intra-group loan receivables. Part of the collateral securing the Facilities will be released under certain circumstances as described under "*—Reset Dates, relaxation of covenants and releases of collateral*" and "*—Continental AG shares disposal and release of Continental AG shares security.*"

***Financial Covenants***

In respect of its financial condition, the Schaeffler Group must comply with certain financial covenants as set out in the New Senior Facilities Agreement on each specified testing date, being the last date of the relevant testing period (which is a period of twelve months ending on each of March 31, June 30, September 30 and December 31 of each year), by reference to the Schaeffler Group's latest consolidated financial statements. The relevant components of testing compliance with the financial covenants are calculated with respect to the Schaeffler Group's ratios of consolidated total net debt on each testing date to the its consolidated EBITDA for the testing period ending on the relevant testing date, the Schaeffler Group's consolidated EBITDA to its consolidated net finance charges on a rolling aggregate basis for each testing period and its consolidated cash flow to consolidated debt service on a rolling aggregate basis for each testing period.

Under the financial covenants, the Company must ensure that:

- the ratio of consolidated total net debt on any testing date to consolidated EBITDA (both as calculated in accordance with the terms and provisions of the New Senior Facilities

Agreement) (the "**Leverage Ratio**") for the relevant testing period is not more than as set out in the table below next to the respective testing date:

| Testing period ending | Leverage Ratio |
|---|---|
| June 30, 2012 | 3.90:1 |
| September 30, 2012 | 3.90:1 |
| December 31, 2012 | 3.90:1 |
| March 31, 2013 | 3.70:1 |
| June 30, 2013 | 3.70:1 |
| September 30, 2013 | 3.50:1 |
| December 31, 2013 | 3.50:1 |
| March 31, 2014 | 3.40:1 |
| June 30, 2014 | 3.40:1 |
| September 30, 2014 | 3.30:1 |
| December 31, 2014 | 3.30:1 |
| March 31, 2015 | 3.10:1 |
| June 30, 2015 | 3.10:1 |
| September 30, 2015 | 2.90:1 |
| December 31, 2015 | 2.90:1 |
| March 31, 2016 | 2.75:1 |
| June 30, 2016 | 2.75:1 |
| September 30, 2016 | 2.75:1 |
| December 31, 2016 | 2.75:1 |

- the ratio of consolidated EBITDA to consolidated net finance charges (both as calculated in accordance with the terms and provisions of the New Senior Facilities Agreement) (the "**Interest Cover Ratio**") is for each testing period not less than as set out in the table below next to the respective testing date:

| Testing period ending | Interest Cover Ratio |
|---|---|
| June 30, 2012 | 3.10:1 |
| September 30, 2012 | 3.50:1 |
| December 31, 2012 | 3.50:1 |
| March 31, 2013 | 3.60:1 |
| June 30, 2013 | 3.60:1 |
| September 30, 2013 | 3.70:1 |
| December 31, 2013 | 3.70:1 |
| March 31, 2014 | 3.70:1 |
| June 30, 2014 | 3.70:1 |
| September 30, 2014 | 3.90:1 |
| December 31, 2014 | 3.90:1 |
| March 31, 2015 | 4.00:1 |
| June 30, 2015 | 4.00:1 |
| September 30, 2015 | 4.30:1 |
| December 31, 2015 | 4.30:1 |
| March 31, 2016 | 4.50:1 |
| June 30, 2016 | 4.50:1 |
| September 30, 2016 | 4.50:1 |
| December 31, 2016 | 4.50:1 |

- the ratio of the Schaeffler Group's consolidated cashflow to consolidated debt service of the Schaeffler Group (both as calculated in accordance with the terms and provisions of the New

Senior Facilities Agreement) (the "**Cashflow Cover Ratio")** is for each testing period not less than as set out in the table below next to the respective testing date:

| Testing period ending | Cashflow Cover Ratio |
|---|---|
| June 30, 2012 | 1.00:1 |
| September 30, 2012 | 1.00:1 |
| December 31, 2012 | 1.00:1 |
| March 31, 2013 | 1.00:1 |
| June 30, 2013 | 1.00:1 |
| September 30, 2013 | 1.00:1 |
| December 31, 2013 | 1.00:1 |
| March 31, 2014 | 1.10:1 |
| June 30, 2014 | 1.10:1 |
| September 30, 2014 | 1.10:1 |
| December 31, 2014 | 1.10:1 |
| March 31, 2015 | 1.20:1 |
| June 30, 2015 | 1.20:1 |
| September 30, 2015 | 1.20:1 |
| December 31, 2015 | 1.20:1 |
| March 31, 2016 | 1.20:1 |
| June 30, 2016 | 1.20:1 |
| September 30, 2016 | 1.20:1 |
| December 31, 2016 | 1.20:1 |

- the Schaeffler Group does not incur in any financial year any capital expenditure in excess of an amount equal to 8% of the consolidated net sales of the Company in such financial year, provided that an additional amount of up to €20 million of the capital expenditure for the respective next financial year may be carried back to, and used as additional capital expenditure in, the then current financial year (resulting in the maximum amount of capital expenditure permissible to be incurred in that current financial year being increased, and the maximum amount of capital expenditure permissible to be incurred in the immediately following financial year being reduced accordingly, by the respective amount carried back and used as capital expenditure). If and for as long as (i) the Leverage Ratio of the Company is equal to or less than 2.75:1 on two consecutive testing dates and (ii) the Schaeffler Group's total financial debt (disregarding any shareholder loans and borrowings between members of the Schaeffler Group) has been repaid to an amount of €6,650 million, the amount of capital expenditure spent in any financial year (less any amount carried back to the relevant immediately preceding financial year as described above) must not exceed 8.25% of the consolidated net sales of the Company (although, if any such condition ceases to be fulfilled during the course of a financial year, the allowed capital expenditure for that financial year shall be reduced on a prorated basis). If two of Standard & Poor's, Moody's and Fitch have confirmed that the Company has a long-term credit rating of at least BBB- /Baa3, respectively, the capital expenditure covenant no longer applies.

***Covenants***

The New Senior Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the New Senior Facilities Agreement in respect of the relevant covenant (customized to the Schaeffler Group's business and adjusted to its current credit standing). Such restrictive covenants include, but are not limited to, restrictions on (i) the incurrence of financial indebtedness, (ii) asset disposals, (iii) the granting of security ("**negative pledge**"), (iv) the granting of loans or credits or the provision of guarantees, (v) mergers and other reorganization measures, (vi) acquisitions and investments, (vii) enterprise agreements with entities which are not members of the Schaeffler Group or members of the Continental Group, (viii) substantial changes to the general nature of

the Schaeffler Group's business, and (ix) the redemption or repurchase by the Company of its share capital. Additionally, the Schaeffler Group has the obligation to provide certain financial information and other information regarding its financial condition to the lenders under the New Senior Facilities Agreement.

In addition, the New Senior Facilities Agreement requires the Schaeffler Group to observe certain customary affirmative covenants (subject to agreed exceptions and qualifications) including with relation to the obtaining of and compliance with any required authorizations (including environmental approvals), compliance with laws (including environmental laws), maintenance of *pari passu* ranking of unsecured debt obligations, maintenance of appropriate insurances, preservation and maintenance of assets and intellectual property, the granting of access to the Company and the payment of taxes.

***Note purchase condition***

The New Senior Facilities Agreements restricts the redemption and repurchase of bonds or notes issued by any member of the Schaeffler Group unless Facility B has been repaid or refinanced in full (with debt having a maturity falling at least six months after the final maturity of Facility C1 and Facility C2) and provided that such redemption or repurchase is financed from certain restricted sources permitted by the New Senior Facilities Agreement and provided that (i) a proportionate amount of the Facilities being prepaid at the same time or (ii) if financed by incurrence of financial debt, such financial debt is subject to the Security Pooling and Intercreditor Agreement.

***Restricted payments and separation of decks***

The New Senior Facility Agreement generally restricts payments, including by way of dividends or other distributions, and the declaration or making of any such dividend or other distribution, by the Company to: (i) prior to an Initial Public Equity Offering (as defined in the "*Description of the Notes*"), any of its direct or indirect shareholders or any affiliate of any such shareholder (except for any member of the Schaeffler Group or any member of the Continental Group); and (ii) following an Initial Public Equity Offering, the Family Shareholders (and their respective legal or appointed heirs) or any entity in which they hold the majority of the voting share capital or which they otherwise control (except for any member of the Schaeffler Group or any member of the Continental Group) (each such person referred to under (i) and (ii) above being a "**Restricted Person**"), subject to certain exemptions, including specified limited cash amounts which may be paid in any financial year for particular purposes (and which may in turn only be used by certain Restricted Persons for certain permitted purposes), payment under arm's length transactions up to a maximum of €5 million in any financial year and, subject to certain conditions, limited payment from excess cash flow and proceeds from certain limited events including the disposal of Unrestricted Continental Shares (as defined under "*Description of the Notes*").

Under the New Senior Facility Agreement, subject to certain exceptions, no member of the Schaeffler Group may incur or permit to subsist any actual or contingent payment liability, or in respect of the obligations of, or enter into any contract or agreement with, or transfer to or exchange any assets with a Restricted Person. In addition, subject to certain exceptions, no material assets, intellectual property or authorizations used for the conduct of the business of Schaeffler Group may be owned or held by any Restricted Person. Subject to certain exceptions, all employees and managers involved in its business shall be employed by the Schaeffler Group and not by a Restricted Person.

***Continental AG shares disposal and release of Continental AG shares security***

The shares held in Continental AG can be disposed of at any time if the net proceeds from any such share disposal are used to prepay the term facilities. In addition, Unrestricted Continental Shares may be, subject to certain requirements, disposed of without any mandatory prepayment

being required. Upon the occurrence of two trigger events, each of which is linked to a certain reduction in leverage and an absolute reduction in the IHO Group's total debt resulting from borrowings (as set out below), a certain number of shares in Continental AG will become Unrestricted Continental Shares.

25% of the Schaeffler Group shares in Continental AG (*i.e.*, currently 9% of all shares in Continental AG) will qualify as Unrestricted Continental Shares when the leverage is reduced to 2.5x or less for two consecutive quarters, total debt is reduced to an amount of €6,400 million or less (not taking into account repayment of any shareholder loans) and IHO debt is reduced by at least €1 billion.

Further, an additional 33% of all shares held by the Schaeffler Group (which do not qualify as Unrestricted Continental Shares in accordance with the preceding paragraph) will qualify as Unrestricted Continental Shares when leverage is reduced to 2.0x or less for two consecutive quarters and total debt is reduced to an amount of €5,650 million or less (not taking into account repayment of any shareholder loans).

Notwithstanding the occurrence of the aforementioned trigger events, the security granted over Unrestricted Continental Shares will stay in place unless such security is released in the case of Unrestricted Continental AG Shares which are simultaneously or promptly used for a permitted purpose. All shares will qualify as Unrestricted Continental Shares if Schaeffler AG achieves a Baa2/BBB long-term credit rating (or better) from any two of Moody's, S&P and Fitch and the Company may then request the release of the relevant security provided that Facility A has been repaid in full.

***Reset Dates, relaxation of covenants and release of collateral***

The New Senior Facilities Agreement provides for a mechanism according to which certain covenants will relax.

*First Reset Date:* If and for as long as the Schaeffler Group's leverage is less than 2.75x for two consecutive quarters, its total debt is reduced to an amount of €6,650 million (disregarding shareholder loans and borrowings between members of the Schaeffler Group),

(i) the general baskets relating to disposals, acquisitions, negative pledge, financial indebtedness, loans-out and guarantees increase;

(ii) the annual amount permitted to be spent as capital expenditure increases; and

(iii) the proportion of excess cashflow to be applied towards mandatory prepayment of the term loans is reduced.

*Second Reset Date:* If and for as long as the Company is assigned a solicited long-term investment grade credit rating (Baa3/BBB-) by at least two of Moody's, S&P and Fitch,

(i) the capital expenditure covenant no longer applies;

(ii) the general baskets relating to negative pledge, disposals, financial indebtedness, loans-out, guarantees, acquisitions increase further;

(iii) the annual amount permitted to be paid in cash to a Restricted Person (irrespective of specific events or circumstances resulting in certain other payments and/or distributions (in cash or kind) becoming permissible) is increased to the higher of 50% of the Schaeffler Group's net income and a floor amount set out in the New Senior Facilities Agreement;

(iv) the financial indebtedness covenant no longer applies in relation to the Company and any finance subsidiary;

(v) the guarantor coverage undertaking no longer applies;

(vi) the Company may request the release of all security interests other than any security interest over shares or interests in any obligor or other member of the Schaeffler Group or over the shares in Continental AG;

(vii) acquisitions on arm's length terms are generally permitted (subject to a confirmation by the Company that (i) it would have complied with the Leverage Ratio (taking into account the relevant acquisition on a pro forma basis) applicable to the last financial covenant testing date prior to the relevant acquisition and (ii) according to its forecast (taking into account the relevant acquisition on a pro forma basis), it will comply with all of the financial covenants on the next four financial covenant testing dates);

(viii) the amount of proceeds received from asset disposals, any debt capital issue, loan or other financing or the amount of excess cash flow to be applied towards mandatory prepayment of term loans is reduced; and

(ix) the Company is no longer required to deliver its annual budgets.

***Events of Default***

The New Senior Facilities Agreement contains customary events of default, the occurrence of which would allow the lenders to cancel their commitments, declare that all or part of the loans together with accrued interest and all other amounts accrued or outstanding under the finance documents be immediately due and payable or declare that all or part of the amounts outstanding under any ancillary facilities be immediately due and payable.

These events of default, subject to certain agreed grace periods and exceptions, include, without limitation:

(a) failure to make payment of amounts due and payable in connection with the New Senior Facilities Agreement;

(b) failure to comply with the financial covenants;

(c) the making of restricted payments which are not permitted;

(d) a cross-default with respect to the IHO Debt Instruments, subject to a threshold of €5 million in relation to a cross-default arising from readjustments or rescheduling of debt (but not insolvency or similar proceedings) and further subject to the expiry of a certain remedy or, as the case may be, waiver period in certain cases where a creditor of the IHO Debt Instruments is entitled to declare such debt immediately due and payable but has not done so;

(e) a cross-default with respect to other financial indebtedness of the Schaeffler Group, subject to a threshold of €50 million;

(f) certain insolvency events or proceedings;

(g) certain creditors processes, including expropriations, attachments or sequestration of assets or similar events subject to a threshold of €25 million.

(h) change of ownership events, including where an obligor (other than the Company) ceases to be a subsidiary of the Company;

(i) failure to comply with the provisions of the Security Pooling and Intercreditor Agreement; and

(j) qualification of the audit report for the annual audited financial statements in a way that is materially adverse.

*Governing Law*

The New Senior Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

## Existing Notes

Schaeffler Finance B.V. issued €800,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**2017 Euro Notes**"), $600,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**2017 Dollar Notes**"), €400,000,000 in aggregate principal amount of senior secured notes due 2019 (the "**2019 Euro Notes**") and $500,000,000 in aggregate principal amount of senior secured notes due 2019 (the "**2019 Dollar Notes**" and, together with the 2017 Dollar Notes; the 2017 Euro Notes and the 2019 Euro Notes, the "**Existing Notes**") under a New York law governed indenture dated February 9, 2012 (the "**Existing Notes Indenture**") among, inter alios, itself as issuer, Schaeffler AG and Schaeffler AG's subsidiaries that guarantee the Existing Notes, Deutsche Trustee Company Limited as trustee, Deutsche Bank Luxembourg S.A. as general security trustee and Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustee, in a private transaction not subject to the registration requirements of the U.S. Securities Act.

Interest on the 2017 Euro Notes accrues at the rate of 7.75% per annum, interest on the 2017 Dollar Notes accrues at the rate of 7.75% per annum, interest on the 2019 Euro Notes accrues at the rate of 8.75% per annum and interest on the 2019 Dollar Notes accrues at the rate of 8.50% per annum. Interest on the Existing Notes is payable in the currency in which such Existing Notes are denominated semi-annually in arrears on February 15 and August 15, commencing on August 15, 2012. The Issuer will make each interest payment to the noteholders of record on the immediately preceding February 1 and August 1.

The terms and conditions of the Existing Notes are, except for the maturity and the interest rate, substantially identical to those of in the "*Description of the Notes.*" Therefore, the Schaeffler Group is subject to certain covenants which limit the ability to incur financial indebtedness. Among others, the Existing Notes Indenture limits the ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- pay dividends on, redeem or repurchase its capital stock;
- make certain restricted payments and investments, including dividends or other distributions with regard to the shares of the Issuer or its restricted subsidiaries;
- create or incur certain liens;
- enter into agreements that restrict its subsidiaries' ability to pay dividends;
- transfer or sell assets;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the noteholders of the Existing Notes.

Under the Existing Notes Indenture, upon the occurrence of certain change of control events, each of the noteholders is entitled to require Schaeffler Finance B.V. to redeem in whole or in part the Existing Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts. In addition, if, prior to May 22, 2017, the IHO debt instruments are not repaid or refinanced or their maturity is not extended as provided in the Existing Notes Indenture, Schaeffler Finance B.V. will also be required to offer to repurchase the Notes at a purchase price equal to 100% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repurchase.

Like the New Senior Facilities Agreement, the Existing Notes Indenture also provides for events of default, including cross acceleration and cross-payment defaults with respect to financial indebtedness in an aggregate amount of at least €50.0 million, entitling the noteholders of the Existing Notes to demand immediate redemption of the Existing Notes.

The Schaeffler Group used the net proceeds from the sale of the Existing Notes, together with drawings under the New Senior Facilities Agreement, for prepayment in full outstanding amounts under the Repaid Senior Facilities Agreement.

## Security Pooling and Intercreditor Agreement

***Overview***

In connection with the approximately €8,000 million refinancing in February, Schaeffler Holding GmbH & Co. KG, Schaeffler Verwaltungs GmbH, the Company, the Issuer, certain subsidiaries of the Company as obligors and security providers, entered into a security pooling and intercreditor agreement dated January 27, 2012, as amended (the **"Security Pooling and Intercreditor Agreement"**) to govern the relationships and relative priorities among: (i) the obligors named therein; (ii) the Collateral providers named therein; (iii) certain intra-group creditors and debtors named therein; (v) the syndicated facilities lenders named therein; (vi) the hedge counterparties under certain hedging agreements named therein; (vii) the original ancillary lenders named therein; (viii) Deutsche Bank Luxembourg S.A. as General Security Trustee; (ix) Commerzbank Aktiengesellschaft, Luxembourg Branch as Continental Shares Security Trustee; (x) Deutsche Bank Luxembourg S.A. as facility agent under the New Senior Facilities Agreement and (xi) the trustee for the Existing Notes and the trustee for any other notes that accede to the Security Pooling and Intercreditor Agreement in the future, including the Notes. The trustee for the Existing Notes acceded to the Security Pooling and Intercreditor Agreement on February 9, 2012 and the Trustee for the Notes will accede to the Security Pooling and Intercreditor Agreement on the Issue Date for the Notes. By accepting a Note, the Holder shall be deemed to have agreed to, and accepted the terms and conditions of, the Security Pooling and Intercreditor Agreement.

The Company, the obligors, the Collateral providers and the intra-group debtors are referred to in this description as **"Debtors."**

The Security Pooling and Intercreditor Agreement is governed by English law. It sets out:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of the Collateral.

The following description is a summary of certain provisions, among others, contained in the Security Pooling and Intercreditor Agreement, that relate to the rights and obligations of the Holders and the Schaeffler Group's other senior creditors. It does not restate the Security Pooling and Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of other classes of the Schaeffler Group's debt and debt of the Schaeffler Group's ultimate parent entities Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH or capital expenditures. As such, the Schaeffler Group urges the investor to read the Security Pooling and Intercreditor Agreement in its entirety because it, and not the description that follows, defines the rights of the Holders. In this summary, capitalized terms

have the meanings given to them in the Security Pooling and Intercreditor Agreement, unless the contrary is otherwise stated or the context otherwise requires.

***Ranking and priority***

Each of the parties to the Security Pooling and Intercreditor Agreement will agree that the Liabilities owed by the Debtors to (i) the lenders under the New Senior Facilities Agreement, the Holders and certain hedge counterparties (such Liabilities being collectively referred to as the "**Senior Liabilities**" and such creditors being "**Secured Creditors**"), (ii) Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH (such Liabilities being referred to together as the "**Parent Liabilities**") and (iii) certain members of the group (the "**Intra-Group Liabilities**") will rank in right and priority of payment in the following order and will be postponed and subordinated to any prior ranking Liabilities as follows:

**First** the Senior Liabilities (*pari passu*, without any preference among such Liabilities);

**Second** the Intra-Group Liabilities (*pari passu*, without any preference among such Liabilities); and

**Third** the Parent Liabilities (*pari passu*, without any preference among such Liabilities).

The Parent Liabilities are and will remain unguaranteed and unsecured by any member of the Group. Prior to the date on which all Senior Liabilities have been fully discharged ("**Senior Discharge Date**"), the Intra-Group Liabilities and the Parent Liabilities shall comply with the provisions set out in the Security Pooling and Intercreditor Agreement. The ranking and priority set forth above shall apply regardless of the order of registration, filing, notice or execution of any document; the date upon which the Liability was incurred or arose; whether a person is obliged to advance any such Liability; and any fluctuations in the outstanding amount, or any intermediate discharge in whole or in part of any Liability.

Each of the parties to the Security Pooling and Intercreditor Agreement will agree that the Collateral shall rank and secure the Senior Liabilities *pari passu* and without any preference between the Secured Creditors.

***Collateral***

The Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors will not be granted directly to the Holders but has been, or will be before the issuance of the Notes, granted only in favor of the General Security Trustee and the Continental Shares Security Trustee.

The Collateral is shared between the Holders, certain hedge counterparties, the holders of any *pari passu* additional debt and the lenders under the Schaeffler Group's New Senior Facilities Agreement and includes liens and other forms of security interests over the shares in, *inter alia,* the Issuer, the Subsidiary Guarantors and shares in Continental AG owned by members of the Schaeffler Group, certain cash pool accounts, certain intra-group liabilities and certain account receivables. No such Secured Creditor will be entitled to take the benefit of any guarantee or security unless such guarantee or security is also offered for the benefit of the other Secured Creditors. The Collateral will rank and secure the Secured Obligations owed to the Secured Creditors *pari passu* and without any preference between them, provided that with respect to any Notes Liabilities any Accessory Security Interest will secure only the relevant Notes Parallel Debt Obligations or any other parallel debt obligation in favor of the Security Trustee and none of the Transaction Security shall rank and secure any of the Subordinated Liabilities.

In addition, the Security Pooling and Intercreditor Agreement provides that the Guarantees and Collateral will be released in certain circumstances described further below in "*—Release of Transaction Security and Guarantees: Disposals.*"

***Subordinated Liabilities***

Each of the parties to the Security Pooling and Intercreditor Agreement agrees that certain Intra-Group Liabilities and the Parent Liabilities are subordinated to the Liabilities owed by the Debtors to the Secured Creditors. Each of the parties to the Security Pooling and Intercreditor Agreement agrees that the Parent Liabilities are subordinated to the Intra-Group Liabilities.

***Note Creditors and Note Liabilities***

*Payment of Note Liabilities*

Prior to any Enforcement Action, the Debtors may make Payments of the Notes Liabilities at any time in accordance with the Indenture and the Notes. On or after the occurrence of any Enforcement Action, the Debtor will make all Payments in relation to the Notes Liabilities to the General Security Trustee, and the General Security Trustee will apply such Payments as set forth in the Security Pooling and Intercreditor Agreement.

*Security and Guarantees—Note Creditors*

The Trustee (acting on behalf of the Holders) and the Holders may take, accept or receive the benefit of:

- any Security in respect of the Note Liabilities in addition to the Transaction Security if, and to the extent legally possible, at the same time it is also offered either (i) to the General Security Trustee as trustee for the other Secured Creditors in respect of the Liabilities owed to them; or (ii) in the case of any jurisdiction in which effective Security cannot be granted in favor of the General Security Trustee as trustee for the relevant Secured Creditors, as the case may be, (a) to the other Secured Creditors in respect of the Liabilities owed to them; or (b) to the General Security Trustee under a parallel debt structure for the benefit of the other Secured Creditors, and ranks in the same order of priority as that described under the caption "*—Ranking and Priority*" provided that all amounts received or recovered by any Secured Creditor with respect to such Security are paid to the General Security Trustee to the extent required under the Security Pooling and Intercreditor Agreement (for example, as described under the caption "*—Turnover of Receipts*") and held and applied in the manner described under the caption "*—Application of Proceeds;*" and
- any guarantee, indemnity or other assurance against loss in respect of the Notes Liabilities in addition to those in (i) the Notes Documents in their form at the date of the Security Pooling and Intercreditor Agreement or any equivalent provisions under any other Notes Documents relating to any other Notes; or (ii) the Security Pooling and Intercreditor Agreement; if and to the extent legally possible, at the same time it is also offered to the other Secured Creditors (in the case of any Holder, through the relevant Trustee) as the case may be in respect of the Liabilities owed to them and ranks in the same order of priority as that described under the caption "*—Ranking and Priority,*" provided that all amounts received or recovered by any Secured Creditor with respect to such guarantee, indemnity or other assurance against loss are paid to the General Security Trustee to the extent required under the Security Pooling and Intercreditor Agreement (for example, as described under "*—Turnover of Receipts*") and held and applied in the manner described under the caption "*—Application of Proceeds.*"

*Amendments: Notes Documents*

Other than for certain specific purposes under the Security Pooling and Intercreditor Agreement as described under the caption "*—Parallel Debt (Covenant to pay the Security Trustees)*" and the definition of the term "Secured Obligations" under the Security Pooling and Intercreditor Agreement and except for amendments to Notes Documents to effect the issuance of Notes (including Additional Notes) subject to and in accordance with the terms and provisions of the Security Pooling and Intercreditor Agreement and the other Transaction Finance Documents, any amendment of any term of the Notes Documents which results in any increase of any amount of principal, interest or fees shall not be permitted and shall be disregarded for all

purposes of the Security Pooling and Intercreditor Agreement, unless consented to in writing by each facility agent.

*Option to purchase: Holders*

Following any Enforcement Action, the relevant Trustee may, at the direction and the expense of the relevant Holders (the "**Purchasing Holders**"), if (i) it gives not less than fifteen Business Days prior written notice to each facility agent in respect of the facilities agreement and if applicable, the hedge counterparties; and (ii) prior to giving any such notice, it obtains all necessary approvals from the Purchasing Holders, acquire or procure the acquisition by a person nominated by the relevant Trustee on behalf of the Purchasing Holders of all (but not part only) of the rights and obligations of the lenders under the relevant facilities agreement and the hedge counterparties in connection with the Liabilities under the finance documents and the Liabilities under the hedging agreements by way of transfer under the relevant provision of the Syndicated Facilities Agreement or the corresponding provision in any other finance documents or relevant hedging agreement.

*Restriction on Enforcement: Holders*

Subject to the description in the two paragraphs below and certain provisions of the Security Pooling and Intercreditor Agreement relating to hedge counterparties and hedging liabilities, each Holder shall be entitled to take any Enforcement Action at any time in its several sole discretion in respect of the Notes Liabilities other than steps relating to the enforcement of Collateral or insolvency proceedings in respect of a Debtor which the Instructing Group must consent to.

If the Instructing Group provides consent to any Secured Creditor to take any Enforcement Action, such consent shall apply equally to all Holders to take the same Enforcement Action and notice of such consent shall be provided to all the Agents and the Security Trustees and each hedge counterparty at the same time.

Notwithstanding the above or anything to the contrary in the Security Pooling and Intercreditor Agreement, after the occurrence of an Insolvency Event in relation to a Debtor, each Holder may, to the extent it is able to do so under the relevant Notes Documents, take certain Enforcement Action and/or claim in the winding up, dissolution, administration, reorganization or similar insolvency event of that Debtor for Notes Liabilities owing to it (but, for the avoidance of doubt, may not direct the Security Trustees to enforce the Transaction Security in any manner other than as a member of the Instructing Group).

***Subordination on Insolvency***

*Payment of distributions*

After the occurrence of an Insolvency Event in relation to any member of the Group, any party entitled to receive a distribution out of the assets of that member of the Group in respect of Liabilities owed to that party shall, to the extent it is able to do so, direct the person responsible for the distribution of the assets of that member of the Group to pay that distribution to the General Security Trustee until the Liabilities owing to the Secured Creditors have been paid in full.

The General Security Trustee shall apply distributions paid to it as provided for in the Security Pooling and Intercreditor Agreement and as described under "*—Application of Proceeds.*"

*Set-Off*

Subject to certain exceptions relating to the operation of ancillary banking facilities and certain netting arrangements for hedging transactions, to the extent that any member of the Group's Liabilities is discharged by way of set-off (mandatory or otherwise) after the occurrence of an Insolvency Event in relation to that member of the Group, any Creditor (and in case of the Trustee, subject to the provisions of the Security Pooling and Intercreditor Agreement described

under the caption "*—Turnover Obligations*"), which benefited from that set-off shall pay an amount equal to the amount of the Liabilities owed to it which are discharged by that set-off to the General Security Trustee for application as described under the caption "*—Application of Proceeds.*"

*Filing of claims*

Without prejudice to provisions relating to set-off as described above, after the occurrence of an Insolvency Event in relation to any member of the Group, each Creditor irrevocably authorizes the General Security Trustee, on its behalf, to:

- take any Enforcement Action (in accordance with the terms of the Security Pooling and Intercreditor Agreement) against that member of the Group;
- demand, sue, prove and give receipt for any or all of that member of the Group's Liabilities;
- collect and receive all distributions on, or on account of, any or all of that member of the Group's Liabilities; and
- file claims, take proceedings and do all other things the relevant Security Trustee considers reasonably necessary to recover that member of the Group's Liabilities.

*Creditors' actions*

Each Creditor will do all things that the General Security Trustee requests; and if the General Security Trustee is not entitled to take any of the actions contemplated by the Security Pooling and Intercreditor Agreement or if the relevant Security Trustee requests that a Creditor take that action, undertake that action itself in accordance with the instructions of the relevant Security Trustee or grant a power of attorney to the relevant Security Trustee (on such terms as such Security Trustee may reasonably require) to enable the relevant Security Trustee to take such action.

*Security Trustees' instructions*

The General Security Trustee shall act on the instructions of the Instructing Group entitled, at that time, to give instructions under the relevant provisions of the Security Pooling and Intercreditor Agreement.

***Turnover of Receipts***

*Turnover by the Creditors*

Subject to the provisions set forth in the Security Pooling and Intercreditor Agreement and as generally described under the caption "*—Exclusions,*" if at any time prior to the Senior Discharge Date, a Creditor receives or recovers:

- any Payment or distribution of, or on account of or in relation to, any of the Liabilities which is not either a Permitted Payment or made in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- other than as described under the caption "*—Set Off,*" any amount by way of set-off in respect of any of the Liabilities owed to it which does not give effect to a Permitted Payment;
- notwithstanding the above, and other than where the provisions described under the caption "*—Set Off*" apply, any amount:
  - on account of, or in relation to, any of the Liabilities:
    - after the occurrence of an Enforcement Action or acceleration of the Senior Liabilities in accordance with the transaction finance documents; or

- as a result of any other litigation or proceedings against a member of the Group (other than after the occurrence of an Insolvency Event in respect of that member of the Group); or

— by way of set-off in respect of any of the Liabilities owed to it after the occurrence of an Enforcement Action or acceleration of the Senior Liabilities in accordance with the transaction finance documents,

other than, in each case, any amount received or recovered in accordance with the provisions described the caption "*—Application of Proceeds;*"

- the proceeds of any enforcement of any Transaction Security except in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- the proceeds from the making of demands under any Guarantee except in accordance with the provisions described under the caption "*—Application of Proceeds;*"
- other than as described under the caption "*—Set Off,*" any distribution in cash or in kind or Payment of, or on account of or in relation to, any of the Liabilities owed by any member of the Group which is not received or recovered in accordance with the provisions described under the caption "*—Application of Proceeds*" and which is made as a result of, or after, the occurrence of an Insolvency Event in respect of that member of the Group,

that Creditor will:

— in relation to receipts and recoveries not received or recovered by way of set-off:

- hold an amount of that receipt or recovery equal to the relevant Liabilities (or if less, the amount received or recovered) on trust for the General Security Trustee and promptly pay that amount to the General Security Trustee for application in accordance with the terms of the Security Pooling and Intercreditor Agreement; and
- promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the relevant Liabilities to the General Security Trustee for application in accordance with the terms of the Security Pooling and Intercreditor Agreement; and

— in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the General Security Trustee for application in accordance with the terms of the Security Pooling and Intercreditor Agreement.

*Exclusions*

The provisions under the caption "*—Turnover by the Creditors*" shall not apply to any receipt or recovery:

- by way of close-out netting, payment netting or inter-hedging agreement netting by a hedge counterparty;
- resulting from any Permitted Refinancing;
- in accordance with the provisions described under the caption "*—Equalization;*"
- that has been distributed by a Trustee to any of the relevant Holders in accordance with the terms of the relevant Notes Documents unless the relevant Trustee had actual knowledge that an Enforcement Action had occurred or that the receipt or recovery falls within the provisions described under the caption "*—Turnover by the Creditors*" prior to distribution of the relevant amount; or
- by an ancillary lender by way of that ancillary lender's right of netting or set-off relating to a multi-account overdraft facility.

***Enforcement of Transaction Security***

*Enforcement Instructions*

Following an Enforcement Decision, the Transaction Security shall be enforced by the relevant Security Trustee in accordance with the terms of the Security Pooling and Intercreditor Agreement, the relevant Transaction Security Document and the Enforcement Decision.

If requested by a Facility Agent, a Trustee or the Instructing Group, the General Security Trustee shall notify the Debtors, the Company and/or the Security Providers (or any of them) (with a copy to the Continental Shares Security Trustee) of the occurrence of any Default, Event of Default or acceleration (howsoever described) under any of the Transaction Finance Documents as required under any Transaction Security Document (referred to under the relevant Transaction Security Document as "**Default Notice**"), provided that the enforcement of any Transaction Security may only be requested by the Instructing Group. Without prejudice to the foregoing and subject as described under the caption "*—Decisions of the Instructing Group,*" no Security Trustee shall enforce (or, as the case may be, instruct any Secured Creditor to enforce) any of the Transaction Security unless an Enforcement Decision has been made directing it to do so. If requested by the relevant Facility Agent, a Trustee of the Instructing Group, the General Security Trustee shall revoke the Default Notice specified in such request vis-a-vis the Company and the Debtors and/or the Security Providers which had previously received such Default Notice.

Subject to the Transaction Security having become enforceable in accordance with its terms, the Instructing Group (as defined in section 19 of the Security Pooling and Intercreditor Agreement) may give or refrain from giving instructions to the Security Trustees to enforce or refrain from enforcing the Transaction Security as it sees fit.

*Manner of enforcement*

At any time after an Enforcement Decision has been made, the General Security Trustee shall notify the Debtors, the Company and/or the Security Providers (or any of them) with a copy to the Continental Shares Security Trustee of such Enforcement Decision in writing (referred to under the relevant Transaction Security Document as "**Enforcement Notice**") and the Security Trustees shall, subject to the terms and conditions of such Enforcement Decision and the Security Pooling and Intercreditor Agreement, commence with and initiate such measures as the relevant Security Trustee may deem appropriate, necessary or advisable for the enforcement of all or part of the relevant Transaction Security in accordance with the Enforcement Decision, the Security Pooling and Intercreditor Agreement and the provisions of the relevant Transaction Security Documents.

The Secured Creditors (including for the avoidance of doubt any creditor in respect of a Permitted Refinancing or Permitted Financing and (if acceded) any agent, trustee or representative appointed by any such creditor) acknowledge and agree with each other that:

- none of the Secured Creditors shall exercise any independent power to enforce any of the Transaction Security (or to exercise any rights, remedies, discretions or powers or to grant any consents or releases relating to the Transaction Security under or pursuant to the Security Pooling and Intercreditor Agreement or any Transaction Finance Documents in particular, but not limited to in case where it is a direct party to any Transaction Security Document as pledgee or otherwise) or otherwise have direct recourse to any of the Transaction Security other than with the consent of the relevant Security Trustee holding the respective Transaction Security (acting on the instructions of the Instructing Group); and
- none of the Secured Creditors shall be entitled to act individually to require any Security Trustee to take any action or proceedings under or in relation to the Transaction Security and/or the Transaction Security Documents or to exercise any of the rights, powers or discretions conferred on it by the Security Pooling and Intercreditor Agreement or the

Transaction Security Documents, other than in its capacity as a member of the Instructing Group.

*Exercise of voting rights*

Each Creditor agrees with each Security Trustee that it will (save, in the case of a Secured Creditor, where to do so would be unlawful and/or contradictory to its obligations under any applicable legislation) cast its vote in any proposal put to the vote by, or under the supervision of, any judicial or supervisory authority in respect of any insolvency, pre insolvency or rehabilitation or similar proceedings relating to any member of the Group as instructed by the General Security Trustee.

The General Security Trustee shall give instructions as directed by the Instructing Group.

The provisions of the Security Pooling and Intercreditor Agreement described above shall not entitle any party to exercise or require any other Secured Creditor to exercise such power of voting or representation to waive, reduce, discharge, extend the due date for repayment of or reschedule any of the Senior Liabilities.

*Waiver of rights*

To the extent permitted under applicable law and subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the captions "*—Enforcement Instructions,*" "*—Manner of enforcement,*" "*—Distressed Disposals,*" and "*—Application of Proceeds,*" each of the Secured Creditors and each of the Debtors waives all rights it may otherwise have to require that the Transaction Security be enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the Secured Obligations is so applied.

*Assignment and waiver of Liabilities*

Subject to the condition precedent that (i) an Enforcement Decision has been taken and (ii) notice has been given by the General Security Trustee that such waiver shall become effective, each Parent and each Intra-Group Lender, if any, waives any and all claims it may or will have against any of the Debtors arising under or in respect of the Transaction Security (including its enforcement), in particular, without limitation, claims for reimbursement, and any of its claims under any Intra Group Liability or, as the case maybe, Parent Liability other than the Special Receivable or the WHT Bridge Loan to the extent so notified by the General Security Trustee.

***Release of Transaction Security and Guarantees: Disposals***

*Non-Distressed Disposals: General*

If, prior to an Enforcement Decision, in respect of a disposal of any asset by a Security Provider which is subject to any Transaction Security (other than a disposal of Continental Shares and any participation in Schaeffler Beteiligungsholding GmbH & Co. KG):

- each Facility Agent has (i) notified the General Security Trustee that such disposal and the release of the relevant Transaction Security is not prohibited under the Finance Documents (with respect to which such Facility Agent acts as facility agent); and (ii) instructed the General Security Trustee to release the relevant Transaction Security encumbering such asset; and
- each Trustee has: (i) notified the General Security Trustee that such disposal and the release of the relevant Transaction Security is not prohibited under the respective Notes Document (with respect to which such Trustee acts as Trustee); and (ii) instructed the General Security Trustee to release the relevant Transaction Security encumbering such asset;

(a **"Non-Distressed Disposal"**),

the General Security Trustee is irrevocably authorized and instructed by all Secured Creditors (at the cost of the relevant Debtor or the Company and without any consent, sanction, authority or further confirmation from any Creditor or Debtor) to comply with such instructions and:

- to release the Transaction Security and/or any other claim (relating to a Debt Document) over that asset;
- where that asset consists of shares in the capital of or interest in a member of the Group, to release the Transaction Security and/or any other claim (relating to a Debt Document) over that member of the Group's assets and those of any of its Subsidiaries as well as all Secured Obligations and all Guarantees and any Parallel Debt Obligation (but not only part thereof) owed by that member of the Group or any of its Subsidiaries, upon such member of the Group ceasing to be a Subsidiary of the Company as a result of such disposal; and
- to execute and deliver or enter into any release of the Transaction Security or any claim described above and grant all consents, execute all agreements and make all other declarations (including without limitation any certificates of non-crystallization of any floating charge or any consent to dealing) that may, in the discretion of the General Security Trustee, be considered necessary or desirable,

in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If that Non-Distressed Disposal is not made, each release of Transaction Security or any claim described above shall have no effect and the Transaction Security or claim subject to that release shall continue in such force and effect as if that release had not been effected (in each case to the extent legally possible) and the Debtors shall take all action reasonably requested by the General Security Trustee to confirm or retake the relevant Transaction Security.

*Non-Distressed Disposals: Continental Shares*

If, prior to an Enforcement Decision, in respect of a (i) disposal, (ii) other transfer (including, but not limited to, by way of payment of dividend in kind), or (iii) use as collateral, for any indebtedness of any member of the Group incurred otherwise than under the Transaction Finance Documents owed to any third party creditor (other than to a Restricted Person), of Continental Shares subject to Transaction Security and related rights or any participation in Schaeffler Beteiligungsholding GmbH & Co. KG by the relevant Security Provider:

- each Facility Agent has: (i) notified the Continental Shares Security Trustee that such disposal, transfer or granting of Security over the Continental Shares is not prohibited under the respective Finance Documents (with respect to which such Facility Agent acts as facility agent); and (ii) instructed the Continental Shares Security Trustee to release the Transaction Security over Continental Shares, related rights and/or any participation in Schaeffler Beteiligungsholding GmbH & Co. KG; and
- each Trustee has (i) notified the Continental Shares Security Trustee that such disposal, transfer of or granting of Security over the Continental Shares is not prohibited under the respective Notes Document (with respect to which such Trustee acts as Trustee); and (ii) instructed the Continental Shares Security Trustee to release the Transaction Security over Continental Shares, related rights and/or any participation in Schaeffler Beteiligungsholding GmbH & Co. KG;

(a **"Non-Distressed Disposal Continental Shares"**)

the Continental Shares Security Trustee is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Company and without the need

for any further consent, authority or further confirmation from any Secured Creditor or Debtor) to comply with such instructions and:

- to release the Transaction Security over the relevant number of Continental Shares, related rights and/or any participation in Schaeffler Beteiligungsholding GmbH & Co. KG which are subject to such disposal, transfer or grant of Security; and
- to execute and deliver or enter into any release of the Transaction Security over the respective Continental Shares, related rights or participations in Schaeffler Beteiligungsholding GmbH & Co. KG and grant all consents, execute all agreements and make all other declarations that may, in the discretion of the Continental Shares Security Trustee, be considered necessary or desirable,

in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If that Non-Distressed Disposal Continental Shares is not made, each release of Transaction Security over Continental Shares, related rights or participations in Schaeffler Beteiligungsholding GmbH & Co. KG described above shall have no effect and the Transaction Security subject to that release shall continue in such force and effect (in each case to the extent legally possible) as if that release had not been effected and the Debtors shall take all action reasonably requested by the general Security Trustee to confirm or retake the relevant Transaction Security.

*Application of Proceeds resulting from Non-Distressed Disposals*

The Parties agree that if and to the extent pursuant to the terms of any Transaction Finance Document any proceeds resulting from any disposal of an asset in accordance with the description under "*—Non-Distressed Disposals: General*" and "*—Non-Distressed Disposals: Continental Shares*" above must be applied towards a prepayment of any obligations outstanding under the relevant Transaction Finance Documents (each a "**Mandatory Prepayment Event**"), then any prepayment of the Secured Obligations which would result from such Mandatory Prepayment Event shall be made (and any proceeds received by any member of the Group in connection with that Mandatory Prepayment Event shall be applied) in accordance with the terms of the relevant Transaction Finance Document(s).

*Distressed Disposals*

If, following an Enforcement Decision:

- any Security Trustee (acting on the instructions of or with the consent of the Instructing Group) sells or otherwise disposes of any Charged Property;
- the relevant Security Provider concerned sells or otherwise disposes of such asset at the request of the relevant Security Trustee (acting on the instructions of or with the consent of the Instructing Group); or
- a Receiver sells or otherwise disposes of such asset with the consent of the relevant Security Trustee (acting on the instructions of or with the consent of Instructing Group),

(a "**Distressed Disposal**"),

such Security Trustee is hereby authorized to execute on behalf of itself, each Secured Creditor, without the need for any further referral to or authority from any Secured Creditor:

- release of Transaction Security/non crystallization certificates: to release the Transaction Security or any other claim over that asset and execute and deliver or enter into any release of that Transaction Security or claim and issue any letters of non crystallization of any floating charge or any consent to dealing that may, in the discretion of the relevant Security Trustee, be considered necessary or desirable;

- release of liabilities and Transaction Security on a share sale (Obligor): if the asset which is sold or disposed of (either as a result of the enforcement of the Transaction Security or as a result of a disposal of shares by a Security Provider at the request of or (in the case of a disposal by a receiver) with the consent of the General Security Trustee (in each case acting on the instructions of or with the consent of the Instructing Group)) consists of the shares in the capital of an Obligor (other than the Company or any issuer of Notes), to release on behalf of the relevant Creditors and Debtors:
  - that Obligor and any Subsidiary of that Obligor from all of its Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees it may have to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise (including any liability to any Security Provider or other Obligor by way of guarantee, contribution, subrogation, assignment by operation of law (cessio legis) or indemnity) or (ii) any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt Obligations; and
  - any Transaction Security granted by that Obligor or any Subsidiary of that Obligor over any of its assets under any of the Transaction Security Documents;
- release of liabilities and Transaction Security on a share sale (Holding Company): if the asset which is sold or disposed of (either as a result of the enforcement of the Transaction Security or as a result of a disposal of shares by a Security Provider at the request of or (in the case of a disposal by a receiver) with the consent of the General Security Trustee (in each case acting on the instructions of or with the consent of the Instructing Group)) consists of the shares in the capital of any Holding Company of an Obligor (other than the Company or any issuer of Notes), to release on behalf of the relevant Creditors and Debtors:
  - that Holding Company and any Subsidiary of that Holding Company from: all of its Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees it may have to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise (including any liability to any Security Provider or other Obligor by way of guarantee, contribution, subrogation, assignment by operation of law (cessio legis) or indemnity) or (ii) any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt Obligations; and
  - any Transaction Security granted by any Subsidiary of that Holding Company over any of its assets;
- disposal of liabilities on a share sale: if the asset which is sold or disposed of consists of shares in the capital of an Obligor or the Holding Company of an Obligor and the General Security Trustee decides to sell or dispose of: all of the Liabilities; all Parallel Debt Obligations (but not only part thereof); and all Guarantees, owed by that Obligor or Holding Company to (i) any Security Provider or other Obligor, both actual and contingent, in its capacity as a guarantor, security provider or borrower or otherwise or (ii) to any Secured Creditor, both actual and contingent, in its capacity as a guarantor, security provider or Obligor under the Parallel Debt Obligations, to execute and deliver or enter into any agreement to sell or dispose of all or part of any such Liabilities, Parallel Debt Obligations and Guarantees, on behalf of, in each case, the relevant Creditors and Debtors.

The net proceeds of each Distressed Disposal (and the net proceeds of any release of Liabilities, if any) shall be paid to the General Security Trustee for application in accordance with the provisions set forth under "*—Application of Proceeds*" as if those proceeds were the proceeds of an enforcement of the Transaction Security.

In the absence of any instructions of the Instructing Group requesting the relevant Security Trustee to enter into (or not to enter into, as the case may be) a disposal for a specific consideration and subject always to the provisions set forth under "*—Enforcement Instructions,*"

the Security Trustees shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Trustees shall not have any obligation to postpone any such Distressed Disposal or disposal of Liabilities in order to achieve a higher price).

*Creditors' and Debtors' actions*

Each Creditor and Debtor will do all things that the relevant Security Trustee requests in order to give effect to the release of Transaction Security and Guarantees Disposals (which shall include, without limitation, the execution of any assignments, transfers, releases or other documents that the relevant Security Trustee may consider to be necessary to give effect to the releases or disposals contemplated hereunder; and if the relevant Security Trustee is not entitled to take any of the actions contemplated hereunder or if the relevant Security Trustee requests that any Creditor or Debtor take any such action, take that action itself in accordance with the instructions of the relevant Security Trustee, provided that the proceeds of those disposals are applied in accordance with the provisions described under "*—Application of Proceeds resulting from Non-Distressed Disposals*" or under "*—Distressed Disposals,*" as the case may be.

***Release of Transaction Security and Guarantees: General***

*General Transaction Security*

If, prior to an Enforcement Decision, the Facility Agent and each Trustee has delivered to the General Security Trustee the General Release Notification, the General Security Trustee:

- shall as soon as reasonably practicable release the Transaction Security specified in such notification in accordance with such notification; and
- is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Company and without the need for any further consent, authority or further confirmation from any Secured Creditor or Debtor):
  - — to release such Transaction Security; and
  - — to execute and deliver or enter into any release of the relevant Transaction Security and grant all consents, execute all agreements and make all other declarations that may, in the discretion of the General Security Trustee, be considered necessary or expedient

  in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If following a release of such Transaction Security the Company or any other member of the Group is required pursuant to the Transaction Finance Documents to reinstate Transaction Security previously released then such Transaction Security has to be reinstated (other than, for the avoidance of doubt, with respect to any asset (including any shares or interest in any entity) disposed of (whether by way of asset or share deal) in the meantime where that disposal was permitted pursuant to the terms of the Facilities Agreement(s) and the Notes Documents).

*Continental Shares*

If, prior to an Enforcement Decision, the Facility Agent and each Trustee has delivered to the Continental Shares Security Trustee the Continental Shares Release Notification, the Continental Shares Security Trustee:

shall as soon as reasonably practicable release the Transaction Security over Continental Shares and/or any related rights and participations in Schaeffler Beteiligungsholding GmbH & Co. KG specified in such notification in accordance with such notification; and

is irrevocably authorized and instructed by the Secured Creditors (at the cost of the relevant Security Provider or the Company and without the need for any further consent, authority or further confirmation from any Secured Creditor or Debtor):

— to release such Transaction Security; and

— to execute and deliver or enter into any release of such Transaction Security and grant all consents, execute all agreements and make all other declarations that may, in the discretion of the Continental Shares Security Trustee, be considered necessary or expedient

in its own name and on its own behalf and in the name and on behalf of each of the Secured Creditors without the need for any referral to, or authority from, any Secured Creditor.

If following a release of Transaction Security pursuant to the provisions described under the caption "*—Continental Shares,*" the Company or any other member of the Group is pursuant to the Transaction Finance Documents required to reinstate Transaction Security previously released then such Transaction Security has to be reinstated (other than, for the avoidance of doubt, with respect to any Continental Shares and related rights and participations in Schaeffler Beteiligungsholding GmbH & Co. KG (whether through a share or asset deal) disposed of in the meantime where that disposal was permitted pursuant to the terms of the Facilities Agreement(s) and the Notes Documents and other than with respect to any participations in Schaeffler Beteiligungsholding GmbH & Co. KG if that entity then no longer holds any Continental Shares).

*General*

No Security Trustee shall release any Transaction Security (or any part thereof) other than pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the captions "*—Release of Transaction Security and Guarantees: Disposals,*" "*—Release of Transaction Security and Guarantees: General*" and "*—Accession of Debt and Collateralization—Transaction Security*" without the prior consent of each Facility Agent and Trustee.

If any Security Trustee is required to release any Transaction Security by operation of law, any approval shall only be required for the selection (if legally permissible) of the Transaction Security which is to be released.

If each Facility Agent and each Trustee have notified the Security Trustees that the Facilities Liabilities and the Notes Liabilities have been unconditionally and irrevocably discharged in full and the Company has requested the relevant Security Trustee to do so, such Security Trustee shall (and is authorized by each other Secured Creditor to) release, confirm any extinction by operation of law, re-assign or re-transfer, as appropriate, to the relevant Security Provider the Transaction Security and the Parallel Debt Obligations in its own name and in the name of any other Secured Creditor holding the relevant Transaction Security, as the case may be, without the need for any further referral to or authority from any other Secured Creditors, save to the extent that such Security Trustee is required to transfer such Security or any surplus proceeds to any third party by mandatory law. Each Secured Creditor shall make any declarations and perform any other acts which are necessary to give full force and effect to any release of Transaction Security pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Release of Transaction Security and Guarantees: Disposals*" or "*—Release of Transaction Security and Guarantees: General.*"

***Application of Proceeds***

*Order of application*

Subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Prospective liabilities and determination of quotas,*" the proceeds shall be held by the relevant General Security Trustee on trust and, to the extent permitted by applicable mandatory law, be applied by it towards discharging the claims of the Creditors in the following

order of priority (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full):

- ***first,*** in or towards discharging pro rata all expenses incurred by the Security Trustees, or by any person appointed by the Security Trustees, by any Trustee and by any Facility Agent;
- ***second,*** in payment to: each Facility Agent on its own behalf and on behalf of the relevant Finance Parties for application towards the discharge of the Facilities Liabilities; each Trustee on its own behalf and on behalf of its respective Holders for application towards the discharge of the Notes Liabilities; and the Hedge Counterparties for application towards the discharge of the Hedging Liabilities, on a pro rata, pari passu basis;
- ***third,*** in payment to any other person if and to the extent the Security Trustees or any other Secured Creditor having received the relevant Transaction Security is obliged by law to make such payment in priority to any Security Provider;
- ***fourth,*** in payment pro rata to the relevant Intra-Group Lender towards the discharge of the Intra-Group Liabilities;
- ***fifth,*** if none of the Debtors is under any further actual or contingent liability under any Transaction Finance Document and no Intra-Group Liabilities are outstanding, in payment to Parent II towards the discharge of any Parent Liabilities; and
- ***sixth,*** the balance, if any, in payment to the relevant Debtor,

Any Agent other than the General Security Trustee receiving any proceeds shall without undue delay forward such proceeds it has received to the General Security Trustee for distribution pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement and described under the caption "*—Order of Application*" above.

*Prospective liabilities and determination of quotas*

Following an Enforcement Decision, the Security Trustees may in their respective discretion hold an amount of the proceeds in an interest bearing suspense or impersonal account in the name of the relevant Security Trustee with such financial institution (including itself) and for as long as the relevant Security Trustee shall think fit (the interest being credited to the relevant account) for later application under the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Order of Application*" in respect of:

- sums (other than interest amounts) notified by the Secured Creditors to the General Security Trustee that may become payable in the future under the Transaction Finance Documents in connection with any of the claims of the relevant secured creditor (in particular, without limitation, in case of letters of credit or guarantees) the exact amount of which cannot, at the date notified by the General Security Trustee, be finally determined and which may not be covered by future proceeds);
- sums as the relevant Security Trustee reasonably considers may become payable in the future in respect of expenses and which it considers may not be covered by future proceeds; and
- any part of the Senior Liabilities that the relevant Security Trustee reasonably considers may become payable in the future,
- any sums the relevant Security Trustee has received and with respect to which it reasonably considers that payment of such sums may be avoided or subject to draw-back from it (in particular, but not limited to, as a result of the realization of Transaction Security with respect to which any hardening periods or new hardening periods have or may have commenced (and not been completed) in connection with a Permitted Refinancing or a Permitted Financing) pursuant to legal and/or insolvency proceedings instituted in respect of the relevant member of the Group; and

- any sums the relevant Security Trustee has received and with respect to which it reasonably considers that the relevant Secured Creditor is not entitled under applicable mandatory law to receive or to retain such sums,

and the retained funds shall be distributed only once it has been finally determined whether and to what extent the claims expected by the Secured Creditors have actually materialized, *provided that* if and to the extent any funds retained for the benefit of one or more Secured Creditors have been contested by any other Secured Creditor, the relevant funds shall be finally distributed upon the earlier of:

- the Security Trustees having received from each of the Secured Creditors for the benefit of which the relevant funds have been retained its written consent as to the distribution of the relevant funds; or
- any of the Secured Creditors having notified the relevant Security Trustee in writing of any court judgment, court or administration order or any other ruling, which permits enforcement against the relevant party providing evidence (satisfactory to such Security Trustee) that the claims expected by the Secured Creditors for the benefit of which the relevant funds have been retained have actually materialized or (as the case may be) that any future materialization of such claims may be excluded. Claims in connection with guarantees or letters of credit shall be deemed to have been materialized in case any payment has been made under them by the relevant Secured Creditor.

Each of the Security Trustees is entitled to refrain from the distribution of proceeds resulting from the enforcement of Transaction Security, if and for as long as, pursuant to the terms of the relevant Transaction Security Document, the relevant Security Trustee may be required to return (all or part of) such proceeds to the relevant Transaction Security Provider as a result of an outstanding determination by an auditor (or any other independent third party) of the amount which is enforceable and may be retained in respect of such Transaction Security.

As long as the amount of any right and claim eligible for the distribution of proceeds is not finally determined, such right and claim shall generally not be considered in the determination of the distribution quotas. A definite determination of the distribution quotas shall only be made when each of the Secured Creditors has notified both Security Trustees in writing that all amounts of the respective rights and claims eligible for the distribution of proceeds have been determined finally. On the basis of such notices the General Security Trustee shall calculate the share of each Secured Creditor in the proceeds to be distributed in accordance with the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Order of Application*". If and to the extent such shares and/or amounts have been contested by any Secured Creditor before the respective date which has been duly notified by the General Security Trustee to the Secured Creditors for this purpose, the General Security Trustee may refrain from the final distribution and the proceeds shall be finally distributed upon the earlier of:

- the General Security Trustee having received from each of the Secured Creditors, its written consent as to the distribution of the relevant funds; or
- any of the Secured Creditors having notified the General Security Trustee in writing of an enforceable title providing evidence (satisfactory to the General Security Trustee) as to the calculation of such share and/or amounts.

If the application of such definite distribution quotas would lead to a different allocation of any proceeds that have already been distributed, corresponding compensation payments shall be made among the relevant Secured Creditors if and to the extent necessary to reflect the definite distribution quotas.

*Investment of proceeds*

Prior to the application of the proceeds in accordance with the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Order of Application*" each Security Trustee may, in its discretion, hold all or part of those proceeds in an interest bearing suspense or impersonal account(s) in the name of the relevant Security Trustee with such financial institution (including itself) and for so long as the relevant Security Trustee shall think fit (the interest being credited to the relevant account) pending the application from time to time of those monies in such Security Trustee's discretion in accordance with the provisions of this with the provisions set forth in the Security Pooling and Intercreditor Agreement under the caption "*—Application of Proceeds.*"

*Permitted Deductions*

Each Security Trustee shall be entitled, in its discretion, (a) to set aside by way of reserve amounts required to meet and (b) to make and pay, any deductions and withholdings (on account of taxes or otherwise) which it is or may be required by any applicable law to make from any distribution or payment made by it under the Security Pooling and Intercreditor Agreement, and to pay all Taxes which may be assessed against it in respect of any of the Transaction Security, or as a consequence of performing its duties, or by virtue of its capacity as Security Trustee under any of the Debt Documents or otherwise (other than in connection with its remuneration for performing its duties under the Transaction Finance Documents).

***Refinancing of Senior Liabilities and New Debt***

*Refinancing*

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the Security Pooling and Intercreditor Agreement, the Company or any of its Subsidiaries may refinance or replace the Facilities Liabilities (including replacement of any undrawn commitment under the Finance Documents) and/or the Notes Liabilities, in each case in whole or in part, by way of a senior secured facilities financing (such refinancing or replacement, the "**Senior Facilities Refinancing**") and/or issuance of Notes (the "**Notes Refinancing,**" together with the Senior Facilities Refinancing, the "**Senior Refinancing**"), if:

- the obligations of each borrower and guarantor under such Senior Refinancing will rank pari passu, without preference or priority, with all of its obligations under the Transaction Finance Documents and will rank ahead of the Intra-Group Liabilities and the Parent Liabilities;
- at such time no acceleration event or event of default has occurred and is continuing under any Transaction Finance Document;
- such Senior Refinancing is not prohibited under the relevant Notes Documents of any Notes then outstanding Liabilities then outstanding;
- the aggregate principal amount made or to be made available pursuant to such refinancing or replacement does not exceed the aggregate amount of the refinanced Secured Obligations outstanding at the time of such refinancing and the aggregate amount of the undrawn commitments under any Transaction Finance Document to be replaced thereby; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent appointed by such creditors and any trustee or representative of such creditors) in respect of such Senior Refinancing accedes to the Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Security Pooling and Intercreditor Agreement.

All liabilities incurred under any Permitted Refinancing will become Secured Obligations, be treated for all purposes of the Security Pooling and Intercreditor Agreement in the same way as the refinanced Secured Obligations and rank accordingly as Senior Liabilities in accordance with

the Security Pooling and Intercreditor Agreement and (to the extent permitted by applicable law) be secured by the Transaction Security existing as of the date such liabilities are incurred *pari passu* with the then existing Senior Liabilities, *provided that*

- in case of a Notes Refinancing, the Notes Effective Date has occurred with respect to such Notes; and
- in case of a Senior Facilities Refinancing, the Facilities Effective Date has occurred with respect to such Senior Facilities Refinancing.

*New Money*

Subject to the terms and provisions of all Transaction Finance Documents including the specific provisions of the Security Pooling and Intercreditor Agreement, the Company or any of its Subsidiaries may increase or restructure any Facilities Liabilities and/or incur new Liabilities under a senior secured facilities financing (the "**Senior Facilities Financing**") and/or issue Notes (the "**Notes Financing**" together with the Senior Facilities Financing and the financing set out below, the "**Senior Financing**"), in each case in whole or in part, if:

- the obligations of each borrower and guarantor under such Senior Financing will rank pari passu, without preference or priority, with all of its obligations under the Transaction Finance Documents and will rank ahead of the Intra-Group Liabilities and the Parent Liabilities;
- at such time no acceleration event and no event of default has occurred and is continuing under any Transaction Finance Document;
- such Senior Financing is permitted under the Finance Documents of any Facilities Liabilities then outstanding and is not prohibited under the relevant Note Documents of any Notes then outstanding; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent appointed by such creditors and any trustee or representative of such creditors) in respect of such Senior Financing accedes to the Security Pooling and Intercreditor Agreement in accordance with the provisions set forth in the Security and Intercreditor Pooling Agreement.

The Company may incur additional liabilities under the Syndicated Facilities Agreement (or any Facilities Agreement replacing it in whole or in part) by way of a push-down of debt from Parent II, with such pushed-down debt being implemented into the Syndicated Facilities Agreement (or any Facilities Agreement replacing it in whole or in part) in accordance with the terms thereof by operation of the Debt Push-Down Tranche, *provided that;*

- at such time no Enforcement Decision has been taken in accordance with the Security Pooling and Intercreditor Agreement;
- before or simultaneously with the implementation of the Debt Push-Down Tranche other Facilities Liabilities are prepaid in a corresponding amount;
- such Senior Financing is permitted under the Finance Documents;
- such Senior Financing is not prohibited under the Notes Documents; and
- each obligor, each guarantor, each Security provider and each creditor (including, as the case may be, any agent, trustee or representative appointed by such creditors) in respect of such Senior Financing is or becomes a Party to the Security Pooling and Intercreditor Agreement.

All liabilities incurred in connection with any Permitted Financing will become Secured Obligations, be treated for all purposes of the Security Pooling and Intercreditor Agreement in the same way as any other Secured Obligations and rank accordingly as Senior Liabilities in accordance with the Security Pooling and Intercreditor Agreement and (to the extent permitted

by applicable law) be secured by the Transaction Security existing as of the date such liabilities are incurred *pari passu* with the then existing Senior Liabilities, *provided that:*

- in case of a Notes Financing, the Notes Effective Date has occurred with respect to such Notes; and
- in case of a Senior Facilities Financing, the Facilities Effective Date has occurred with respect to such Senior Facilities Financing.

Nothing in the Security Pooling and Intercreditor Agreement shall affect or limit the rights of any member of the Group to take out, issue or incur indebtedness under bilateral or syndicated loan or credit financing or any bonds, notes or similar instruments if and to the extent:

- the relevant indebtedness thus incurred is not secured by any asset which is subject to Transaction Security; and
- such take-out, issue and/or incurrence is not prohibited pursuant to the Finance Documents and the Notes Documents in each case under which any Facilities Liabilities or, as the case may be, Notes Liabilities are outstanding.

***Accession of Debt and Collateralization***

*Notes Effective Date*

If in respect of a Notes Refinancing or a Notes Financing,

- by way of any Notes other than the Additional Notes:
  - — a Trustee in respect of such Notes has agreed to be bound by the terms of the Security Pooling and Intercreditor Agreement as Trustee;
  - — the relevant Trustee or the Company has instructed each Security Trustee in writing in respect of each Transaction Security Document to which that Security Trustee is a party to procure the conclusion of one or more Security Confirmation Agreements, a Local Law Security Amendment Agreement (to the extent applicable) and/or the provision of Lower Ranking Security and/or to procure a release and retake of Collateral if permitted according to the provisions described under the caption "*—Transaction Security.*"
  - — the General Security Trustee has received a legal opinion from legal counsel to it or to the Company that the respective Holders are, on or after the occurrence of any Enforcement Action, entitled under the terms of such Notes Guarantees for such Notes, or under the terms of the respective Notes or under applicable law, in each case as in effect on the issue date of such Notes, to demand payment under such Notes Guarantees to themselves;
  - — each Facility Agent has notified the General Security Trustee and the Continental Shares Security Trustee that the issuance of such Notes is permitted under the Finance Documents of any Facilities Liabilities then outstanding and each Trustee has notified the General Security Trustee that the issuance of such Notes is not prohibited under the relevant Notes Documents of any Notes then outstanding;
  - — subject to the provisions described under the caption "*—Transaction Security,*" the General Security Trustee has received a legal opinions from legal counsel to it or to the Company capable of being relied upon by, each Facility Agent, each Trustee, each Security Trustee and the other Secured Creditors other than the Holders (in form and substance satisfactory to the General Security Trustee and with a copy to each Trustee and the Continental Shares Security Trustee) confirming that from a legal perspective the conclusion of the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of Lower Ranking Security, in each case as set out in the respective instruction will not adversely affect any Transaction Security granted to any Security Trustee or any other Secured Creditor as of that time (including

an opinion statement that no new hardening periods with respect to such existing Transaction Security result from, and no hardening periods with respect to such existing Transaction Security are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement), *provided that,* with respect to any Secondary Transaction Security only, to the extent such legal opinion(s) do not confirm for such Secondary Transaction Security existing as of that time that no new hardening periods result from, and no hardening periods are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement, if each Security Trustee has received either (i) written instructions (with a copy to the relevant other Security Trustee) from each Trustee from each Notes Trustee and each Facility Agent that nevertheless the respective Security Confirmation Agreement(s) and/or Local Law Security Amendment Agreements shall be entered into by the relevant Security Trustee and/or Lower Ranking Security be granted to the relevant Security Trustee; or (ii) a Solvency Certificate from the Company, dated not earlier than the Business Day immediately preceding the day on which the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of Lower Ranking Security are to become effective and duly signed by the chief financial officer and the chief executive officer of the Company; and

  - unless the Security Trustees are party to the relevant Indenture governing such Notes, each Security Trustee in its sole discretion has confirmed that the terms of the relevant notes documents are satisfactory to it with respect to its position as Security Trustee;

- by way of any Additional Notes:

  - the Company has either:

    - instructed each Security Trustee in accordance with the provisions described under the caption "*—Notes Effective Date;*" or

    - informed each Security Trustee in writing about the proposed issuance of Additional Notes prior to the proposed issuance date, unless the Security Trustees are party to the relevant Indenture governing such Additional Notes,

  - the General Security Trustee has received a legal opinion from legal counsel to it or to the Company that the respective Holders are, on or after the occurrence of any Enforcement Action pursuant to the Security Pooling and Intercreditor Agreement, not entitled under the terms of such Notes Guarantees for such Additional Notes, or under the terms of the respective Additional Notes or under applicable law, in each case as in effect on the issue date of such Additional Notes to demand payment under such Notes Guarantees to themselves;

  - each Facility Agent has notified the General Security Trustee and the Continental Shares Security Trustee in writing that the issuance of such Additional Notes is permitted under the Finance Documents of any Facilities Liabilities then outstanding and each Notes Trustee has notified the General Security Trustee and the Continental Shares Security Trustee in writing that the issuance of such Additional Notes is not prohibited under the relevant Notes Documents of any Notes then outstanding;

  - subject to the provision described under the caption "*—Transaction Security,*" each Security Trustee has received (y) legal opinions confirming that from a legal perspective the Security created by the Transaction Security Documents will secure the Notes Liabilities of such Additional Notes (including, for the avoidance of doubt, the respective Notes Parallel Debt Obligation), and (z) if and to the extent any Security Confirmation Agreements, Local Law Security Amendment Agreements or Lower Ranking Security are entered into in order to secure such Notes Liabilities of Additional Notes, the legal

opinions and, as applicable, the solvency certificate or instructions referred to for the issuance of Notes after than Additional Notes; and

— unless the Security Trustees are party to the relevant Indenture governing such Additional Notes, each Security Trustee in its sole discretion has confirmed in writing to the Company that the terms of the relevant notes documents are satisfactory to it with respect to its position as Security Trustee,

(with respect to any Notes and Additional Notes, the "**Notes Effective Date Requirements**") then the General Security Trustee shall, subject as described under the caption "*—Decisions of Secured Creditors*", notify in writing the Agents and the Issuer that the requirements for a "**Notes Effective Date**" for such Notes Refinancing or Notes Financing have been satisfied (the date as of which the General Security Trustee has made such notification the "**Notes Effective Date**" in relation to such Notes Refinancing or Notes Financing and such notification being the "**Notes Effective Date Notice.**"

*Facilities Effective Date*

If in respect of a Senior Facilities Refinancing or Senior Facilities Financing,

- written notices have been received by each Security Trustee,
  - — either from the relevant Facility Agent confirming to the General Security Trustee and the Continental Shares Security Trustee that such Senior Facilities Refinancing or Senior Facilities Financing, as the case may be, is permitted under the Finance Documents of any Facilities Liabilities then outstanding; and
  - — either from each Trustee confirming to the General Security Trustee and the Continental Shares Security Trustee or from the Company certifying for the benefit of each Agent, that such Senior Facilities Refinancing or Senior Facilities Financing, as the case may be, is not prohibited under the relevant Notes Documents of any Notes then outstanding; and
- the relevant Facility Agent or the Company has instructed each Security Trustee in writing (on which instruction each Security Trustee may rely and with a copy to the relevant other Security Trustee) in respect of each Transaction Security Document to which that Security Trustee is a party, to procure the conclusion of one or more Security Confirmation Agreements, Local Law Security Amendment Agreement (to the extent applicable) and/or the provision of Lower Ranking Security, in each case as set out under the caption "*—Transaction Security,*" and
- subject to the provisions set forth under the caption "*—Transaction Security,*" the General Security Trustee has received legal opinion(s) from legal counsel to it or the Company addressed to, and/or capable of being relied upon by, each Facility Agent, each Trustee, each Security Trustee and the other Secured Creditors other than the Holders (in form and substance satisfactory to the General Security Trustee and with a copy to each Trustee and the Continental Shares Security Trustee) confirming that from a legal perspective the conclusion of any Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of any Lower Ranking Security will not adversely affect any Transaction Security granted to any Security Trustee or any other Secured Creditor as of that time (including an opinion statement that no new hardening periods with respect to such existing transaction security result from, and no hardening periods with respect to such existing transaction security are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement), *provided that,* with respect to any Secondary Transaction Security only, such legal opinion(s) do not need to confirm for such Secondary Transaction Security existing as of that time that no new hardening periods result from, and no hardening periods are extended as a result of, the provision of Lower Ranking Security and/or the conclusion of any Local Law Security Amendment Agreement and/or any Security Confirmation Agreement, if each Security Trustee (with a copy to the relevant other Security

Trustee) has received either written instructions from each Trustee and Facility Agent that nevertheless the respective Security Confirmation Agreement(s) and/or Local Law Security Amendment Agreements shall be entered into by the relevant Security Trustee and/or Lower Ranking Security be granted to the relevant Security Trustee; or a Solvency Certificate from the Company, dated not earlier than the Business Day immediately preceding the day on which the Security Confirmation Agreement(s) and/or any Local Law Security Amendment Agreement and/or the provision of lower ranking Security are to become effective and duly signed by the chief financial officer and the chief executive officer of the Company;

(together, the "**Facilities Effective Date Requirements**") then the General Security Trustee shall notify in writing the other Secured Creditors (other than the Holders) that the requirements for a "Facilities Effective Date" for such Senior Facilities Refinancing or Senior Facilities Financing have been satisfied (the date as of which the General Security Trustee has made such notification the "**Facilities Effective Date**" in relation to such Senior Facilities Refinancing or Senior Facilities Financing and such notification being the "**Facilities Effective Date Notice**").

*Decisions of Secured Creditors*

With respect to any Notes other than the Notes offered hereby, the General Security Trustee may submit the question, whether from a legal perspective the conclusion of the Security Confirmation Agreement(s) and/or the provision of Lower Ranking Security and/or any Local Law Security Amendment Agreement (in each case as set out in the instruction under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date,*" will or will not adversely affect any Transaction Security granted to any Security Trustee or any other Secured Creditor as of that time and the legal opinions referred to under the provisions set forth under the caption "*—Notes Effective Date,*" or "*—Facilities Effective Date,*" to the Facility Agent(s) and the Trustee(s). The Facility Agent(s) and the Trustee(s) may waive the requirements set out under the provisions described under the caption "*—Notes Effective Date,*" and "*—Facilities Effective Date*" by an unanimous instruction issued by all Facility Agent(s) and all Trustee(s) to the General Security Trustee (with a copy to the Continental Shares Security Trustee).

If the General Security Trustee has submitted the question referred to above to the Facility Agent(s) and the Trustee(s), then the General Security Trustee shall prior to having received an unanimous instruction issued by all Facility Agent(s) and all Trustee(s) waiving the requirements set out under the caption "*—Notes Effective Date,*" and/or "*—Facilities Effective Date,*" respectively, be under no obligation to provide any notice that a Notes Effective Date or a Facilities Effective Date has occurred.

*Transaction Security*

In case of any Non-accessory Security Interest the General Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree to a confirmation of the Notes Parallel Debt Obligations or SFA Parallel Debt Obligations, as the case may be, and a confirmation and/or amendment of the terms of the Transaction Security Documents creating and recording such Non-accessory Security Interest, in order that, such Non-accessory Security Interest shall serve to secure all relevant Notes Liabilities and/or Facilities Liabilities (including those in respect of which the Notes Effective Date or Facilities Effective Date, as the case may be, has been declared) and the other Secured Obligations equally and rateably, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such confirmation and/or amendment agreement, a "**Security Confirmation Agreement**"). Each Security Provider and each Secured Creditor shall make any declaration and take any action which is necessary or expedient to effect such amendment of the relevant Transaction Security Document to which it is a party.

In case of any Accessory Security Interest (i) the relevant Transaction Security Document shall not be amended or released as a result of the occurrence of the relevant Notes Effective Date or Facilities Effective Date and (ii) upon the occurrence of the relevant Notes Effective Date or

Facilities Effective Date, as the case may be, each Security Provider shall instead as soon as reasonably practicable after the relevant instruction grant, for the purpose of securing (y) the relevant Notes Parallel Debt Obligations, SFA Parallel Debt Obligations or any other parallel debt obligation in favor of the Security Trustees, as the case may be, and (z) to the extent such Accessory Security Interest also secures SFA Principal Obligations, the relevant SFA Principal Obligations incurred under the Senior Facilities Refinancing or Senior Facilities Financing, additional Security for the benefit of each Security Trustee over any asset which is already subject to any Transaction Security in the form of such a security interest (but not over any other of its assets) which shall rank immediately behind any Security previously granted over such asset (such Security, the "**Lower Ranking Security**"). In case of a Senior Facilities Refinancing or Senior Facilities Financing, Lower Ranking Security shall also be granted to the creditors of such Senior Facilities Refinancing or Senior Facilities Financing, if the relevant Accessory Security Interest has also been granted to the creditors of the SFA Principal Obligations. Any Lower Ranking Security shall form part of the Transaction Security and be subject to the provisions of the Security Pooling and Intercreditor Agreement.

In case of any security interest created under any Transaction Security Document governed by:

- German law, each Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree with the relevant Obligor and / or Security Provider to a (i) confirmation of the Notes Parallel Debt Obligation or SFA Parallel Debt Obligations, as the case may be, and an amendment agreement governed by German law relating to any security interest created by way of assignment or transfer of assets under the relevant Transaction Security Documents governed by German law providing that such security interest shall secure all relevant Notes Parallel Debt Obligations or SFA Parallel Debt Obligations, as the case may be, and the other Secured Obligations, including the relevant Notes Liabilities or Facilities Liabilities, equally and rateably, and (ii) Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such agreement named above, a German Security Amendment Agreement);
- French law, each Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree with the relevant Obligor and / or Security Provider to Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such agreement, a French Security Amendment Agreement); and
- Brazilian law, each Security Trustee (without the need for any further referral to or authority from any Secured Creditor) shall be authorized to agree with the relevant Obligor and / or Security Provider to Lower Ranking Security with respect to any security interest created by way of pledges, in each case subject to the terms of the Security Pooling and Intercreditor Agreement (any such agreement, a Brazilian Security Amendment Agreement and together with the German Security Amendment Agreement and the French Security Amendment Agreement, each a Local Law Security Amendment Agreement).

To the extent liabilities incurred under any Permitted Refinancing or Permitted Financing cannot be secured *pari passu* with the then existing Senior Liabilities under the existing Transaction Security Documents without the Transaction Security under such existing Transaction Security Documents first being released, the Parties agree that the General Security Trustee is authorized to release such existing Transaction Security *provided that* immediately on such release, the Transaction Security released shall be re-taken and granted for the benefit of the Secured Creditors and the creditors in respect of such Permitted Refinancing or Permitted Financing on terms substantially similar to the Transaction Security Documents which governed the released Transaction Security and subject to the same ranking as set forth under the caption "*—Transaction Security*" and *provided further that* each Security Trustee has received, in form and substance satisfactory to it, an opinion of counsel confirming that, following such release and grant of Transaction Security, any new hardening period in respect of any such Transaction

Security re-taken to secure the Senior Liabilities is no longer than any new hardening periods in respect of such Transaction Security granted to secure the liabilities incurred under any Permitted Refinancing or Permitted Financing and; each Security Trustee has received written instructions from the Trustee(s) and Facility Agent(s) to release and retake such Transaction Security.

***Junior Secured Debt***

*Incurrence of Junior Secured Debt*

If the Company gives written notice to the Agents that it intends to enter into one or more loan and/or credit or guarantee facilities and/or issue any bonds, notes or similar instruments under which it will incur additional or replacement indebtedness permitted under the Transaction Finance Documents and which is, pursuant to the terms of the Finance Documents and the Notes Documents, permitted to share in the Transaction Security on a junior basis (the "**Junior Secured Debt**"), then the Parties will (at the cost of the Company but subject to the conditions stated in the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Authorization of Agents*" and "*—Conditions to execution of documentation*" (i) enter into a replacement security pooling and intercreditor agreement (the "**New ICA**") either on substantially the same terms as the Security Pooling and Intercreditor Agreement including terms with respect to the limitation on enforcement and release of guarantees, ranking and priority of payments (or on terms more favorable to the Finance Parties, the Holders and the Hedge Counterparties) but implementing adjustments and changes vis-à-vis the Security Pooling and Intercreditor Agreement or (ii) make one or more amendments to the Security Pooling and Intercreditor Agreement, in each case solely to achieve one or more of the following:

- increase, so as to include the Junior Secured Debt, the amount or type of indebtedness which is envisaged and regulated by the Security Pooling and Intercreditor Agreement or, as the case may be, the New ICA;
- to the extent applicable, make provision for the Security securing Junior Secured Debt to rank junior with respect to the Transaction Security, but without impacting on the validity, enforceability or vulnerability of the Transaction Security; and
- make any other change which is required in order to accommodate the Junior Secured Debt, on the terms stated above, within the Security Pooling and Intercreditor Agreement or as the case may be the New ICA and that does not adversely affect the rights of, or impose any additional obligations on, the Secured Creditors in any respect.

*Authorization of Agents*

Any Trustee(s) may execute as a deed and otherwise effect the conclusion of the New ICA or as the case may be the amendment agreement to the Security Pooling and Intercreditor Agreement described above (the "**Document**"), for itself and as attorney for and (whether or not expressly in its name) on behalf of the relevant Holders, and the Document will thereupon be binding for all purposes on the Holders.

Any Facility Agent may execute as a deed and otherwise effect the conclusion of the Document on the date falling thirty Business Days after the date on which it is requested to do so by the Company (unless the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Conditions to execution of documentation*" below apply) for itself and as attorney for and (whether or not expressly in its name) on behalf of the Finance Parties for which it has been appointed as agent under the relevant Finance Documents, and the Document will thereupon be binding for all purposes on each such Finance Party.

For the avoidance of doubt, but without prejudice to the rights of the Agents under the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Conditions to execution of documentation* below" no further consent, sanction,

authority or other approval or further confirmation from a Secured Creditor is required to enable and authorize an Agent to execute the Document.

*Conditions to execution of documentation*

Any Facilities Agent shall, and any Trustee may, give notice or any request from the Company pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Incurrence of Junior Secured Debt*" above to each Finance Party for which they respectively act as agent or as the case may be trustee.

Each Agent shall be entitled to require any certification, opinion (including legal opinion) or other clarification or comfort which it may believe to be necessary or prudent prior to execution of the Document in order to confirm that it fulfils the requirements stated in the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Incurrence of Junior Secured Debt,*" and may delay execution of the Document until any such requirements have been satisfied.

If a Facility Lender or a Hedge Counterparty has notified the relevant Facility Agent, prior to such date on which that Facility Agent would otherwise execute the Document, that the entry into the Document would be illegal for or contrary to any regulation with which the relevant Facility Lender or as the case may be Hedge Counterparty is required to comply or customarily complies, the Facility Agent shall not be required to execute the Document.

***Decisions of the Instructing Group***

*Resolutions*

If, pursuant to the provisions set forth in the Security Pooling and Intercreditor Agreement, a decision, instruction or consent of the Instructing Group is required or requested by the Company, the Security Trustees or any Secured Creditor (in case of the Finance Parties acting through the relevant Facility Agent and in case of the Holders acting through the Trustee(s)) the following shall apply:

- Any decision, instruction or consent of the Instructing Group for the purpose of this Agreement (including, for the avoidance of doubt, any Enforcement Decision relating to the enforcement of any Transaction Security) shall be made in the form of resolutions.
- For each issuance of Notes (and separately for series of Notes denominated in different currencies) the relevant Trustee shall determine, in accordance with the relevant Notes Documents and applicable laws, the aggregate principal amount of the relevant Notes Participations under such issuance of Notes (or series of Notes, as the case may be) that has (or is deemed under the relevant Notes Documents to have) voted in favor of (the "**Notes Participations Approval Amount**") and against (the "**Notes Participations Disapproval Amount**") the relevant decision, instruction or consent under the Security Pooling and Intercreditor Agreement. The relevant Trustee shall notify the Notes Participations Approval Amount and the Notes Participations Disapproval Amount for such issuance of Notes (separately for series of Notes denominated in different currencies) to the General Security Trustee in accordance with the procedure set forth under caption "*—Resolutions.*" If the General Security Trustee has not received any notification from a Trustee within the relevant time period, the Notes Participation under that issuance of Notes shall be disregarded in determining whether a resolution is passed. For the avoidance of doubt, the underlying decisions by any Holders shall be adopted by such Holders in accordance with the relevant Notes Documents and applicable laws.
- For each Facilities Agreement (and separately for Bank Credit Participations under the same Facilities Agreement where the underlying commitment is denominated in different base currencies), the relevant Facility Agent shall determine, in accordance with the terms of the relevant Facilities Agreement and applicable laws, the aggregate amount of Bank Credit Participations under such Facilities Agreement that has (or is deemed or otherwise treated

under the relevant Facilities Agreement as having) voted in favor of (the "**Bank Participations Approval Amount**") and against (the "**Bank Participations Disapproval Amount**") the relevant decision, instruction or consent under the Security Pooling and Intercreditor Agreement. The relevant Facility Agent shall notify the Bank Participations Approval Amount and the Bank Participations Disapproval Amount for such Facilities Agreement (as the case may be, separately for Bank Credit Participations under the same Facilities Agreement where the underlying commitment is denominated in different base currencies) to the General Security Trustee in accordance with the procedure set forth under caption "*—Resolutions.*" If the General Security Trustee has not received any notification from the Facility Agent within the relevant time period, the Bank Credit Participation under that Facilities Agreement shall be disregarded in determining whether a resolution is passed pursuant to the below. For the avoidance of doubt, the underlying decisions by any Finance Parties shall be adopted by such Finance Parties in accordance with the relevant Facilities Agreement to which they are a party and applicable laws.

- In no event shall the sum of the Notes Participations Approval Amount and the Notes Participations Disapproval Amount with respect to any issuance of Notes (or any series of Notes denominated in different currencies, as the case may be) or the sum of the Bank Participations Approval Amount and the Bank Participations Disapproval Amount with respect to any Facilities Agreement (or the relevant Bank Credit Participations under that Facilities Agreement where the underlying commitment is denominated in different base currencies) exceed the aggregate Notes Participations under such issuance of Notes (or series of Notes, as the case may be) or Bank Credit Participations under such Facilities Agreement (or such relevant Bank Participations under that Facilities Agreement where the underlying commitment is denominated in different base currencies), respectively. The Notes Participations Approval Amounts and Notes Participations Disapproval Amounts for all issuances of Notes (separately for series of Notes denominated in different currencies), the Bank Participations Approval Amounts and Bank Participations Disapproval Amounts for all Facilities Agreements (separately for Bank Credit Participations under the same Facilities Agreement which are denominated in different base currencies) shall be determined by the General Security Trustee on the basis of the information obtained hereunder and in accordance with the provisions set forth under caption "*—Information*" on or before the Business Day preceding the date on which votes may be submitted according to the below, and, if any such amount is denominated in a currency other than EUR, the General Security Trustee shall convert such amount into EUR at the conversion rate of the respective currency which is published on the internet page 'www.db-markets.com' or on any other internet page replacing such internet page (or, if no such internet page is available, at the Spot Rate of Exchange for the purchase in the foreign exchange market of the relevant foreign currency) as of the fifth Business Day preceding the date on which the relevant Resolution Notice (as defined below) is dispatched by the General Security Trustee.
- A resolution is passed if the sum of (i) the aggregate Bank Participations Approval Amounts for all Facilities Agreements; and (ii) the aggregate Notes Participations Approval Amounts for all issuances of Notes, exceeds the sum of the aggregate Bank Participations Disapproval Amounts for all Facilities Agreements; and the aggregate Notes Participations Disapproval Amounts for all issuances of Notes, (in each case on a EUR basis, converted pursuant to the paragraph above) with respect to the relevant resolution.
- Any resolution passed pursuant to the paragraph above is referred to as a decision or resolution of the Instructing Group for the purposes of this Agreement, any Facilities Agreement and, if required, the Transaction Security Documents and the Guarantee Documents. For the avoidance of doubt, all Secured Creditors (including any Secured Creditor who is not entitled to participate in or abstains from the voting) shall be bound by the decision of the Instructing Group.

At the request of the Company or any Secured Creditor (in case of the Finance Parties acting through the Facility Agent under, and subject to the provisions of, the Facilities Agreement to which such Finance Party is a party and, in case of any Holders acting through the Trustee(s) subject to the provisions of the applicable Notes Documents), the General Security Trustee shall request votes from the Secured Creditors, subject to the above, by a notice to the Secured Creditors (in case of the Holders, to the Trustee(s) acting for or on account of the respective Holders, and in case of the Finance Parties, to the Facility Agent acting for or on account of the respective Finance Parties) (the "**Resolution Notice**") which has to be (x) given by letter, facsimile or comparable means of communication and/or (y) made available for a period of not less than ten (10) Business Days on a web site the address of which has been notified by the General Security Trustee to the Secured Creditors (in case of the Holders, to the Trustee(s) acting for or on account of the respective Holders, and in case of the Finance Parties, to the Facility Agent acting for or on account of the respective Finance Parties) at least five (5) Business Days before dispatching the Resolution Notice (the "**Web Site**"). The Resolution Notice shall specify the resolution to be voted on.

Resolution Notices relating to the same decision, instruction or consent shall be dispatched to all classes of Secured Creditors entitled to vote on the same day and shall have substantially the same content; provided that, for purposes of obtaining any consent of the Instructing Group under the caption "*—Amendments: Finance Documents*" only, the Company may require, in a request made by it pursuant to the above, that the General Security Trustee give a Resolution Notice to, and obtain the results of the vote of, a class of Secured Creditors entitled to vote before it gives such Resolution Notice to another class of Secured Creditors entitled to vote (in which case the conversion rate for purposes of the above shall be the relevant conversion rate as published as of the fifth Business Day preceding the date on which the first Resolution Notice is dispatched). Should the aggregate Notes Participations Approval Amounts and/or Bank Credit Participations Approval Amounts (in each case, converted into EUR in accordance with the above and the immediately preceding sentence) of the class or classes of Secured Creditors which have voted on the matter constitute a majority of the Total Participations, the General Security Trustee shall refrain from delivering any further Resolution Notice relating to such matter to any other class of Secured Creditors and notify the Company that the resolution has been duly passed.

The Trustee(s) and the Facility Agent(s) shall submit the respective Notes Participations Approval Amounts, Notes Participations Disapproval Amounts, Bank Participations Approval Amounts and Bank Participations Disapproval Amounts to the General Security Trustee by letter, facsimile, any comparable means or any means made available by the General Security Trustee for this purpose on the Web Site:

- prior to the occurrence of any Notes Effective Date, within the time limit set by the General Security Trustee in the Resolution Notice. If the General Security Trustee does not set a time limit in the Resolution Notice, then the relevant Secured Creditor (in case of the Finance Parties, through the respective Facility Agent, subject to the above) must return the respective vote within five (5) Business Days, and within three (3) Business Days if it is stated in the Resolution Notice that the resolution is urgent; and
- in any other case, within thirty (30) Business Days or any extended time limit set by the General Security Trustee in the Resolution Notice.

Only Notes Participations Approval Amounts, Notes Participations Disapproval Amounts, Bank Participations Approval Amounts and Bank Participations Disapproval Amounts submitted to the General Security Trustee in accordance with, and within the relevant time period specified in, the paragraph above shall be taken into consideration for purposes of determining whether a resolution has been passed. The relevant time period shall commence on the date of receipt of the Resolution Notice by the respective Secured Creditor (in case of the Finance Parties, through the respective Facility Agent and, in case of any Holders, through the respective Trustee(s)). Such notice shall be deemed received by the relevant Secured Creditor (in case of the Finance Parties,

through the respective Facility Agent and, in case of the Holders, through the respective Trustee), if by letter, at noon two (2) days after such letter was posted (or in the case of airmail, five (5) days after the letter was delivered to the custody of the postal services institutions), or if by facsimile, e-mail, any comparable means or by the Web Site during or before the business hours of the addressee, then on the day of transmission, otherwise on the next following Business Day, in each case where the Resolution Notice has been made to the address as provided for in the relevant notice provisions or made available on the Web Site, as the case may be.

*General*

Without prejudice to the provisions set forth in the Security and Pooling Agreement under the caption "*—Enforcement of Transaction Security,*" each Security Trustee shall:

- exercise any right, power, authority or discretion vested in it as Security Trustee in accordance with any instructions given to it by the Instructing Group (or, if so instructed by the Instructing Group, refrain from exercising any right, power, authority or discretion vested in it as Security Trustee); and
- not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Instructing Group.

In the absence of instructions from the Instructing Group, each Security Trustee may in its sole discretion refrain from any action, or if it decides in its sole discretion to act, act as it considers to be in its sole discretion in the best interest of the Secured Creditors.

***Parallel Debt (Covenant to pay to the Security Trustees)***

Each of the Obligors that is a party to the Syndicated Facilities Agreement and/or any other Facilities Agreement irrevocably and unconditionally agrees and undertakes with each of the Security Trustees, in each case subject to the occurrence of a Facilities Effective Date relating to such Facilities Agreement (except with respect to the Syndicated Facilities Agreement), that each of them shall pay to each of the Security Trustees as joint and several creditors on the terms set out in the Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to any Finance Party (i) under any Finance Document, (ii) in respect of any claims for damages and claims arising out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Finance Document or (iii) under any Ancillary Facility made available by any Finance Party under, and in accordance with, the relevant Facilities Agreement (the "**SFA Principal Obligations**") as and when the same fall due for payment under the relevant Finance Document, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**SFA Parallel Debt Obligations**");

Each of the Obligors that is an issuer of any Notes (or guarantees any present or future sums, liabilities or obligations (actual and contingent) owing by any member of the Group to any Trustee or any Holder under any Notes or any related Notes Document) irrevocably and unconditionally agrees and undertakes with each of the Security Trustees, in each case subject to the occurrence of a Notes Effective Date relating to such Notes (except with respect to the Notes offered hereby), that each of them shall pay to each of the Security Trustees as joint and several creditors on the terms set out in the Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the relevant Trustee or the relevant Holders (i) under the relevant Notes Documents or (ii) out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Notes Document (the "**Notes Principal Obligations**") as and when the same fall due for payment

under the relevant Notes Document, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**Notes Parallel Debt Obligations**") it being acknowledged by all Parties that the existence and extent of the Notes Principal Obligations under the Notes Documents and therefore of the corresponding Notes Parallel Debt Obligations shall be a matter for New York law in accordance with the terms of the applicable Notes Documents;

Each of the Obligors that is a party to the Hedging Agreements irrevocably and unconditionally agrees and undertakes with each of the Security Trustees that each of them shall pay to each of the Security Trustees as joint and several creditors on the terms set out in the Security Pooling and Intercreditor Agreement sums equal to, and in the currency of, any sums owing by it to the Hedge Counterparties (i) under the Hedging Agreements or (ii) out of unjust enrichment (including, but not limited to, the German law concept of *ungerechtfertigte Bereicherung*) or tort (including, but not limited to, the German law concept of *Delikt*) under or in connection with any Hedging Agreement (the "**Hedging Principal Obligations,**" and together with the SFA Principal Obligations and the Notes Principal Obligations, the "**Principal Obligations**") as and when the same fall due for payment under the relevant Hedging Agreement, or with respect to (ii) above, under applicable statutory or other law, or would have fallen due but for any discharge resulting from failure of another Secured Creditor to take appropriate steps, in insolvency proceedings affecting that Obligor, to preserve its entitlement to be paid that amount (the "**Hedging Parallel Debt Obligations,**" and together with the SFA Parallel Debt Obligations and the Notes Parallel Debt Obligations, if any, the "**Parallel Debt Obligations**").

The right of each of the Security Trustees as joint and several creditors on the terms set out in the Security Pooling and Intercreditor Agreement to demand payment of the Parallel Debt Obligations shall be independent and several from the rights of the other Secured Creditors to demand payment of the Principal Obligations *provided that* (i) the payment by an Obligor of all or any part of its Parallel Debt Obligations to one or other or both of the Security Trustees shall also discharge (in the amount of the relevant payment) (y) the corresponding Principal Obligations (unless the respective Paying Agent has received payment of such amount but not forwarded such amount to the respective Holders (in particular, by way of forwarding to the relevant clearing system for such Notes (in accordance with the terms governing such Notes) for distribution to the respective Holders) and (z) the Parallel Debt Obligation owed to the respective other Security Trustee, and (ii) conversely the payment by an Obligor of all or any part of its Principal Obligations shall also discharge (in the amount of the relevant payment) all corresponding Parallel Debt Obligations owed to the Security Trustees as joint and several creditors on the terms set out in the Security Pooling and Intercreditor Agreement. For the avoidance of doubt, no Principal Obligation shall be discharged as a result of any voidness or voidability of the Parallel Debt Obligations or any similar defense invoked by or on behalf of an Obligor *vis-à-vis* any Security Trustee. No Obligor may declare a set off or otherwise invoke any counterclaim against the Parallel Debt Obligations.

Despite the foregoing, any payment:

- under the Finance Documents shall be made in accordance with the provisions set forth in the Security and Pooling Agreement under the caption "*—Payment of Facilities Liabilities*" and the Finance Documents;
- under the Notes Documents shall be made in accordance with the provisions set forth in the Security and Pooling Agreement under the caption "*—Payment of Notes Lia*bilities;"
- under the Hedging Agreements (other than any Transaction Security Document or in respect of any Guarantee) shall be made to the relevant Hedge Counterparty unless expressly stated otherwise in the relevant Hedging Agreements.

Notwithstanding the above, each Security Trustee will be fully entitled, on the basis of the parallel debt undertakings stated above, to (y) request payment to of any of the amounts which in accordance with paragraphs (i) to (iii) above have to be paid to the relevant Facility Agent, any Ancillary Lender, any other Finance Party, the Paying Agent(s), the Trustees or the Hedge Counterparties, respectively, if the relevant Principal Obligation was not paid when due; and (z) enforce the Transaction Security granted in its favor on the basis of the Parallel Debt Obligations in accordance with the terms of the Security Pooling and Intercreditor Agreement if such request is not fulfilled.

Without limiting or otherwise affecting any Security Trustee's rights against any Obligor, each Security Trustee agrees with each other Secured Creditor (in case of any Holders, acting through the Trustee(s)) (on a several basis) that (subject to the below) it will not exercise its rights under the Parallel Debt Obligations except with the consent of the relevant Secured Creditors under the respective Principal Obligations or, in case of the Notes Principal Obligations, with the consent of the relevant Trustee(s).

Nothing shall in any way limit each of the Security Trustee's rights to act in the protection or preservation of rights under any Transaction Security Document or to enforce any Transaction Security as contemplated by the Security Pooling and Intercreditor Agreement, the relevant Transaction Security Document or any other Transaction Finance Document (or to do any act reasonably incidental to the foregoing).

*Equalization*

If, for any reason, any Senior Liabilities remain unpaid after the Enforcement Date and the resulting losses and deficiencies affecting the Secured Creditors are not in proportion to the ratio of their respective Exposure at the Enforcement Date to the aggregate Exposures of all the Secured Creditors at the Enforcement Date, the Secured Creditors (in case of any Holders, through the Trustee(s), subject to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Turnover by the Creditors*" will make such payments amongst themselves as the General Security Trustee shall require to put the Secured Creditors in such a position that (after taking into account such payments) those losses and deficiencies are borne in those proportions.

*Turnover of enforcement proceeds*

If:

- the General Security Trustee is not entitled, for reasons of applicable law, to pay amounts received pursuant to the making of a demand under any guarantee, indemnity or other assurance against loss or the enforcement of the Transaction Security to the Secured Creditors but is entitled to distribute those amounts to creditors (such creditors, the Receiving Creditors) who, in accordance with the terms of the Security Pooling and Intercreditor Agreement, are subordinated in right and priority of payment to the Secured Creditors; and
- the Senior Discharge Date has not yet occurred (nor would occur after taking into account such payments),

then the Receiving Creditors (subject, in the case of the Trustee, to the provisions set forth in the Security Pooling and Intercreditor Agreement described under the caption "*—Turnover by the Creditors*" shall make such payments to the Secured Creditors as the General Security Trustee shall require to place the Secured Creditors in the position they would have been in had such amounts been available for application against the Senior Liabilities.

***Change of Finance Party or Holder***

Any Holder may transfer all or part of its Notes in accordance with the terms of the relevant Notes Documents, and upon any such transfer the transferee shall have the rights and benefits

of a Holder under the Security Pooling and Intercreditor Agreement and be subject to the limitations and obligations of a Holder under the Security Pooling and Intercreditor Agreement.

***Consents, Amendments and Override***

*Required consents*

Subject to the below, the Security Pooling and Intercreditor Agreement may be amended or waived with the consent of the Company, the Agents, and all Finance Parties provided that to the extent an amendment, waiver or consent could not reasonably be expected to adversely affect the interests of any other class of Secured Parties, only written agreement from any affected class shall be required.

An amendment or waiver that has the effect of changing or which relates to the provisions set forth in the Security and Pooling Agreement under the caption "*—Group Lenders and Intra-Group Liabilities,*" "*—Parents and Parent Liabilities,*" "*—Parent I and Parent II Undertakings,*" "*—Release of Transaction Security and Guarantees: Disposals,*" "*—Release of Transaction Security and Guarantees: General,*" "*—Additional Transaction Security,*" "*—Costs and Expenses,*" "*—Indemnities,*" "*—Information*" or "*—Notices*" may be amended or waived only with the consent of the Company, the Security Trustees, the Trustee(s) and the relevant Facility Agent, but without the consent of any other Party.

If any amendment or waiver has the effect of changing or which relates to the caption "*—Ranking/Subordinated Liabilities,*" "*—Transaction Security,*" "*—Hedge Counterparties and Hedging Liabilities,*" "*—Turnover of Receipts,*" "*—Parallel Debt,*" "*—Equalization,*" or "*—Costs and Expenses,*" "*—Secured Creditors' Indemnity,*" "*—Information*" or "*—Notices,*" then such amendment or waiver shall in addition require the consent of each Hedge Counterparty. Any amendment or waiver which has the effect of changing or which relates to "*—Application of Proceeds*" shall only require the consent of each Hedge Counterparty, if such amendment or waiver would adversely affect the Hedge Counterparties.

The Security Pooling and Intercreditor Agreement may be amended by the Facility Agent, the Trustees, and the Security Trustees without the consent of any other Party to cure defects and manifest errors, resolve ambiguities or to reflect changes in each case of a minor, technical or administrative nature.

*Agreement to override*

Unless expressly stated otherwise in the Security Pooling and Intercreditor Agreement, in the case of any conflict between the Security Pooling and Intercreditor Agreement and any other Debt Document, the Security Pooling and Intercreditor Agreement shall prevail.

## Special Receivables Loan

On September 22, 2011, a shareholder resolution of Schaeffler GmbH (now Schaeffler AG) had been passed to pay a dividend to Schaeffler Verwaltungs GmbH, the sole shareholder of Schaeffler GmbH. Pursuant to the resolution, Schaeffler GmbH distributed a claim to Schaeffler Verwaltungs GmbH in the amount of €600 million. The dividend was not paid in cash, but its payment was deferred and the amount declared was credited by way of a loan to Schaeffler GmbH. In fulfillment of this resolution, Schaeffler GmbH and Schaeffler Verwaltungs GmbH entered into a German law governed loan agreement maturing on December 31, 2021 which states that Schaeffler GmbH owes to Schaeffler Verwaltungs GmbH a claim of €600 million (the "**Special Receivables Loan**").

Pursuant to the terms of the Special Receivables Loan, Schaeffler Verwaltungs GmbH as lender may request from the borrower Schaeffler GmbH a prepayment or a repayment of the loan in part or in full with a notice period of three business days. Schaeffler GmbH shall only be obliged to prepay or repay the loan following such request, if and to the extent such prepayment or repayment of the Special Receivables Loan is permitted under the lender's and the borrower's

other contractual obligations. Subject to the same condition, the Schaeffler Verwaltungs GmbH is also entitled to transfer any surplus cash and deposit with the Schaeffler GmbH and thus (re-) increase the loan up to the maximum principal amount of €600 million. The interest rate of the loan is fixed on a yearly basis until maturity and varies between 4.1% and 8.3% per annum. The interest rate for any deposit shall be agreed between the lender and the borrower as of the deposit date for a loan with final maturity on December 31, 2021 and shall not exceed 10% per annum. Interest for both the loan and deposits shall be paid once a year at the end of the calendar year. If the borrower does not pay interest on the due date, the borrower has the option to capitalize accrued interest. Neither the lender nor the borrower may transfer or assign any of their rights and obligations under the loan agreement.

## IBV Loan

Schaeffler Holding GmbH & Co. KG as lender and INA Beteiligungsverwaltungs GmbH (**"IBV"**) as borrower entered into a German law governed deposit master agreement dated June 23, 2010 (the **"IBV Loan"**). Under the IBV Loan, the lender may place deposits to the borrower with a term of up to one year in an amount not exceeding €65 million. Amount, term and other specific details of each deposit will be agreed on a case by case basis. The deposits bear interest at the applicable interbank rate minus 0.10% per annum (margin). The margin may be adjusted by IBV on June 30 of each calendar year. Interest is due every December 31 and at the due date of repayment of the deposit. The IBV Loan may be terminated by either party at the end of a calendar month by giving three months prior written notice. However, any deposits already granted under the IBV loan shall not be affected by the termination.

## Annuity Loan

During the November 2009 refinancing, the Schaeffler Group acquired an interest rate cap with the lenders under the Repaid Senior Facilities Agreement as counter-parties to hedge the variable interest rate component of the IHO Facilities Agreement. This acquisition was funded by an annuity loan. The initial carrying value of the annuity loan was €171.2 million with an interest rate of approximately 17%. As of March 31, 2012, the annuity loan had a book value of €90 million. The final annuity will be due on December 31, 2013. The annuity loan was originally secured by the collateral under the Repaid Senior Facilities Agreement and, since February 9, 2012, has been secured by the Collateral on a *pari passu* basis with the New Senior Facilities Agreement and the Existing Notes.

## IHO Debt Instruments

The following is a description of certain outstanding debt instruments of the Schaeffler Group's direct and indirect parent companies.

### *IHO Facilities Agreement*

Schaeffler Holding GmbH & Co. KG and Schaeffler Verwaltungs GmbH as borrowers, as well as IHO and Schaeffler Holding GmbH & Co. KG as guarantors, are parties to a secured syndicated term loan and revolving credit facilities agreement originally dated November 20, 2009 (as lastly amended and restated on or about January 26, 2012 and as further amended from time to time) (the **"IHO Facilities Agreement"**) providing for credit facilities in the aggregate amount of approximately €3,280 million with, amongst others, Commerzbank Aktiengesellschaft, Landesbank Baden-Württemberg, The Royal Bank of Scotland plc and UniCredit Bank AG as mandated lead arrangers, The Royal Bank of Scotland plc as facility agent and security agent and certain banks and financial institutions named therein as lenders.

Pursuant to the terms and conditions of the IHO Facilities Agreement, the lenders have made available the following credit facilities to:

- Schaeffler Verwaltungs GmbH as term facility borrower, a €2,897 million term loan facility ("**IHO Term Facility**") which is fully drawn and matures on June 30, 2017 (excluding capitalized interest) and
- *Schaeffler Holding GmbH & Co.* KG as revolving facility borrower, a €250 million revolving credit facility ("**IHO Revolving Credit Facility,**" together with the IHO Term Facility, the "**IHO Facilities**") maturing on June 30, 2017. The IHO Revolving Credit Facility is available for drawings until one month prior to the final maturity date. Any loan made available under the IHO Revolving Credit Facility shall be repaid on the last day of its interest period and all amounts outstanding under the IHO Revolving Credit Facility shall be repaid on the final maturity date of the IHO Revolving Credit Facility.

The IHO Facilities bear interest at a rate of EURIBOR plus the applicable cash margin plus mandatory cost, if any. The applicable cash margin is, in relation to the IHO Term Facility, 1.7% per annum and, in relation to the IHO Revolving Credit Facility, 4.5% per annum until December 31, 2013 and 5.5% per annum from and excluding December 31, 2013 or, on any date the utilization exceeds €100 million 5.5% per annum until December 31, 2013 and 6.5% per annum from and excluding December 31, 2013. In addition, a PIK premium is payable on each loan under the IHO Term Facility of 6% per annum until December 31, 2013, 6.5% per annum from and excluding December 31, 2013 until December 31, 2015 and 7% per annum from and excluding December 31, 2015 until the final maturity date if the outstanding IHO Term Facility is less or equal to €1,500 million and 7.5% if its more than €1,500 million. On December 31 of each calendar year and certain other events, each borrower has the option in relation to each loan under the IHO Facilities to elect to capitalize all or part of the accrued PIK premium or to pay accrued PIK premium in cash. Additionally, the Schaeffler Group pays (i) a commitment fee under the IHO Facilities Agreement for any available but unused commitment under the IHO Revolving Credit Facility at a rate of 2.125% per annum, (ii) agency fees and security agency fees in accordance with the terms and provisions of the respective fee letters in which such fees have been agreed, (iii) a one-off prolongation fee of 0.5% on the sum of the total IHO Facility commitments and the outstanding loans on December 31, 2013 and (iv) a one-off prolongation fee of 1.0% on the sum of the total IHO Facility commitments and the outstanding loans on December 31, 2015.

The IHO Facilities Agreement provides for certain restrictive covenants customary for these types of financings subject to certain specified exceptions provided for in the IHO Facilities Agreement in respect of the relevant covenant. Such restrictive covenants include, but are not limited to, restrictions on (i) the incurrence of financial indebtedness, (ii) asset disposals, (iii) the granting of security ("negative pledge"), (iv) the granting of loans or credits or the provision of guarantees, (v) mergers and other reorganization measures, (vi) acquisitions and investments (*e.g.*, in joint ventures), (vii) the holding of assets and liabilities and the business operations and (viii) dividends and certain other payments to any direct or indirect shareholders of IHO and affiliates of such shareholders which are not subsidiaries of IHO.

Security has been granted over material assets of the IHO Group (excluding any member of the Schaeffler Group) to secure satisfaction of the claims of the finance parties under the IHO Debt Instruments. No upstream security is granted for IHO debt. There are certain restrictions to the scope of the security documents arising from German and U.S. tax requirements.

***IHO Bonds***

On July 1, 2011, Schaeffler Verwaltungs GmbH issued German law governed zero-coupon bonds due April 1, 2018 in a nominal amount of €3,293 million (value as of December 31, 2011 of approximately €1,855 million) ("**IHO Bonds**") with, INA-Holding Schaeffler GmbH & Co. KG and Schaeffler Holding GmbH & Co. KG as guarantor and Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as bonds representative. The IHO Bonds are held by

Commerzbank Aktiengesellschaft, Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxembourg, Landesbank Baden-Württemberg, The Royal Bank of Scotland plc and UniCredit Luxembourg S.A.

The liabilities under the IHO Bonds constitute direct secured obligations of Schaeffler Verwaltungs GmbH and are contractually subordinated to the IHO Facilities (or any refinancing thereof) until the occurrence of certain trigger events in relation to (i) the terms of the IHO Facilities (or any refinancing thereof) which make the IHO Facilities more onerous, (ii) any transfer or release of any security securing the IHO Bonds, or (iii) the security of the IHO Bonds and the date on which all IHO Facilities have been finally discharged in full. If the IHO Bonds become repayable prior to their scheduled maturity date, they will be redeemed at an early redemption amount calculated in accordance with the terms and conditions of the IHO Bonds. The financial covenants, representations, information undertakings and general undertakings, as set out in the terms and conditions of the IHO Bonds are overall similar to those set out in the IHO Facilities Agreement.

# Description of the Notes

Schaeffler Finance B.V. (the "**Issuer**") will issue the Notes (as defined below) under an indenture expected to be dated on or about June 18, 2012 (the "**Indenture**") among, *inter alios,* itself as Issuer, Schaeffler AG as parent guarantor (the "**Parent Guarantor**"), the Parent Guarantor's subsidiaries that guarantee the Notes (the "**Subsidiary Guarantors**" and, together with the Parent Guarantor, the "**Guarantors**"), Deutsche Trustee Company Limited as trustee (the "**Trustee**"), Deutsche Bank Luxembourg S.A. as general security trustee (the "**General Security Trustee**") and Commerzbank Aktiengesellschaft, Luxembourg Branch, as Continental shares security trustee (the "**Continental Shares Security Trustee**" and, together with the General Security Trustee, the "**Security Trustees**"), in a private transaction that is not subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

Unless the context requires otherwise, references in this *"Description of the Notes"* to the Notes include any Additional Notes that are issued. The terms of the Notes include those set forth in the Indenture. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended. The Security Documents referred to below under the caption "*—Security*" define the terms of the security that will secure the Notes.

In connection with this offering of Notes, the Issuer will lend the proceeds from the sale and issuance of the Notes to the Parent Guarantor in the form of one or more proceeds loans (the "**Note Proceeds Loan**"). The Issuer has no material business operations and upon completion of this offering will have no material assets other than, after the Issue Date, its rights under the Note Proceeds Loan and under the proceeds loans made in connection with the issuance of the Existing Notes. As a result, the Issuer will be wholly dependent on payments by the Parent Guarantor under the Note Proceeds Loan to provide the funds necessary to make the required payments of principal of, and interest, premium or Additional Amounts, if any, under, the Notes.

The Indenture, the Notes and the Note Guarantees will be subject to the terms of the Security Pooling and Intercreditor Agreement and any Additional Security Pooling and Intercreditor Agreements entered into in the future. The terms of the Security Pooling and Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantees. Please see *"Description of other indebtedness—Security Pooling and Intercreditor Agreement"* for a summary of the material terms of the Security Pooling and Intercreditor Agreement.

The following description is only a summary of the material provisions of the Indenture, the Notes, the Note Guarantees and the Security Documents and refers to the Security Pooling and Intercreditor Agreement. It does not restate those agreements in their entirety. The Schaeffler Group urges the investor to read the Indenture, the Security Documents and the Security Pooling and Intercreditor Agreement because they, and not this description, define the investor's rights as holders of the Notes (the "**Holders**"). Copies of the Indenture, the form of Note, the Security Documents and the Security Pooling and Intercreditor Agreement are available as set forth below under "*—Additional information.*"

The investor can find the definitions of certain terms used in this Description of the Notes under "*—Certain definitions.*" Certain defined terms used in this description but not defined below under "*—Certain definitions*" have the meanings assigned to them in the Indenture. In this description, the term *"Issuer"* refers only to Schaeffler Finance B.V. and not to any of the Parent Guarantor's other Subsidiaries.

The registered Holder will be treated as the owner of a Note for all purposes. Only registered Holders will have rights under the Indenture.

## Brief description of the Notes and the Note Guarantees

***The Notes***

The Notes:

- will be general senior obligations of the Issuer;
- will be structurally subordinated to any indebtedness of the Issuer's subsidiaries that are not Guarantors;
- will, together with the Obligations under the New Senior Facilities Agreement and related finance documents, the Existing Notes and certain Hedging Obligations, be secured by the Collateral as described below under "*—Security;*"
- will be guaranteed by the Guarantors;
- will be effectively subordinated to any existing and future Indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of property and assets securing such Indebtedness;
- will rank *pari passu* in right of payment with all existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes; and
- will rank senior in right of payment to all existing and future Indebtedness of the Issuer that is subordinated in right of payment to the Notes.

***The Note Guarantees***

The Notes will be guaranteed by the Parent Guarantor and initially by each of Egon von Ruville GmbH (*Germany*), FAG Aerospace GmbH & Co. KG (*Germany*), FAG Kugelfischer GmbH (*Germany*), IAB Holding GmbH (*Germany*), IAB Verwaltungs GmbH (*Germany*), INA Beteiligungsverwaltungs GmbH (*Germany*), Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (*Germany*), LuK GmbH & Co. KG (*Germany*), LuK Vermögensverwaltungsgesellschaft mbH (*Germany*), Schaeffler Automotive Aftermarket GmbH & Co. KG (*Germany*), Schaeffler Beteiligungsholding GmbH & Co. KG (*Germany*), Schaeffler Technologies AG & Co. KG (*Germany*), WPB Water Pump Bearing GmbH & Co. KG (*Germany*), Schaeffler Austria GmbH (*Austria*), Schaeffler Brasil Ltda (*Brazil*), Schaeffler France SAS (*France*), Schaeffler Hong Kong Company Limited (*Hong Kong*), LuK Savaria Kft (*Hungary*), S.C. Schaeffler Romania S.R.L. (*Romania*), INA Kysuce, a.s. (*Slovakia*), INA SKALICA spol. s r.o. (*Slovakia*), LuK (UK) Limited (*United Kingdom*), Schaeffler (UK) Limited (*United Kingdom*), Schaeffler Automotive Aftermarket (UK) Ltd. (*United Kingdom*), The Barden Corporation (UK) Ltd. (*United Kingdom*), LuK Transmission Systems, LLC (*Delaware, USA*), The Barden Corporation (*Connecticut, USA*) and Schaeffler Group USA Inc. (*Delaware, USA*) on the Issue Date (the "**Initial Subsidiary Guarantors**").

The Note Guarantee of each Guarantor:

- will be a general senior obligation of that Guarantor;

will be structurally subordinated to all existing and future indebtedness of any of such Guarantor's subsidiaries that are not Subsidiary Guarantors;

- will, together with the Obligations under the New Senior Facilities Agreement and related finance documents, the Existing Notes and certain Hedging Obligations, be secured by the Collateral as described below under "*—Security;*"
- will be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property or assets that do not secure such Note Guarantee, to the extent of the value of the property and assets securing such Indebtedness;
- will rank *pari passu* in right of payment with all existing and future Indebtedness of such Guarantor that is not subordinated in right of payment to such Note Guarantee;

- will rank senior in right of payment to all existing and future Indebtedness of such Guarantor that is subordinated in right of payment to such Note Guarantee; and
- will be effectively senior to all of such Guarantor's existing and future unsecured Indebtedness to the extent of the assets securing such Note Guarantee.

Certain of the Subsidiary Guarantees will be limited in value. These limitations are generally related to local corporate or other law. See *"Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Note Guarantees across multiple jurisdictions may be difficult," "Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Collateral across multiple jurisdictions may be difficult,"* and *"Limitations on validity and enforceability of the Subsidiary Guarantees and Collateral and certain Insolvency Law considerations."*

A Subsidiary Guarantee (but not, except when the Notes have an Investment Grade Rating from both Rating Agencies, the Subsidiary Guarantee of Schaeffler Technologies AG & Co. KG) will be automatically and unconditionally released concurrently with the release of any and all guarantees given by the relevant Subsidiary Guarantor with respect to Indebtedness of the Issuer or any Guarantor, subject to the satisfaction of certain conditions. See *"—Note Guarantees—Note Guarantee Releases."*

Not all of the Parent Guarantor's Restricted Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Restricted Subsidiaries, the non-guarantor Restricted Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer or a Guarantor. After giving *pro forma* effect to the Transactions, the Guarantors would have represented approximately 69.0% of the Schaeffler Group's consolidated external third party revenue and approximately 72.9% of the Schaeffler Group's consolidated EBITDA for the twelve months ended March 31, 2012 and approximately 77.3% of the Schaeffler Group's total consolidated assets as of March 31, 2012.

The operations of the Schaeffler Group are conducted through Subsidiaries of the Parent Guarantor and, therefore the Issuer depends on the cash flow of the Parent Guarantor's Subsidiaries to meet its obligations, including its obligations under the Notes. The Notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of any of the non-guarantor Subsidiaries. Any right of the Issuer or any Guarantor to receive assets of any of the non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer or such Guarantor is itself recognized as a creditor of the non-guarantor Subsidiary, in which case the claims of the Issuer or such Guarantor, as the case may be, would still be subordinated in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer or such Guarantor. As of March 31, 2012, after giving *pro forma* effect to the Transactions, the Parent Guarantor's subsidiaries that will not guarantee the Notes would have had approximately €20.8 million of Indebtedness outstanding. See *"Risk factors—Risks related to the Notes—The Issuer is a financing vehicle for the Schaeffler Group, has no material assets or sources of revenue except for claims against the Parent Guarantor resulting from intercompany loans and relies on distributions from the Parent Guarantor's subsidiaries to service its debt obligations and repay the Notes."*

As of the Issue Date all of the Parent Guarantor's Subsidiaries will be "Restricted Subsidiaries" for purposes of the Indenture. Under certain circumstances described below under the caption *"—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries,"* the Parent Guarantor will be permitted to designate Restricted Subsidiaries as "Unrestricted Subsidiaries." Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture and will not guarantee the Notes.

## Principal, maturity and interest

The Issuer will issue (i) up to €200,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**International Offering Notes**"), subject to an increase of up to a further €300,000,000 in aggregate principal amount of International Offering Notes in the International Offering, and (ii) up to an additional €50,000,000 in aggregate principal amount of senior secured notes due 2017 (the "**Employee Offering Notes**" and, together with the International Offering Notes, the "**Notes**") in the Employee Offering. The International Offering Notes and the Employee Offering Notes will constitute a single class of debt securities under the Indenture, will be fungible for trading purposes and will have a single ISIN number.

The Issuer may issue additional Notes ("**Additional Notes**") under the Indenture from time to time after this offering. The Notes may be issued in one or more series under the Indenture. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "*—Certain covenants—Limitation on Indebtedness.*" The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, except as otherwise provided in the Indenture. The Issuer will issue Notes in minimum denominations of €1,000. The Notes will mature on July 1, 2017. The redemption price at maturity will equal 100% of the principal amount of the Notes redeemed.

Interest on the Notes will accrue at the rate of [ • ]% per annum. The interest on the Notes will be payable in euro semi-annually in arrears on May 15 and November 15 commencing on November 15, 2012. The Issuer will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

***Payments on the Notes***

Principal, premium, if any, interest, and Additional Amounts, if any, on the Global Notes (as defined below) will be payable and the Global Notes may be exchanged and transferred, at the corporate trust office or agency of the Paying Agent in London, United Kingdom except that, at the option of the Issuer, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Payments on the Global Notes will be made to the common depositary whose nominee is the registered holder of the Global Notes.

The Issuers will pay interest on the Notes to Persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Such holders must surrender their Notes to a Paying Agent to collect principal payments.

## Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "**Paying Agent**") for the Notes in each of (i) the City of London and (ii) Luxembourg, for so long as the Notes are listed on the Official List of the LxSE and admitted to trading on the LxSE's regulated market. The Issuer will undertake to maintain a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting on November 26 and 27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive. The initial Paying Agents will be Deutsche Bank AG, London Branch in the City of London and Deutsche Bank Luxembourg S.A. in Luxembourg.

The Issuer will also maintain one or more registrars (each, a "**Registrar**") with an office in Luxembourg. The initial Registrar will be Deutsche Bank Luxembourg S.A. The Issuer will also

maintain a transfer agent in Luxembourg. The initial transfer agent will be Deutsche Bank Luxembourg S.A. The Registrar and the transfer agent in Luxembourg will maintain a register (the "**Register**") reflecting ownership of Definitive Registered Notes outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Issuer and a copy of the Register will be sent to the Issuer on the Issue Date and after any change to the Register made by the Registrar, with such copy to be held by the Issuer and at its registered office. In case of discrepancies between the Register and the register held by the Issuer at its registered office, the latter will prevail for purposes of Luxembourg law. See *"Book Entry, Delivery and Form."*

The Issuer may change the Paying Agents, the Registrar or the transfer agent without prior notice to the Holders. For so long as the Notes are listed on the Official List of the LxSE and admitted to trading on the LxSE's regulated market and the rules of the LxSE so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a daily newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

## Transfer and exchange

The Notes will be issued in the form of several registered notes in global form, without interest coupons (the "**Global Notes**").

The Global Note representing the Notes will, on the Issue Date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**").

Ownership of interests in the Global Notes (the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer described more fully under *"Transfer restrictions."* In addition, transfers of Book-Entry Interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants.

If definitive registered Notes in certificated form ("**Definitive Registered Notes**") are issued, they will be issued only in minimum denominations of €1,000 upon receipt by the Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under *"Transfer restrictions."*

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €1,000, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents to the Registrar, furnish information regarding the account of the transferee at Euroclear or Clearstream, where appropriate, furnish certain certificates and opinions and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer or exchange; *provided* that if the Issuer or any Guarantor is a party to the transfer or exchange, the Holder will not be required to pay such Taxes.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with an IHO Refinancing Offer, a Change of Control Offer or an Asset Sale Offer.

## Additional Amounts

All payments made by or on behalf of the Issuer under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer or any Guarantor is then incorporated or organized, engaged in business for tax purposes or otherwise resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction of any Paying Agent or any political subdivision thereof or therein (each, a "**Tax Jurisdiction**") will at any time be required to be made from any payments made by or on behalf of the Issuer under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee, including payments of principal, redemption price, purchase price, interest or premium, the Issuer or the relevant Guarantor, as applicable, will pay such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments by each Holder after such withholding, deduction or imposition (including any such withholding, deduction or imposition from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding, deduction or imposition; *provided, however,* that no Additional Amounts will be payable with respect to:

(1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any present or former connection between the Holder or the beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, partner of, member or shareholder of, or possessor of a power over, the relevant Holder, if the relevant Holder is an estate, trust, nominee, partnership, limited liability company or corporation) and the relevant Tax Jurisdiction (including being or having been a citizen, resident, or national thereof or being or having been present or engaged in a trade or business therein or having or having had a permanent establishment therein), but excluding any connection arising merely from the holding of such Note, the exercise or enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments in respect of such Note or a Note Guarantee;

(2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(3) any estate, inheritance, gift, sales, excise, transfer, personal property or similar Taxes;

(4) any Taxes withheld, deducted or imposed on a payment to an individual or a "residual entity" (as interpreted within the context of the European Council Directive 2003/48/EC) that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting on November

26 and 27, 2000 on the taxation of savings income or any law implementing or complying with or introduced, in order to conform to, such directive;

(5) Taxes imposed on or with respect to a payment made to a Holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(7) any Taxes to the extent such Taxes would not be imposed or withheld but for the failure of the Holder or beneficial owner of Notes (including, for these purposes, any financial institution through which the Holder or beneficial owner holds the Notes or through which payment on the Notes is made), following a written request by or on behalf of the Issuer or a Guarantor or a Paying Agent addressed to the Holder or beneficial owner (and made at a time that would enable the Holder or beneficial owner acting reasonably to comply with that request, and in all events, at least 30 days before any withholding or deduction would be required), to comply with any certification, identification, information or other reporting requirement whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, that is a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the Holder or beneficial owner is legally entitled to provide such certification, information or documentation;

(8) any Taxes to the extent such Taxes would not be imposed or withheld but for the application of section 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), as of the date of this Prospectus, including any current or future Treasury regulations or other official interpretations thereunder ("**FATCA**");

(9) any Taxes imposed on or with respect to any payment by the Issuer or Guarantor to the Holder if such Holder is a fiduciary or partnership or any person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such Holder been the sole beneficial owner of such Note; or

(10) any combination of items (1) through (9) above.

In addition to the foregoing, the Issuer and the Guarantors will also pay and indemnify the Holder for any taxes, charges or similar levies which are levied by any Tax Jurisdiction on the execution, delivery, issuance, registration or transfer (other than a transfer of the Notes after this Offering) of any of the Notes, the Indenture, any Note Guarantee or any other document referred to therein, and any taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes or any Note Guarantee.

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information necessary to enable the Paying Agents to pay such Additional Amounts to Holders on the relevant payment date. The Issuer and the relevant Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor will furnish to the Trustee (or to a Holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee or the Holder) by such entity.

Whenever in the Indenture or in this *"Description of the Notes"* there is mentioned, in any context, the payment of amounts of principal, interest or any other amount payable under, or with respect to, any of the Notes or any Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, any transfer by a Holder or beneficial owner of its Notes, and will apply, *mutatis mutandis,* to any jurisdiction in which any successor Person to the Issuer or any Guarantor is incorporated, engaged in business for tax purposes or otherwise resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes (or any Note Guarantee) and any department or political subdivision thereof or therein.

## Note Guarantees

The Notes will be guaranteed by the Parent Guarantor and initially by the Initial Subsidiary Guarantors. These Note Guarantees will be joint and several obligations of the Guarantors. The obligations of the Subsidiary Guarantors will be contractually limited under the applicable Subsidiary Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Subsidiary Guarantors and their respective shareholders, directors and general partners. For a description of such limitations, see *"Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Note Guarantees across multiple jurisdictions may be difficult," "Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Collateral across multiple jurisdictions may be difficult,"* and *"Limitations on validity and enforceability of the Subsidiary Guarantees and Collateral and certain Insolvency Law considerations."*

For as long as the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement is in effect, on or after the occurrence of an Enforcement Action (as defined in the Security Pooling and Intercreditor Agreement), all payments in respect of any Note Guarantees may only be made to the General Security Trustee (and the Trustee and, subject to the terms of the Indenture, any holder of Notes may make demands or claims under any Note Guarantee only to the effect that such payments be made to the General Security Trustee) for application pursuant to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, as the case may be.

***Note Guarantees Release***

(1) The Note Guarantee of a Subsidiary Guarantor (and the Parent Guarantor in the case of clauses (6) and (7) below) will be released:

(2) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger, consolidation, amalgamation or combination) to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or any Restricted Subsidiary, if the sale or other

disposition is not prohibited by or does not otherwise violate the "Asset Sale" provisions of the Indenture;

(3) in connection with any sale or other disposition of Capital Stock of that Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or a Restricted Subsidiary, if the sale or other disposition is not prohibited by or does not otherwise violate the "Asset Sale" provisions of the Indenture and the Subsidiary Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(4) concurrently with the release of any and all guarantees given by the relevant Subsidiary Guarantor with respect to Indebtedness of the Issuer or any Guarantor so long as (i) no Event of Default exists at such time or would arise as a result of such release and (ii) upon giving effect to such release, the relevant Subsidiary Guarantor would not be prohibited from incurring at least €1.00 of additional Indebtedness by the fourth paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;" provided* that the Subsidiary Guarantee of Schaeffler Technologies AG & Co. KG shall be released pursuant to this clause (4) only if at such time a Suspension Period is in effect;

(5) if the Issuer designates any Restricted Subsidiary that is a Subsidiary Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(6) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge;*"

(7) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(8) in connection with an enforcement sale pursuant to the terms of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, or as otherwise provided for under the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement; or

(9) as described under "*—Amendment, supplement and waiver."*

Notwithstanding any of the foregoing, in all circumstances a Note Guarantee shall only be released if (a) the relevant Guarantor has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and (b) other than in case of a release pursuant to clause (6) or (7) above, such Guarantor is released from its guarantees of the New Senior Facilities Agreement.

Upon any occurrence giving rise to a release of a Note Guarantee as specified above, the Trustee or the relevant Security Trustee, as applicable, will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Note Guarantee. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

## Security

***General***

The Notes and the Note Guarantees will be secured by the Collateral as described below. The Collateral will initially include the following properties and assets:

(1) pledges over the Capital Stock of the Issuer (the "**Issuer Share Pledge**"), each Subsidiary Guarantor, Schaeffler Iberia S.L.U. (*Spain*), each Restricted Subsidiary through which shares in any Subsidiary Guarantor or Schaeffler Iberia S.L.U. (*Spain*) are held, Schaeffler Familienholding Drei GmbH & Co. KG (*Germany*), Schaeffler Immobilien AG & Co. KG (*Germany*) and Schaeffler Beteiligungsgesellschaft mit beschränkter Haftung (*Germany*);

(2) pledges over all Capital Stock in Continental owned by the Parent Guarantor and its Restricted Subsidiaries;

(3) pledges over certain of the Parent Guarantor's and the Restricted Subsidiaries' (present and future) cash-pool accounts;

(4) pledges over, or security assignments of, certain intra-group loan receivables of the Parent Guarantor and its Restricted Subsidiaries, including of the Note Proceeds Loan (the "**Proceeds Loan Assignment**"); and

(5) pledges over, or security assignments of, certain accounts receivables.

The Capital Stock of Continental (WKN: 543900; ISIN: DE0005439004), including the pledged shares, are listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange. The prices are published in real time on an ongoing basis.

The minimum value of the Collateral was at least € 4.8 billion, based on the Frankfurt Stock Exchange's closing share price of Continental AG on June 21, 2012.

The liens securing the Notes will be effectively *pari passu* with the first priority liens securing obligations outstanding under the Existing Notes, the New Senior Facilities Agreement and certain hedging obligations under the terms of the Security Pooling and Intercreditor Agreement that provides that any proceeds received from enforcement of the Security Documents will be shared equally and ratably between the holders of the Notes and any other indebtedness that is or becomes subject to the Security Pooling and Intercreditor Agreement, including the Existing Notes and indebtedness under the New Senior Facilities Agreement and certain hedging obligations.

Schaeffler Immobilienholding Drei GmbH & Co. KG and the respective holders of its Capital Stock are not Restricted Subsidiaries and will, therefore, not be subject to restrictive covenants under the Indenture.

The Liens securing the Notes and the Guarantees will initially also secure the obligations of the Issuer and the Guarantors under the New Senior Facilities Agreement and related finance documents, under the Existing Notes and under certain Hedging Obligations. Under the Indenture, the Parent Guarantor and the Restricted Subsidiaries will be permitted to maintain additional Permitted Collateral Liens, and in connection therewith will be permitted to incur certain additional Indebtedness and other liabilities in the future which may share in the Collateral. The amount of such Permitted Collateral Liens will be limited by the covenants described under the captions "*—Certain covenants—Limitation on Liens*" and "*—Certain covenants—Limitation on Indebtedness.*" The amount of such additional Indebtedness secured by the Collateral could be significant.

The Security Documents have been or will be entered into, among others, as the case may be, by the General Security Trustee or its nominee(s), who will act as security trustee with respect to the Collateral other than shares of Continental, and the Continental Shares Security Trustee or its nominee(s), who will act as security trustee with respect to the shares of Continental forming part of the Collateral, in each case for the Trustee and the Holders, for the trustee for the Existing Notes and the holders of the Existing Notes, for the lenders under the New Senior Facilities Agreement, for the hedge counterparties under certain hedging obligations and for the holders of any other Indebtedness that is permitted to share in the Collateral.

The proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations owed to the Holders. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. Under the Security Pooling and Intercreditor Agreement, the Holders will be required to share recovery proceeds with other Secured Creditors, have certain limitations on their ability to enforce the security documents and have agreed that the Collateral may be released in certain circumstances without their consent. See *"Risk factors—Risks related to the Note Guarantees and the Collateral—There may not be sufficient Collateral to pay all or any of the Notes."*

Each Holder, by accepting a Note, shall be deemed (i) to have authorized the Trustee to enter into the Security Pooling and Intercreditor Agreement and the Security Trustees to enter into the Security Documents and the Security Pooling and Intercreditor Agreement; and (ii) to be bound thereby. Each Holder, by accepting a Note, appoints the Trustee or the relevant Security Trustee, as the case may be, as its trustee or agent under the Security Documents and the Security Pooling and Intercreditor Agreement and authorizes it to act as such.

Subject to the terms of the Security Documents, the Issuer and the Guarantors, as the case may be, will be entitled to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares of stock resulting from stock splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Collateral.

***Security Documents***

The Issuer, the entities holding the respective Collateral and the relevant Security Trustee, as applicable, have entered or will enter into Security Documents defining the terms of the Liens that secure the Notes and the Note Guarantees and the other secured obligations that will be secured by the Collateral. Subject to the terms of, and limitations under, the Security Documents, these Liens will secure the payment and performance when due of all of the payment obligations of the Issuer and the Guarantors under the Notes, the Indenture, the Note Guarantees and the Security Documents. The terms of the Security Documents will limit the enforcement generally to an effect similar to the limitations on the Note Guarantees. See *"Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Note Guarantees across multiple jurisdictions may be difficult," "Risk Factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Collateral across multiple jurisdictions may be difficult,"* and *"Limitations on validity and enforceability of the Subsidiary Guarantees and Collateral and certain insolvency law considerations."*

In certain jurisdictions, the rights of the Trustee and the Holders will not be directly secured by the Security Documents, but through the parallel debt claim acknowledged by the relevant Guarantor by way of an independent acknowledgement of Indebtedness to the General Security Trustee in the Security Pooling and Intercreditor Agreement that (subject to limitations generally to an effect similar to the limitations on the Note Guarantees) is equal to the total amounts payable under the Indenture and the Notes. Please see *"Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Note Guarantees across multiple jurisdictions may be difficult," "Risk factors—Risks related to the Note Guarantees and the Collateral—Enforcement of the Collateral across multiple jurisdictions may be difficult,"* and *"Limitations on validity and enforceability of the Subsidiary Guarantees and Collateral and certain insolvency law considerations."*

***Enforcement of security***

Neither Holders nor the Trustee are a party to the Security Documents. Therefore, neither the Trustee nor the Holders may, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only take action through the Security Trustees, and the Collateral generally will only be enforced upon the relevant Security Trustee taking enforcement action. The relevant Security Trustee will only take enforcement action if an enforcement decision is taken under the Security Pooling and Intercreditor Agreement.

The Holders will be entitled to vote on such decisions. However, the relevant Security Trustee will take an enforcement action only if a majority of votes cast by Secured Creditors entitled to vote under the Security Pooling and Intercreditor Agreement is in favor of such action.

The Security Pooling and Intercreditor Agreement provides that the relevant Security Trustee will take an enforcement action with respect to any of the respective Collateral only upon the

instruction of the Instructing Group (as defined below). Any decision, instruction or consent requiring action by the Instructing Group under the Security Pooling and Intercreditor Agreement, including decisions and instructions with respect to the enforcement of the Collateral, will be made in the form of a resolution in the following manner:

Holders (as well as holders of Existing Notes and holders of any notes or similar debt instruments issued by the Company or any of its subsidiaries in the future that are secured by the Collateral and are subject to the Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution, with series of notes denominated in different currencies each voting separately as a class. The Indenture will provide that, within each voting class, abstentions will be deemed to have voted either in favor of or against the resolution on a *pro rata* basis in the same proportion as the aggregate principal amount with respect to which votes were actually cast in favor of the resolution and against the resolution, respectively, bears to the total principal amount with respect to which votes were actually cast. The Trustee (and the trustee for the Existing Notes and any trustee for notes issued in the future that become subject to the Security Pooling and Intercreditor Agreement) will report to the General Security Trustee the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) in favor of the resolution and the aggregate principal amount of notes of each currency that voted (or are deemed under the relevant indenture to have voted) against the resolution.

Lenders under the New Senior Facilities Agreement (and under future facilities agreements that become subject to the Security Pooling and Intercreditor Agreement) will be entitled to vote on the resolution in accordance with the provisions of the relevant facilities agreement. The facility agent under the relevant facilities agreement will report to the General Security Trustee the aggregate amount of commitments under the respective facilities agreement that voted (or are deemed under the relevant facilities agreement to have voted) in favor of the resolution and the aggregate amount of commitments that voted (or are deemed under the relevant facilities agreement to have voted) against the resolution.

The General Security Trustee will determine the euro-equivalent total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of and against the resolution.

The resolution will be passed if the total principal amount of notes and amount of commitments under the facilities agreements that voted (or are deemed to have voted) in favor of the resolution exceeds the total principal amount of notes and amount of commitments under facilities agreements that voted (or are deemed to have voted) against the resolution, in each case on a euro-equivalent basis.

The Security Pooling and Intercreditor Agreement refers to any resolution passed in the foregoing manner as a decision or resolution of the "Instructing Group" (the "**Instructing Group**").

Upon completion of the Transactions (assuming the issuance of €300 million aggregate principal amount of Notes), the total principal amount of the Notes together with the total principal amount of the Existing Notes will represent approximately 29.5% of the total principal amount of notes and commitments under facilities agreements subject to the Security Pooling and Intercreditor Agreement, and therefore Holders will initially not have the ability to control such actions. For a description of security enforcement and other intercreditor provisions, please see *"Description of other indebtedness—Security Pooling and Intercreditor Agreement."*

The relevant Security Trustee will agree to any release of the Liens created by the Security Documents that is in accordance with the Indenture and the Security Pooling and Intercreditor Agreement without requiring any consent of the Holders or the Trustee.

***Release***

The Issuer and the Guarantors will be entitled to the release of the Liens created by the relevant Security Documents under any one or more of the following circumstances and as follows:

(1) in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets (including, for the avoidance of doubt, any Unrestricted Continental Shares) to a Person that is not (either before or after giving effect to such transaction) the Parent Guarantor or any Restricted Subsidiary, if the sale or other disposition is not prohibited by the "Asset Sale" provisions of the Indenture;

(2) in the case of a Subsidiary Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Subsidiary Guarantor;

(3) upon the release and discharge (other than as a result of an enforcement action) of any and all Liens (other than Permitted Liens (except for Permitted Liens specified in clause (xxx) of the definition thereof)) over the relevant Collateral securing Indebtedness, so long as no Event of Default exists at such time or would arise as a result of such release; *provided* that the Proceeds Loan Assignment, the Issuer Share Pledge, and the pledges over the Capital Stock in Schaeffler Technologies AG & Co. KG and over the Capital Stock in Continental (other than Unrestricted Continental Shares) owned by the Parent Guarantor and its Restricted Subsidiaries shall be released pursuant to this clause (3) only if at such time a Suspension Period is in effect;

(4) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets of such Restricted Subsidiary;

(5) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(6) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance"* and "*—Satisfaction and discharge;*"

(7) in connection with an enforcement sale pursuant to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement, or as otherwise provided for under the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement; or

(8) as described under "*—Amendment, supplement and waiver."*

In addition, the Liens created by the Security Documents will be released as may be permitted by the covenant described under "*—Certain covenants—Impairment of Security Interest."*

Subject to receipt of an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for in the Indenture relating to such release have been complied with, the relevant Security Trustee and the Trustee will take all necessary action required to effectuate any release of Collateral securing the Notes and the Note Guarantees, in accordance with the provisions of the Indenture, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the relevant Security Trustee without the consent of the Holder or any action on the part of the Trustee.

## Security Pooling and Intercreditor Agreement; Turnover

On the Issue Date, the Trustee will accede to the Security Pooling and Intercreditor Agreement, as described under *"Description of other indebtedness—Security Pooling and Intercreditor Agreement."* The terms of the Security Pooling and Intercreditor Agreement are important to

understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Note Guarantees.

The Indenture, the Security Pooling and Intercreditor Agreement and any Additional Security Pooling and Intercreditor Agreement will contain provisions providing that, if at any time prior to the Senior Discharge Date (as defined in the Security Pooling and Intercreditor Agreement) a payment or distribution is made to the Trustee or to the holders of Notes that, due to the provisions of the Indenture, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement should not have been made to them, subject to certain knowledge exceptions, the Trustee or the holders of Notes are required to hold it in trust for the General Security Trustee and pay the payment or distribution over to the General Security Trustee for application in accordance with the terms of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement.

## Optional redemption

At any time prior to July 1, 2014, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice to Holders, at a redemption price equal to [ • ]% of the principal amount of the Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to (but not including) the date of redemption (subject to the rights of Holders on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering of (i) the Parent Guarantor; or (ii) any Parent Entity to the extent the proceeds from such Equity Offering are contributed to the Parent Guarantor's common equity capital (other than through the issuance of Redeemable Capital Stock) or are paid to the Parent Guarantor as consideration for the issuance of ordinary shares of the Parent Guarantor or are loaned to the Parent Guarantor as Subordinated Shareholder Debt; *provided* that:

(1) at least 60% of the aggregate principal amount of the Notes (calculated after giving effect to any issuance of Additional Notes) originally issued under the Indenture (excluding 2017 Notes held by the Parent Guarantor and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

In addition, at any time prior to July 1, 2014, the Issuer may on any one or more occasions redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus the Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and except pursuant to *"—Redemption for changes in taxes,"* the Notes will not be redeemable at the Issuer's option prior to July 1, 2014.

On or after July 1, 2014 the Issuer may on any one or more occasions redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve month period beginning on July 1 of the years indicated below, subject to the rights of holders of the Notes on the relevant record date to receive interest on the relevant interest payment date:

| Year | Redemption Price |
|---|---|
| 2014 | [ • ]% |
| 2015 | [ • ]% |
| 2016 and thereafter | [ • ]% |

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date.

Any redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

## Redemption for changes in taxes

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the Holders (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and notice*"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a "**Tax Redemption Date**") and all Additional Amounts (if any) then due or which will become due by the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer is or would be required to pay Additional Amounts or a Guarantor would be unable for reasons outside their control to procure payment by the Issuer (or another Guarantor that would be able to make the relevant payment without paying Additional Amounts) and in making payment itself the relevant Guarantor would be required to pay Additional Amounts, and the Issuer or the relevant Guarantor, as applicable, cannot avoid any such payment obligation by taking reasonable measures available, and the requirement arises as a result of:

(1) any amendment to, or change in, the laws, treaties or any regulations or rulings promulgated thereunder of a relevant Tax Jurisdiction which change or amendment has not been publicly announced before and which becomes effective on or after the date of this Prospectus (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the date of this Prospectus, such later date); or

(2) any amendment to, or change in, an official written interpretation or application of such laws, treaties, regulations or rulings (including by virtue of a holding, judgment, order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change has not been publicly announced before and which becomes effective on or after the date of this Prospectus (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the date of this Prospectus, such later date) (each of the foregoing clauses (1) and (2), a "**Change in Tax Law**").

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer or the Guarantor, as applicable, would be obligated to make such payment or withholding if a payment in respect of the Notes were then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld)) to the effect that there has been such Change in Tax Law which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

## Mandatory redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

## Repurchase at the option of Holders

## Change of Control

If a Change of Control occurs, each holder of the Notes will have the right to require the Issuer to repurchase all or any part (in denominations of €1,000) of that holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the "**Change of Control Payment**"), subject to the rights of Holders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will mail a notice to each Holder at such Holder's registered address or otherwise deliver a notice in accordance with the procedures described under "*—Selection and Notice,"* stating that a Change of Control Offer is being made and offering to repurchase Notes on the date (the "**Change of Control Payment Date**") specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with any applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The Paying Agents will as soon as reasonably practicable mail (or cause to be delivered) to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or its authenticating agent) will as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise

in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer; or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption "*—Optional redemption,"* unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Notes pursuant to the Change of Control Offer may be limited by a number of factors. The ability of the Issuer to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Parent Guarantor's and the Restricted Subsidiaries' then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. The Schaeffler Group expects that it would require third party financing to make an offer to repurchase the Notes upon a Change of Control. The Schaeffler Group cannot assure the investor that it would be able to obtain such financing. Any failure by the Issuer to offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the New Senior Facilities Agreement. Please see *"Risk factors—Risks related to the Notes—Although the occurrence of specific change of control events will permit Holders to require redemption or repurchase of the Notes, the Issuer may not be able to redeem or repurchase such Notes."*

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the Holders of a majority in principal amount of the Notes prior to the occurrence of the Change of Control.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the LxSE's regulated market and the rules and regulations of the LxSE so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in a leading daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the LxSE (*www.bourse.lu*).

## Asset Sales

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Parent Guarantor (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Parent Guarantor or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

   (a) any liabilities, as recorded on the balance sheet of the Parent Guarantor or any Restricted Subsidiary (other than contingent and subordinated liabilities), that are

assumed by the transferee of any such assets and as a result of which the Parent Guarantor and its Restricted Subsidiaries are no longer obligated with respect to such liabilities or are indemnified against further liabilities;

(b) any securities, notes or other obligations received by the Parent Guarantor or any such Restricted Subsidiary from such transferee that are converted by the Parent Guarantor or such Restricted Subsidiary into cash or Cash Equivalents within 90 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

(c) any Capital Stock or assets of the kind referred to in clauses (1)(d), (e) or (f) of the next paragraph of this covenant; and

(d) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Parent Guarantor and each other Restricted Subsidiary are released from any guarantee of such Indebtedness in connection with such Asset Sale.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, the Parent Guarantor (or the applicable Restricted Subsidiary, as the case may be) may:

(1) apply such Net Proceeds (at the option of the Parent Guarantor or Restricted Subsidiary):

(a) to purchase the Notes in an offer to all holders of Notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (a "**Notes Offer**");

(b) to prepay or repay Pari Passu Indebtedness under a Credit Facility that is secured by a Permitted Collateral Lien that ranks equal to or in priority to any Lien on such assets securing the Notes or the Note Guarantees and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(c) to purchase or permanently prepay or redeem or repay (i) any Indebtedness that is secured by a Lien on assets or property of the Parent Guarantor or any Restricted Subsidiary which do not constitute Collateral and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto or (ii) any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor or the Issuer;

(d) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary;

(e) to make a capital expenditure;

(f) to acquire other assets (other than Capital Stock) not classified as current assets under IFRS that are used or useful in a Permitted Business; or

(g) any combination of the foregoing; or

(2) enter into a binding commitment to apply the Net Proceeds pursuant to clause (d), (e) or (f) of paragraph (1) above; provided that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such acquisition or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365 day period.

Pending the final application of any Net Proceeds, the Parent Guarantor (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "**Excess Proceeds.**" When the aggregate amount of

Excess Proceeds exceeds €35.0 million, within ten Business Days thereof, the Parent Guarantor will make an offer (an "**Asset Sale Offer**") to all holders of Notes and, to the extent the Parent Guarantor elects, to all holders of other Pari Passu Indebtedness, to purchase, prepay or redeem the maximum principal amount of Notes and such other Pari Passu Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price for the Notes in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Parent Guarantor and its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other Pari Passu Indebtedness tendered into (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds or if the aggregate amount of Notes tendered pursuant to a Notes Offer exceeds the amount of the Net Proceeds so applied, the Trustee will select the Notes and such other Pari Passu Indebtedness, if applicable, to be purchased on a pro rata basis (or in the manner described under "*—Selection and notice*"), based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

To the extent that any portion of Net Proceeds payable in respect of the Notes is denominated in a currency other than euro, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in euro that is actually received by the Parent Guarantor upon converting such portion of the Net Proceeds into euro.

The Parent Guarantor will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an IHO Refinancing Offer, a Change of Control Offer, an Asset Sale Offer or a Notes Offer. To the extent that the provisions of any securities laws or regulations conflict with the IHO Refinancing Failure, the Change of Control, Asset Sale or Notes Offer provisions of the Indenture, the Parent Guarantor will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

## Selection and notice

Notices of redemption may be made subject to conditions precedent.

If less than all of the Notes are to be redeemed at any time, the Trustee or the Registrar will select Notes for redemption on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under "*—Book-entry, delivery and form,*" based on a method that most nearly approximates a *pro rata* selection as the Trustee or the Registrar deems fair and appropriate in accordance with Euroclear's and Clearstream's procedures), unless otherwise required by law or applicable stock exchange or depository requirements. Neither the Trustee nor the Registrar shall be liable for selections made by it in accordance with this paragraph.

No Notes of €1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder upon cancellation of the original Note. In case of a Global Note, an

appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes which are represented by Global Notes held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Official List of the LxSE and admitted to trading on the LxSE's regulated market and the rules and regulations of the LxSE so require, any such notice to the holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the LxSE (*www.bourse.lu*) and, in connection with any redemption, the Issuer will notify the LxSE of any change in the principal amount of Notes outstanding.

## Certain covenants

***Limitation on Indebtedness***

Subject to the exceptions set forth below, the Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) unless on the date of the incurrence of such Indebtedness, after giving effect to the incurrence of such Indebtedness and the application of the proceeds therefrom, on a *pro forma* basis:

(a) the Consolidated Coverage Ratio would be at least 2.00 to 1.00; and

(b) to the extent such additional Indebtedness is purported to be secured by Liens, the Consolidated Secured Debt Leverage Ratio would not be more than 3.25 to 1.00.

The first paragraph of this covenant will not prohibit the incurrence by the Parent Guarantor and its Restricted Subsidiaries of any of the following Indebtedness:

(1) Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to €8,250.0 million, less (i) the aggregate net proceeds of the Issuer from the initial sale of the Existing Notes; (ii) the aggregate net proceeds of the Issuer from the initial sale of the Notes issued on the Issue Date and (iii) the Net Proceeds from Asset Sales since the Issue Date applied by the Parent Guarantor or any Restricted Subsidiary pursuant to the covenant described under the caption entitled "*—Repurchase at the option of Holders—Asset Sales"* to repay any Indebtedness under any Credit Facility incurred pursuant to this clause (1) (and in respect of any revolving credit facility, to permanently reduce commitments thereunder);

(2) Indebtedness of the Parent Guarantor owing to any of its Restricted Subsidiaries or Indebtedness of any of its Restricted Subsidiaries owing to the Parent Guarantor or any other Restricted Subsidiary of the Parent Guarantor; *provided* that: (i) any disposition or transfer of any such Indebtedness to a Person (other than a disposition or transfer to the Parent Guarantor or a Restricted Subsidiary); and (ii) any subsequent issuance or transfer of any Capital Stock that results in any such Indebtedness being held by a Person other than the Parent Guarantor or a Restricted Subsidiary, will, in each case, be deemed to be an incurrence of such Indebtedness not permitted by this clause (2);

(3) Indebtedness under the Notes (but excluding any Additional Notes issued after the Issue Date) and the related Note Guarantees and the related parallel debt obligations for the benefit of the General Security Trustee under the Security Pooling and Intercreditor Agreement;

(4) Indebtedness (other than the Indebtedness described in clauses (1) and (2) of this covenant) outstanding on the Issue Date;

(5) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries represented by Capital Lease Obligations, mortgage financings, purchase money obligations or other similar indebtedness with respect to assets or property in an aggregate principal amount not to exceed the greater of €300.0 million and 2.5% of Total Assets at any one time outstanding;

(6) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries incurred in respect of worker's compensation claims, self-insurance obligations, performance, surety and similar bonds, completion guarantees and customs, VAT and other tax guarantees provided by the Parent Guarantor and its Restricted Subsidiaries in the ordinary course of business;

(7) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries providing for indemnification, adjustment of purchase price or similar obligations in connection with the acquisition or disposition of any business, assets or Capital Stock of any Subsidiary of the Parent Guarantor after the Issue Date; provided that the maximum liability of the Parent Guarantor and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Parent Guarantor and its Restricted Subsidiaries in connection with such disposition;

(8) Indebtedness arising from honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds or credit lines in the ordinary course of business, provided that such Indebtedness is disbursed within 15 Business Days of incurrence;

(9) customer deposits and advance payments received from customers for goods and services purchased in the ordinary course of business;

(10) Indebtedness under cash management, cash pooling or netting or setting off arrangements in the ordinary course of business and Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes as determined in good faith by the Parent Guarantor;

(11) Indebtedness of the Parent Guarantor and its Restricted Subsidiaries in an aggregate principal amount not to exceed €500.0 million at any one time outstanding;

(12) any Permitted Refinancing Indebtedness incurred with respect to the refinancing of any Indebtedness permitted under the first paragraph of this covenant or under clauses (3), (4), (12) or (13);

(13) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary of the Parent Guarantor or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Parent Guarantor or any of its Restricted Subsidiaries (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary of the Parent Guarantor or was otherwise acquired by the Parent Guarantor or any of its Restricted Subsidiaries); provided, however, with respect to this clause (13), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred (x) the Parent Guarantor would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (13); or (y) the Consolidated Coverage Ratio of the Parent Guarantor would not be less than it was immediately prior to giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (13);

(14) the Guarantee by the Parent Guarantor or any Restricted Subsidiary of Indebtedness of the Parent Guarantor or any Restricted Subsidiary to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; provided that if the Indebtedness being guaranteed is subordinated to or pari passu with the Notes or a Note Guarantee, then the Guarantee must be subordinated to or pari passu with, as applicable, to the same extent as the Indebtedness guaranteed; and

(15) Indebtedness incurred in any Qualified Securitization Financing not to exceed an aggregate principal amount of €300.0 million at any one time outstanding.

For purposes of determining compliance with the first two paragraphs of this covenant, in the event that an item of Indebtedness meets the criteria of more than one of clauses (1) through (15) of the second paragraph of this covenant, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Parent Guarantor will be permitted to divide and classify such item of Indebtedness on the date of its incurrence in any manner that complies with this covenant; *provided* that (i) Indebtedness under the New Senior Facilities Agreement outstanding on the Issue Date will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the second paragraph of this covenant; and (ii) any Indebtedness incurred under the New Senior Facilities Agreement and Indebtedness under Credit Facilities incurred to refinance any Indebtedness under the New Senior Facilities Agreement may be incurred only pursuant to clause (1) of the second paragraph of this covenant, *provided, however,* that, if at the time of incurrence the amount of such Indebtedness would exceed the amount available for issuance under clause (1) of the second paragraph of this covenant, such excess amount will be permitted to be classified by the Parent Guarantor in any other manner that complies with this covenant. In addition, any item of Indebtedness initially classified as incurred pursuant to one or more of clauses (2) through (15) of the second paragraph of this covenant, or entitled to be incurred pursuant to the first paragraph of this covenant, may later be reclassified by the Parent Guarantor such that it will be deemed as having been incurred pursuant to such other clause of the second paragraph of this covenant or pursuant to the first paragraph of this covenant to the extent that such reclassified Indebtedness could be incurred pursuant to such other clause of the second paragraph of this covenant or the first paragraph of this covenant at the time of such reclassification.

Notwithstanding the first two paragraphs of this covenant, aggregate Indebtedness incurred by Restricted Subsidiaries of the Parent Guarantor (excluding Subsidiary Guarantors or Finance Subsidiaries) in accordance with this covenant may not exceed an amount at any one time outstanding equal to the greater of €850.0 million and 8.0% of Total Assets.

For the avoidance of doubt, any Acquired Debt of any Person that becomes a Restricted Subsidiary of the Parent Guarantor (including, for the avoidance of doubt, by way of transfer of shares in such Person or in any of its direct or indirect shareholders to, or merger or other amalgamation of a shareholder of such Person with or into, the Parent Guarantor or any of its Restricted Subsidiaries) or that is merged or otherwise amalgamated with or into (or any other reorganization transaction having a similar effect) the Parent Guarantor or any of its Restricted Subsidiaries shall be deemed to be incurred by the Parent Guarantor or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary of the Parent Guarantor or such merger or other amalgamation becomes legally effective, as the case may be.

For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the euro equivalent of the principal amount of Indebtedness denominated in another currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided* that (1) if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal

amount of such Indebtedness being refinanced; (2) the euro equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date will be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (3) if and for so long as any such Indebtedness is subject to an agreement intended to protect against fluctuations in currency exchange rates with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such currency agreement and, otherwise, the euro equivalent of such amount plus the euro equivalent of any premium which is at such time due and payable but is not covered by such currency agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent Guarantor or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be (1) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS and (2) the principal amount of the Indebtedness, in the case of any other indebtedness.

***Limitation on Restricted Payments***

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, make any Restricted Payment.

Notwithstanding the foregoing paragraph, the Parent Guarantor or any of its Restricted Subsidiaries may make a Restricted Payment if, at the time of such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) the Parent Guarantor, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, would have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the Consolidated Coverage Ratio test set forth in the first paragraph of the covenant described under the caption "*—Limitation on Indebtedness;*" and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments declared or made after the Issue Date, and after giving effect to any reductions required by the last paragraph of this covenant, does not exceed the sum of:

   (a) 50% of the aggregate Consolidated Net Income of the Parent Guarantor on a cumulative basis during the period beginning on the first day of the first full fiscal quarter immediately prior to the Issue Date and ending on the last day of the Parent Guarantor's last fiscal quarter ending prior to the date of such proposed Restricted Payment for which consolidated financial statements of the Parent Guarantor are available (or, if such Consolidated Net Income of the Parent Guarantor for such period is a deficit, less 100% of such deficit); plus

   (b) 100% of the aggregate net cash proceeds and the Fair Market Value of marketable securities received by the Parent Guarantor after the Issue Date as equity capital contributions or from the issuance or sale (other than to any Subsidiary of the Parent Guarantor) of the Parent Guarantor's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase the Parent Guarantor's Qualified Capital Stock (excluding the net cash proceeds from the issuance of the Parent Guarantor's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Parent Guarantor or any of its Subsidiaries

until and to the extent such borrowing is repaid) or from the issuance or sale of Subordinated Shareholder Debt (other than an issuance or sale to a Subsidiary of the Parent Guarantor); plus

(c) (i) the amount by which the Parent Guarantor's Indebtedness or Indebtedness of any Restricted Subsidiary of the Parent Guarantor is reduced on the Parent Guarantor's consolidated balance sheet after the Issue Date upon the conversion or exchange (other than by a Subsidiary of the Parent Guarantor) of such Indebtedness into the Parent Guarantor's Qualified Capital Stock; and

(ii) the aggregate net cash proceeds received after the Issue Date by the Parent Guarantor from the issuance or sale (other than to any Subsidiary of the Parent Guarantor) of Redeemable Capital Stock that has been converted into or exchanged for the Parent Guarantor's Qualified Capital Stock, to the extent such Redeemable Capital Stock was originally sold for cash or Cash Equivalents,

together with, in the case of both clauses (i) and (ii), the aggregate net cash proceeds received by the Parent Guarantor at the time of such conversion or exchange (excluding the net cash proceeds from the issuance of the Parent Guarantor's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor until and to the extent such borrowing is repaid); *plus*

(d) to the extent any Restricted Investment that was made after the Issue Date is (a) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the property or assets or marketable securities received by the Parent Guarantor or its Restricted Subsidiaries (other than from the Parent Guarantor or a Restricted Subsidiary); or (b) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Investment of the Parent Guarantor and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(e) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or if an Unrestricted Subsidiary is merged or consolidated into the Parent Guarantor or a Restricted Subsidiary or the assets of an Unrestricted Subsidiary are transferred to the Parent Guarantor or its Restricted Subsidiaries (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of assets received by the Parent Guarantor or Restricted Subsidiary or the Parent Guarantor's interest in such Subsidiary as of the date of such designation or at the time of such merger, consolidation or transfer of assets; provided that such amount will not exceed the amount of the Restricted Payment deemed made at the time that the Subsidiary was designated as an Unrestricted Subsidiary; plus

(f) 100% of any cash dividends or distributions received by the Parent Guarantor or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Parent Guarantor for such period.

Notwithstanding the first two paragraphs above, the Parent Guarantor and any of its Restricted Subsidiaries may take the following actions so long as (with respect to clauses (3) through (15) below) no Default or Event of Default of the type specified in clauses (1), (2), (3), (5) or (9) under *"—Events of Default and Remedies"* has occurred and is continuing:

(1) the payment of any dividend within 60 days after (i) if the relevant dividend is paid by a Person other than a German stock corporation, the date of its declaration; or (ii) if the relevant dividend is paid by a German stock corporation, the date on which the invitation to such corporation's shareholders' meeting containing the proposal for a shareholders' resolution on the payment of the dividend is published, in each case if at such date of

declaration or publication, as the case may be, such payment would have been permitted by the provisions of this covenant;

(2) payments of cash, dividends, distributions, advances or other Restricted Payments to allow for cash payments in lieu of issuing fractional shares pursuant to the (i) exercise of options or warrants; or (ii) exchange or conversion of any exchangeable or convertible securities;

(3) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor held by any current or former officer, director or employee of the Parent Guarantor or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed €10.0 million in any twelve-month period (with unused amounts being carried over to succeeding twelve-month periods subject to a maximum of €10.0 million in any twelve-month period); provided, further, that such amount in any twelve-month period may be increased to an amount not to exceed the net cash proceeds from the sale of Capital Stock of the Parent Guarantor or Restricted Subsidiary received by the Parent Guarantor or Restricted Subsidiary during such twelve-month period, in each case to members of management or directors of the Parent Guarantor, any of its Restricted Subsidiaries or any Parent Entity; provided, further, that the amount of any such net cash proceeds that are utilized for such repurchase, redemption or other acquisition or retirement for value of any Capital Stock will be excluded from the calculation of amounts under clause 3(b) of the second paragraph of this covenant and clauses (4) and (5) of this paragraph;

(4) the making of any Restricted Payment in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the net cash proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary of the Parent Guarantor) of, the Parent Guarantor's Qualified Capital Stock or options, warrants or other rights to acquire such Qualified Capital Stock or Subordinated Shareholder Debt or from the substantially concurrent contribution of common equity capital to the Parent Guarantor; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clauses (3) and (5) of this paragraph;

(5) the declaration and payment of a dividend in the form of an assumption by the Parent Guarantor of Indebtedness of a Parent Entity in an aggregate principal amount equal to the net cash proceeds of the issuance and sale (other than to a Subsidiary of the Parent Guarantor) of the Parent Guarantor's Qualified Capital Stock or options, warrants or other rights to acquire such Qualified Capital Stock or Subordinated Shareholder Debt or from the contribution of common equity capital to the Parent Guarantor; provided that (i) the Indebtedness to be assumed by the Parent Guarantor and its Restricted Subsidiaries is permitted to be incurred under the Indenture, (ii) prior to or substantially concurrently with the declaration and payment of such dividend such net cash proceeds are applied to repay Indebtedness outstanding under the New Senior Facilities Agreement and (iii) the declaration and payment of such dividend are made no later than 365 days after such issuance and sale of Qualified Capital Stock or options, warrants or other rights to acquire Qualified Capital Stock or such contribution of common equity capital; provided further that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from the calculation of amounts under clause (3)(b) of the second paragraph of this covenant and clauses (3) and (4) of this paragraph;

(6) the purchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the net cash proceeds from, an incurrence of Permitted Refinancing Indebtedness;

(7) the declaration or payment of any dividend to all holders of Capital Stock of a Restricted Subsidiary of the Parent Guarantor on a pro rata basis or on a basis that results in the receipt by the Parent Guarantor or any of its Restricted Subsidiaries of dividends or distributions of greater value than the Parent Guarantor or such Restricted Subsidiary would receive on a pro rata basis;

(8) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;

(9) the making of Permitted Upstream Payments in an amount not to exceed (i) €210.0 million in 2012, (ii) €245.0 million in 2013, (iii) €290.0 million in 2014, (iv) €325.0 million in 2015, and (v) €350.0 million in 2016 and any calendar year thereafter;

(10) the transfer, by way of dividend or otherwise, of Unrestricted Continental Shares or amounts equal to the net proceeds from the sale of, or dividends received with respect to, Unrestricted Continental Shares;

(11) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Redeemable Capital Stock of the Parent Guarantor or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant described under the caption "*—Limitation on Indebtedness;*"

(12) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer or any Guarantor that is subordinated in right of payment to the Notes or any Note Guarantee (other than any Indebtedness so subordinated and held by Affiliates of the Parent Guarantor) upon a Change of Control or Asset Sale to the extent required by the agreements governing such Indebtedness at a purchase price not greater than 101% of the principal amount of such Indebtedness in the case of a Change of Control, and 100% in the case of an Asset Sale, but only if the Issuer has complied with its obligations under the covenant described under the caption "*—Repurchase at the option of Holders—Change of Control"* and "*—Asset Sale"* and the Issuer repurchased all Notes tendered pursuant to the offer required by such covenants prior to offering to purchase, purchasing or repaying such Indebtedness;

(13) the payment of any Securitization Fees and purchases of Securitization Assets and related assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(14) the purchase of Capital Stock of Continental upon the exercise of subscription rights held by the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor with the purpose or effect of avoiding dilution in the Capital Stock of Continental held by the Parent Guarantor or such Restricted Subsidiary in connection with any rights offering; provided that the Parent Guarantor, on the date of such transaction after giving pro forma effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, would have been able to incur €1.00 of additional Indebtedness pursuant to clauses (a) and (b) of the first paragraph of the covenant described under the caption "*—Limitation on Indebtedness;*" and

(15) other Restricted Payments; provided that the aggregate amount of all Restricted Payments made under this clause (15) does not exceed €200.0 million since the Issue Date.

The actions described in clauses (1), (3), (7), (9), (10), (11), (12), (14) and (15) are Restricted Payments that will be permitted to be made but that will reduce the amount that would otherwise be available for Restricted Payments under clause (3) of the second paragraph of this covenant.

***Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Parent Guarantor or any Restricted Subsidiary, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Parent Guarantor or any Restricted Subsidiary;

(2) make loans or advances to the Parent Guarantor or any Restricted Subsidiary; or

(3) sell, lease or transfer any of its properties or assets to the Parent Guarantor or any Restricted Subsidiary, provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Parent Guarantor or any Restricted Subsidiary to other indebtedness incurred by the Parent Guarantor or any Restricted Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Indebtedness and Credit Facilities in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(2) the Indenture, the Notes, the Note Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement and the Security Documents;

(3) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) the encumbrances and restrictions contained in the New Senior Facilities Agreement and the Security Pooling and Intercreditor Agreement, in each case, as in effect on the Issue Date (as determined in good faith by the Parent Guarantor) or (ii) is customary in comparable financings (as determined in good faith by the Parent Guarantor), provided that the Parent Guarantor determines in good faith that such restrictions will not materially adversely impact the ability of the Issuer and the Guarantors to make required principal and interest payments on the Notes and the Note Guarantees;

(4) applicable law, rule, regulation or order or the terms of any license, authorization, concession or permit;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Parent Guarantor or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;

(6) customary non-assignment and similar provisions in contracts, leases and licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(8) any agreement for the sale or other disposition of the Capital Stock or all or substantially all of the property and assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(9) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described under the caption "*—Limitation on Liens*" that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) customary provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements in the ordinary course of business (including agreements entered into in connection with a Restricted Investment), which limitation is applicable only to the assets that are the subject of such agreements;

(12) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case, under contracts entered into in the ordinary course of business;

(13) encumbrances or restrictions with respect to any Qualified Securitization Financing;

(14) restrictions on the real property securing Indebtedness under any mortgage financing or mortgage refinancing permitted to be incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*"; and

(15) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (14), or in this clause (15); provided that the terms and conditions of any such encumbrances or restrictions are no more restrictive in any material respect than those under or pursuant to the agreement so extended, renewed, refinanced or replaced.

***Transactions with Affiliates***

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Parent Guarantor (each, an "**Affiliate Transaction**") involving aggregate payments or consideration in excess of €10.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Parent Guarantor or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent Guarantor or such Restricted Subsidiary with an unrelated Person; and

(2) the Parent Guarantor delivers to the Trustee:

   (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €25.0 million, a resolution of the Board

of Directors of the Parent Guarantor set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Parent Guarantor; and, in addition,

(b) with respect to (i) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €50.0 million or (ii) any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €25.0 million in which there are no disinterested members of the Board of Directors of the Parent Guarantor, an opinion of an accounting, appraisal or investment banking firm of international standing, or other recognized independent expert of international standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is (i) fair from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, collective bargaining agreement, consultant agreement, employee benefit arrangements with any employee, consultant, officer or director of the Parent Guarantor or any Restricted Subsidiary, including under any stock option, stock appreciation rights, stock incentive or similar plans, entered into in the ordinary course of business;

(2) transactions between or among the Parent Guarantor and any Restricted Subsidiary, or between or among Restricted Subsidiaries;

(3) transactions in the ordinary course of business with a Person (other than an Unrestricted Subsidiary of the Parent Guarantor) that is an Affiliate of the Parent Guarantor solely because the Parent Guarantor owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Parent Guarantor or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Redeemable Capital Stock) of the Parent Guarantor or Subordinated Shareholder Debt to Affiliates of the Parent Guarantor;

(6) any Investment (other than a Permitted Investment) or other Restricted Payment, in either case, that does not violate the provisions of the Indenture described above under the caption "*—Limitation on Restricted Payments*";

(7) any Permitted Investments (other than Permitted Investments described in clause (a) of the definition thereof);

(8) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date;

(9) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services or providers of employees or other labor, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture that are fair to the Parent Guarantor or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Parent Guarantor or the senior management thereof, or are

on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person;

(10) any transactions in the ordinary course of business between the Parent Guarantor or any of its Restricted Subsidiaries and any Person that is an Affiliate of the Parent Guarantor solely because a director of such Person is also a director of the Parent Guarantor or any direct or indirect parent of the Parent Guarantor; provided that such director abstains from voting as a director of the Parent Guarantor or such direct or indirect parent, as the case may be, on any matter involving such Person;

(11) any payments or other transactions pursuant to a tax sharing agreement between the Parent Guarantor and any other Person or a Restricted Subsidiary of the Parent Guarantor and any other Person with which the Parent Guarantor or any of its Restricted Subsidiaries files a consolidated tax return or with which the Parent Guarantor or any of its Restricted Subsidiaries is part of a group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation; provided, however, that any such tax sharing or arrangement and payment does not permit or require payments in excess of the amounts of tax that would be payable by the Parent Guarantor and its Restricted Subsidiaries on a stand-alone basis; and

(12) any transaction effected as part of a Qualified Securitization Financing.

***Limitation on Liens***

The Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist, any Lien (the "**Initial Lien**") securing Indebtedness, except for Permitted Liens, upon or with respect to any of their property or assets, now owned or hereafter acquired, unless all payments due under the Indenture, the Notes and the Note Guarantees are secured on an equal and ratable basis (or in the case of Indebtedness which is subordinated in right of payment to the Notes or any Note Guarantees, on a priority or senior basis, with the same relative priority as the Notes or such Note Guarantee, as applicable, shall have with respect to such subordinated Indebtedness) with the obligations so secured.

With respect to the whole or any part of the Collateral, the Parent Guarantor will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist, any Lien securing Indebtedness, except for Permitted Collateral Liens.

Any Lien created for the benefit of the Holders pursuant to this covenant will provide by its terms that such Lien will be automatically and unconditionally released and discharged (a) upon the release and discharge of the Initial Lien other than as a consequence of an enforcement action with respect to the assets subject to such Lien; or (b) as set forth under the heading "*—Security.*"

***Merger, Consolidation or Sale of Assets***

The Parent Guarantor will not, in a single transaction or through a series of transactions, (i) merge, amalgamate or consolidate with or into any other Person; or (ii) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all of the properties and assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to any other Person or Persons unless:

(1) immediately after giving effect to any such transaction or series of transactions either (a) the Parent Guarantor will be the surviving corporation; or (b) the Person formed by or surviving any such merger, amalgamation or other combination or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Parent Guarantor and its Restricted Subsidiaries on a consolidated basis has been made (A) is a corporation duly incorporated and validly existing

under the laws of any member state of the Pre- Expansion European Union, Switzerland, the United States of America, any State thereof or the District of Columbia; and (B) expressly assumes all of the Parent Guarantor's obligations under the Indenture, the Parent Guarantee, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement and the Security Documents to which it is a party (to the extent such assumption is not effected by operation of law);

(2) immediately after giving effect to such transaction, no Default or Event of Default exists;

(3) the Parent Guarantor or the Person formed by or surviving any such consolidation or merger (if other than the Parent Guarantor), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving pro forma effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Consolidated Coverage Ratio test set forth in the first paragraph of the covenant described under the caption *"Limitation on Indebtedness;"* or (ii) have a Consolidated Coverage Ratio no less than it was immediately prior to giving effect to such transaction; and

(4) the Parent Guarantor delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant; and that the Notes, the supplemental indenture and the Indenture constitute the Parent Guarantor's (or persons formed by or surviving any such consolidation or merger) legal, valid and binding obligations, enforceable in accordance with their terms; provided that in giving such opinion of counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clauses (2) and (3) above.

The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person unless:

(1) immediately after giving effect to any such transaction or series of transactions either (a) the Issuer will be the surviving corporation; or (b) the Person formed by or surviving any such merger, amalgamation or other combination (if other than the Issuer) or to which such sale, assignment, conveyance, transfer, lease or disposition has been made (A) complies with the covenant described under the caption "*—Limitation on Issuer activities;*" (B) is a corporation duly incorporated and validly existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, the United States of America, any State thereof or the District of Columbia; and (C) expressly assumes all of the Issuer's obligations under the Indenture, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement and the Security Documents to which it is a party (to the extent such assumption is not effected by operation of law);

(2) immediately after giving effect to such transaction, no Default or Event of Default exists; and

(3) the Parent Guarantor delivers to the Trustee an Officer's Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant; and that the Notes, the supplemental indenture and the indenture constitute the Parent Guarantor's (or persons formed by or surviving any such consolidation or merger) legal, valid and binding obligations, enforceable in accordance with their terms; *provided* that in giving such opinion of counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clause (2) above.

A Subsidiary Guarantor (other than a Subsidiary Guarantor whose Note Guarantee is to be released in accordance with the terms of Note Guarantee and the Indenture) will not, directly or

indirectly: (1) consolidate or merge with or into another Person (whether or not such Subsidiary Guarantor is the surviving corporation); or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of such Subsidiary Guarantor and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person unless:

(1) immediately after giving effect to such transaction, no Default or Event of Default exists and the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of such Subsidiary Guarantor under its Note Guarantee, the Indenture, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement and the Security Documents to which such Guarantor is a party pursuant to a supplemental indenture and appropriate Security Documents reasonably satisfactory to the Trustee; or

(2) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

This *"Merger, Consolidation or Sale of Assets"* covenant will not apply to any consolidation or merger of any Restricted Subsidiary that is not a Guarantor into a Guarantor. Clauses (2) and (3) of the first paragraph of this *"Merger, Consolidation or Sale of Assets"* covenant will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of the Parent Guarantor with or into any other Guarantor, and clause (3) of the first paragraph of this *"Merger, Consolidation or Sale of Assets"* covenant will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of the Parent Guarantor with or into an Affiliate solely for the purpose of reincorporating the Parent Guarantor in another jurisdiction for tax reasons. Clause (2) of the second paragraph of this *"Merger, Consolidate or Sale of Assets"* covenant will not apply to any consolidation or merger among the Issuer and any Guarantor.

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors of the Parent Guarantor may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Parent Guarantor and the Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described under the caption *"—Limitation on Restricted Payments"* or under one or more clauses of the definition of Permitted Investments, as determined by the Parent Guarantor. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Parent Guarantor may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if that designation would not cause a Default.

Any designation of a Subsidiary of the Parent Guarantor as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a copy of a resolution of the Board of Directors giving effect to such designation and an Officer's Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described under the caption *"—Limitation on Restricted Payments."* If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Parent Guarantor as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption *"—Limitation on Indebtedness,"* the Parent Guarantor will be in default of such covenant. The Board of Directors of the Parent Guarantor may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of

Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "*—Limitation on Indebtedness,"* calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

***Maintenance of listing***

The Issuer will use its reasonable best efforts to obtain and maintain the listing of the Notes on the Official List of the LxSE and admitted to trading on the LxSE's regulated market for so long as such Notes are outstanding; *provided* that if the Issuer is unable to obtain listing of the Notes on the LxSE or if at any time the Issuer determines that it will not maintain such listing, it will use its reasonable best efforts to obtain and maintain a listing of such Notes on another recognized stock exchange.

***Lines of business***

The Parent Guarantor will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to the Parent Guarantor and its Restricted Subsidiaries, taken as a whole.

***Limitation on Issuer activities***

The Issuer will not engage in any business activity or undertake any other activity, except (i) any activity reasonably relating to the offering, sale, issuance and servicing, purchase, redemption, refinancing or retirement of the Notes, its Guarantee under the New Senior Facilities Agreement or the incurrence of other indebtedness permitted by the terms of the Indenture and distributing, lending or otherwise advancing funds to the Parent Guarantor or any of its Restricted Subsidiaries; (ii) any activity undertaken with the purpose of fulfilling any other obligations under the Notes, its Guarantee under the New Senior Facilities Agreement, the Note Proceeds Loans, other Indebtedness permitted by the terms of the Indenture, any Security Document to which it is a party or the Security Pooling and Intercreditor Agreement; (iii) Permitted Investments constituting Investments in the Parent Guarantor or another Restricted Subsidiary, Investments in the form of cash and Cash Equivalents and repurchases of the Notes; (iv) any activity directly related to the establishment and/or maintenance of the Issuer's corporate existence or otherwise complying with applicable law; and (v) other activities not specifically enumerated above that are de minimis in nature.

The Issuer will at all times remain a wholly-owned Restricted Subsidiary of the Parent Guarantor. The Issuer will not (1) merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer is the surviving corporation); or (2) other than in connection with the incurrence of a Permitted Collateral Lien, sell, assign, transfer, lease, convey or otherwise dispose of any material property or assets to any Person in one or more related transactions, in each case except in accordance with the covenant described under the caption *"Merger, Consolidation or Sale of Assets."*

For so long as any Notes are outstanding, none of the Parent Guarantor or any of its Restricted Subsidiaries will commence or take any action or facilitate a winding-up, liquidation or other analogous proceeding in respect of the Issuer.

***Limitation on Issuances of Guarantees of Indebtedness***

The Parent Guarantor will not cause or permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to guarantee the payment of, assume or in any manner become liable with respect to any other indebtedness of the Issuer or any Guarantor unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Note Guarantee of the payment of the Notes by such Restricted Subsidiary, which

Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other indebtedness.

Simultaneously with the execution of such supplemental indenture, the Parent Guarantor will cause all of the Capital Stock in such Restricted Subsidiary owned by the Parent Guarantor and the Restricted Subsidiaries to be pledged to secure the Notes and the Note Guarantees.

Each additional Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

The first paragraph of this covenant will not be applicable to any Guarantees of (i) Schaeffler Iberia S.L.U. (*Spain*) and (ii) any Restricted Subsidiary given to a bank or trust company having combined capital and surplus and undivided profits of not less than €250.0 million, whose debt has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's, in connection with the operation of cash management programs established in the ordinary course of business for the benefit of the Parent Guarantor or any of the Restricted Subsidiaries.

Notwithstanding the foregoing, the Parent Guarantor shall not be obligated to cause such Restricted Subsidiary to Guarantee the Notes to the extent that such Guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law or any liability for the officers, directors or shareholders of such Restricted Subsidiary that, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Parent Guarantor or the Restricted Subsidiary.

***Impairment of Security interest***

The Parent Guarantor will not, and will not cause or permit any Restricted Subsidiary to, take or knowingly or negligently omit to take, any action, which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Parent Guarantor will not, and will not cause or permit any Restricted Subsidiary to, grant to any Person other than the relevant Security Trustee, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents and the Security Pooling and Intercreditor Agreement, any interest whatsoever in any of the Collateral; *provided* that (a) nothing in this provision shall restrict the discharge, release or replacement of the Collateral in accordance with the Indenture, the Security Documents and the Security Pooling and Intercreditor Agreement and (b) the Parent Guarantor and the Restricted Subsidiaries may incur Permitted Collateral Liens; and *provided, further,* that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified, replaced or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification, replacement or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Parent Guarantor delivers to the Trustee either (1) a solvency opinion from an internationally recognized investment bank or accounting firm, in form and substance reasonably satisfactory to the Trustee, confirming the solvency of the Parent Guarantor and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking; or (2) a certificate from the Board of Directors or chief financial officer of the relevant Person (acting in good faith) that confirms the solvency of the Person granting such Lien after giving effect to any transactions related to such amendment, extension, renewal, restatement, replacement, supplement, modification or release

and retaking; or (3) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking, the Lien or Liens securing the Notes created under the Security Documents so amended, extended, renewed, restated, supplemented, modified, replaced or released and retaken are valid and perfected Liens not otherwise subject to any limitation imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking.

At the direction of the Parent Guarantor and without the consent of the Holders, the relevant Security Trustee may from time to time enter into one or more amendments to the Security Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) subject to compliance with the first paragraph above, provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the rights of the Holders in any material respect.

In the event that the Parent Guarantor complies with this covenant, the Trustee and the relevant Security Trustee shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification, replacement or release with no need for instructions from the Holders.

***Collateral***

The Parent Guarantor shall, and shall procure that each Restricted Subsidiary and each of its other Affiliates holding any of the Collateral shall, at its own expense, execute and do all such acts and things and provide such assurances as the Security Trustees may reasonably require (i) for registering any Security Documents in any required register and for perfecting or protecting the security intended to be afforded by such Security Documents; and (ii) if such Security Documents have become enforceable, for facilitating the realization of all or any part of the assets which are subject to such Security Documents and for facilitating the exercise of all powers, authorities and discretions vested in the Security Trustees or in any receiver of all or any part of those assets. The Parent Guarantor shall, and shall procure that each Restricted Subsidiary and each of its other Affiliates holding any of the Collateral shall, execute all transfers, conveyances, assignments and releases of that property whether to the Security Trustees or to their respective nominees and give all notices, orders and directions which the relevant Security Trustee may reasonably request.

***Additional Security Pooling and Intercreditor Agreements***

At the request of the Issuer, without the consent of Holders, and at the time of, or prior to, the incurrence by the Issuer or a Guarantor of Indebtedness that is permitted to share the Collateral pursuant to clause (ii), (iii), (iv) or (v) of the definition of "Permitted Collateral Liens," the Issuer or the relevant Guarantor, the Trustee and the Security Trustees shall enter into with the holders of such Indebtedness (or their duly authorized representatives) a security pooling agreement (an "**Additional Security Pooling and Intercreditor Agreement**") on substantially the same terms as the Security Pooling and Intercreditor Agreement, including terms with respect to the limitation on enforcement and release of guarantees and priority as set forth in the Security Pooling and Intercreditor Agreement (or on terms more favorable to the Holders); *provided,* that such Additional Security Pooling and Intercreditor Agreement will not impose any personal obligations on the Trustee or any Security Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture or the Security Pooling and Intercreditor Agreement.

At the request of the Issuer, without the consent of Holders, and at the time of, or prior to, the incurrence by the Issuer or a Guarantor of Indebtedness permitted to be incurred pursuant to the preceding paragraph, the Issuer or the relevant Guarantor, the Trustee and the Security

Trustees shall enter into one or more amendments to any Security Pooling and Intercreditor Agreement or Additional Security Pooling and Intercreditor Agreement to: (1) cure defects, resolve ambiguities or reflect changes, in each case, of a minor, technical or administrative nature; (2) increase the amount or types of Indebtedness covered by any Security Pooling and Intercreditor Agreement or Additional Security Pooling and Intercreditor Agreement that may be incurred by the Issuer or a Guarantor that is subject to any Security Pooling and Intercreditor Agreement or Additional Security Pooling and Intercreditor Agreement (including the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes); (3) add new Guarantors to the Security Pooling and Intercreditor Agreement or an Additional Security Pooling and Intercreditor Agreement; (4) further secure the Notes; (5) make provision for the security securing Additional Notes to rank *pari passu* with the Collateral; (6) amend the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement in accordance with the terms thereof; or (7) make any other change to any such Security Pooling and Intercreditor Agreement or an Additional Security Pooling and Intercreditor Agreement that does not adversely affect the rights of Holders in any material respect.

The Issuer shall not otherwise direct the Trustee or any Security Trustee to enter into any amendment to the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted by the provisions under *"—Amendment, supplement and waiver"* and the Issuer may only direct the Trustee and the Security Trustees to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or any Security Trustee under the Indenture, the Security Pooling and Intercreditor Agreement or such Additional Security Pooling and Intercreditor Agreement.

In relation to the Security Pooling and Intercreditor Agreement or, to the extent applicable, an Additional Security Pooling and Intercreditor Agreement, the Trustee shall be deemed to have consented on behalf of the Holders to any payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided* that such transaction would comply with the covenant described under the caption *"—Limitation on Restricted Payments."*

Each Holder shall be deemed to have agreed to and accepted the terms and conditions of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have consented to and directed the Trustee and the Security Trustees to enter into any Additional Security Pooling and Intercreditor Agreement or any amendment of the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement which complies with the foregoing provision and the conditions contained therein.

***Suspension of covenants when Notes rated investment grade***

During any period of time that (i) the Notes have received an Investment Grade Rating from both Rating Agencies; and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "**Covenant Suspension Event**" and the date thereof being referred to as the "**Suspension Date**") then, the Issuer will notify the Trustee of such Covenant Suspension Event and the covenants specifically listed under the following captions in this *"Description of the Notes"* section of this Prospectus will not be applicable to the Notes (collectively, the "**Suspended Covenants**"):

- *"—Repurchase at the option of Holders—Asset Sales;*"
- *"—Limitation on Indebtedness;*"

- *"—Limitation on Restricted Payments;"*
- *"—Dividend and other payment restrictions affecting Restricted Subsidiaries;"*
- *"—Transactions with Affiliates;"*
- clause (3) of the first paragraph of *"—Merger, Consolidation or Sale of Assets;"*
- *"—Lines of business;"* and
- *"—Limitation on issuances of Guarantees of Indebtedness."*

During any period that the foregoing covenants have been suspended, neither the Parent Guarantor nor any Restricted Subsidiary may designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the definition of Unrestricted Subsidiary.

If and while the Parent Guarantor and the Restricted Subsidiaries are not subject to the Suspended Covenants, the Notes will be entitled to substantially less covenant protection. In the event that the Parent Guarantor and the Restricted Subsidiaries are not subject to the Suspended Covenants under the Indenture for any period of time as a result of the foregoing, and on any subsequent date (the "**Reversion Date**") one or both of the Rating Agencies withdraw their Investment Grade Rating or downgrade the rating assigned to the Notes below an Investment Grade Rating, then the Parent Guarantor and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants under the Indenture unless and until the Notes subsequently again attain an Investment Grade Rating from both Rating Agencies. The period of time between the Suspension Date and the Reversion Date is referred to in this Description of Notes as the "**Suspension Period.**"

Notwithstanding the foregoing, in the event of any such reinstatement, no action taken or omitted to be taken by the Parent Guarantor or any Restricted Subsidiary prior to such reinstatement will give rise to a Default or Event of Default under the Indenture with respect to the Notes; *provided* that (i) with respect to Restricted Payments made after such reinstatement, the amount available to be made as Restricted Payments will be calculated as though the covenant described under the caption *"—Limitation on Restricted Payments"* had been in effect prior to, but not during, the Suspension Period; (ii) all Indebtedness incurred, or Redeemable Capital Stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (5) of the second paragraph of the covenant described under the caption *"—Limitation on Indebtedness;"* and (iii) no Restricted Subsidiary shall be required to comply with the covenant described under the caption *"—Limitation on issuances of Guarantees of Indebtedness"* after such reinstatement with respect to any guarantee entered into by such Restricted Subsidiary during any Suspension Period.

There can be no assurance that the Notes will achieve or maintain an Investment Grade Rating.

***Reports***

For so long as any Notes are outstanding, the Issuer will furnish to the Trustee the following reports in electronic form:

(1) within 120 days after the end of the Parent Guarantor's fiscal year beginning with the fiscal year ending December 31, 2011, annual reports containing the following information with a level of detail that is substantially comparable and similar in scope to this Prospectus: (a) audited consolidated balance sheet of the Parent Guarantor as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Parent Guarantor for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) pro forma income statement and balance sheet information of the Parent Guarantor (which need not comply with Article 11 of Regulation S-X under the Exchange Act), together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently

completed fiscal year as to which such annual report relates (unless such pro forma information has been provided in a previous report pursuant to clause (2) or (3) below); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations (including a discussion by business segment), financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, management and shareholders of the Parent Guarantor, all material affiliate transactions, Indebtedness and material financing arrangements and a description of all material contractual arrangements, including material debt instruments; and (e) material recent developments;

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Parent Guarantor beginning with the fiscal quarter ending March 31, 2012, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the quarterly and year to date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Parent Guarantor, together with condensed footnote disclosure; (b) pro forma income statement and balance sheet information of the Parent Guarantor (which need not comply with Article 11 of Regulation S-X under the Exchange Act), together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates (unless such pro forma information has been provided in a previous report pursuant to clause (1) above or (3) below); (c) an operating and financial review of the unaudited financial statements (including a discussion by business segment), including a discussion of the consolidated financial condition and results of operations of the Parent Guarantor and any material change between the current quarterly period and the corresponding period of the prior year; and (d) material developments in the business of the Parent Guarantor and its Subsidiaries; and

(3) promptly after the occurrence of (a) a material acquisition, disposition or restructuring; (b) any changes of the chief executive officer or chief financial officer of the Parent Guarantor or in the auditors of the Parent Guarantor; (c) the entering into an agreement that will result in a Change of Control; or (d) any material events that the Parent Guarantor announces publicly, in each case, a report containing a description of such events.

If the Parent Guarantor has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Parent Guarantor and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Parent Guarantor.

All financial statements shall be prepared in accordance with IFRS. Except as provided for above, no report need include separate financial statements for the Parent Guarantor or Subsidiaries of the Parent Guarantor or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Prospectus.

The Issuer may satisfy its obligations under clauses (1) and (2) of the first paragraph of this covenant with respect to historical periods ending on or prior to December 31, 2011 by delivering the corresponding annual and quarterly reports of the Parent Guarantor and its consolidated subsidiaries if such annual and quarterly reports contain at least the information required by this covenant.

In addition, for so long as any Notes remain outstanding and during any period during which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer has agreed that it will, furnish to the Holders and to

securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

So long as any Notes are outstanding, the Parent Guarantor will also:

(a) within 10 Business Days after furnishing to the Trustee the annual and quarterly reports required by clauses (1) and (2) of the first paragraph of this covenant, hold a conference call to discuss such reports and the results of operations for the relevant reporting period; and

(b) issue a press release to an internationally recognized wire service no fewer than three Business Days prior to the date of the conference call required by the foregoing clause (a) of this paragraph, announcing the time and date of such conference call and either including all information necessary to access the call or directing Holders, prospective investors, broker dealers and securities analysts to contact the appropriate person at the Parent Guarantor to obtain such information.

The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of the covenant (i) on the Parent Guarantor's website; and (ii) if and so long as the Notes are listed on the Official List of the LxSE and admitted to trading on the LxSE's regulated market and the rules and regulations of the LxSE so require, at the specified office of the paying agent in Luxembourg or to the extent and in the manner required by such rules, post such reports on the official website of the LxSE (*www.bourse.lu*).

***Payments for consent***

The Parent Guarantor will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture, the Notes, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement or any Security Document unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Parent Guarantor and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement or any Security Document, to exclude Holders in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an offer to purchase for cash; or (ii) the payment of the consideration therefor would require the Parent Guarantor or any of its Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Parent Guarantor in its sole discretion determines (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction); or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

## Events of Default and Remedies

Each of the following is an **"Event of Default"**:

(1) default in the payment when due (at maturity, upon redemption, required repurchase or otherwise) of the principal of, or premium, if any, on the Notes; or

(2) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes; or

(3) failure by the Issuer or any Guarantor to (i) comply with the provisions set forth under "*—Certain covenants—Merger, Consolidation or Sale of Assets"* or (ii) make or consummate an Asset Sale Offer in accordance with the provisions of "*—Repurchase at the option of Holders—Asset Sales;*" or

(4) failure by the Issuer or any Guarantor for 30 Business Days after written notice to the Issuer by the Trustee or Holders of at least 25% in aggregate principal amount of Notes then outstanding, voting as a single class, to comply with any of the agreements in the Indenture, the Notes, the Note Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement or the Security Documents (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2) or (3)); or

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Parent Guarantor or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Parent Guarantor or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

   (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness at the Stated Maturity thereof prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "**Payment Default**"); or

   (b) results in the acceleration of such Indebtedness prior to its express maturity,

   and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €50.0 million or more (or its equivalent in any other currency or currencies);

(6) failure by the Parent Guarantor or any Restricted Subsidiary to pay final and enforceable judgments and/or orders entered by a court of competent jurisdiction aggregating in excess (individually or when aggregated with other judgment(s) and/or order(s)) of €50.0 million (or its equivalent in the applicable currency) (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments or orders shall not have been discharged or waived and there shall have been a period of 45 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal, waiver or otherwise, shall not have been in effect; or

(7) except as permitted by the Indenture, if (A) any Note Guarantee is by judicial decision declared to be unenforceable or invalid or ceases for any reason to be in full force and effect; or (B) any Guarantor, or anyone acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; or

(8) with respect to any Collateral having a Fair Market Value in excess of €3.0 million, individually or in the aggregate, (A) the Liens with respect to such Collateral purported to be created under any Security Document, after they are in full force and effect, at any time cease to be in full force and effect and constitute valid and (where applicable) perfected Liens with the priority required by the applicable Security Documents for any reason other than the satisfaction in full of all obligations under the Notes or the release of such Liens in accordance with the Indenture, the Security Documents, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement; or (B) the Liens with respect to such Collateral purported to be created under any Security Document, are by final and enforceable judicial decision declared invalid or unenforceable; or

(9) certain events of bankruptcy or insolvency described in the Indenture with respect to the Parent Guarantor, the Issuer or any Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together (as of the latest audited

consolidated financial statements for the Parent Guarantor and its Restricted Subsidiaries), would constitute a Significant Subsidiary.

In the case of an Event of Default specified in clause (9) of the preceding paragraph, with respect to the Issuer, the Parent Guarantor, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may, and the Trustee, upon request of such holders, shall, declare all the Notes to be due and payable immediately.

Subject to certain limitations, Holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense. Except (subject to the provisions described under "*—Amendment, Supplement and Waiver*") to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) Holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The Holders of not less than a majority in aggregate principal amount of the Notes outstanding may, on behalf of the Holders, waive any existing or past default under the Indenture and its consequences, except a continuing default in the payment of the principal of, premium, if any, any Additional Amounts or interest on any Note held by a non-consenting Holder (which may only be waived with the consent of each Holder affected).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

## No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Note Guarantees, the Security Pooling and Intercreditor Agreement, any Additional Security Pooling and Intercreditor Agreement, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under applicable securities laws.

## Legal defeasance and covenant defeasance

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officer's Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Note Guarantees ("**Legal Defeasance**") except for:

(1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants (including its obligation to make an IHO Refinancing Offer, Change of Control Offers and Asset Sale Offers) that are described in the Indenture ("**Covenant Defeasance**") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, all Events of Default described under "*—Events of Default and remedies*" (except those relating to payments on the Notes or, bankruptcy or insolvency events) will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee (or such entity appointed by the Trustee for this purpose), in trust, for the benefit of the Holders, cash in euro, euro-denominated European Government Obligations or a combination thereof in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest (including Additional Amounts and premium, if any) on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion reasonably acceptable to the Trustee of United States counsel confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) the Issuer must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of

the Issuer or the Guarantors with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer, the Guarantors or others; and

(5) the Issuer must deliver to the Trustee an Officer's Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

## Amendment, supplement and waiver

Except as provided otherwise in the succeeding paragraphs, the Indenture, the Notes, the Note Guarantees, the Security Documents, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Notes, the Note Guarantees, the Security Documents, the Security Pooling and Intercreditor Agreement or any Additional Security Pooling and Intercreditor Agreement may be waived with the consent of the Holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

The Security Pooling and Intercreditor Agreement provides that certain amendments to the Security Documents may be made with the prior written consent of the Instructing Group.

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), an amendment, supplement or waiver may not:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "*—Repurchase at the option of Holders"*);

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

(4) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or any Note Guarantee in respect thereof;

(5) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);

(6) make any Note payable in money other than that stated in the Notes;

(7) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes;

(8) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "*—Repurchase at the Option of Holders"*);

(9) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Security Pooling and Intercreditor Agreement;

(10) release all or substantially all of the Liens on the Collateral granted for the benefit of the Holders, except in accordance with the terms of the Indenture or the relevant Security Document and the Security Pooling and Intercreditor Agreement; or

(11) make any change in the preceding amendment and waiver provisions.

*provided* that, if the Existing Notes or the indenture governing the Existing Notes have been or are concurrently being amended pursuant to the terms thereof to release any Guarantor from its obligations under its Guarantee of the Existing Notes or the indenture governing the Existing Notes or to release all or substantially all of the Liens on the Collateral, then the corresponding release of such Guarantor from its obligations under its Note Guarantee or the Indenture or of the corresponding Liens over such Collateral securing the Notes pursuant to clauses (9) and (10) above, respectively, may be made if consented to by the holders of at least 75% of the aggregate principal amount of the outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Any amendment, supplement or waiver consented to by at least 90% (subject to the proviso in the preceding sentence) of the aggregate principal amount of the then outstanding Notes will be binding against any non-consenting holders.

Notwithstanding the preceding, without the consent of any Holder, the Issuer, the Guarantors, the Trustee and the Security Trustees (as applicable) may amend or supplement the Indenture, the Notes, the Note Guarantees, the Security Pooling and Intercreditor Agreement or any Security Document:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to Holders and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any such Holder in any material respect;

(5) to conform the text of the Indenture, the Notes, the Note Guarantees, any Security Documents or the Security Pooling and Intercreditor Agreement to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Note Guarantees, the Security Documents, or the Security Pooling and Intercreditor Agreement;

(6) to enter into additional or supplemental Security Documents;

(7) to release any Note Guarantee in accordance with the terms of the Indenture and the Security Pooling and Intercreditor Agreement;

(8) to release the Collateral in accordance with the terms of the Indenture, the Security Pooling and Intercreditor Agreement and the Security Documents;

(9) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(10) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes;

(11) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(12) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture; or

(13) to add additional parties to the Security Pooling and Intercreditor Agreement or any Security Document to the extent permitted hereunder and thereunder.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

In connection with its entry into any amendment, supplement or waiver, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including an opinion of counsel and an Officer's Certificate.

For the purpose of calculating the aggregate principal amount of Notes that have consented to or voted in favor of any amendment, supplement or waiver, the Euro Equivalent of the principal amount of any Notes shall be as of the Issue Date. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated August 10, 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

## Satisfaction and discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee (or an entity designated by the Trustee for such purpose) as trust funds in trust solely for the benefit of the Holders, cash, Cash Equivalents, European Government Obligations or a combination thereof, in each case, denominated in euro in amounts as will be sufficient, in the opinion of a nationally recognized investment bank appraisal firm or firm of independent public accountants, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation of principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) the Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(3) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

## Judgment currency

The sole currency of account and payment for all sums payable by the Issuer or a Guarantor under the Indenture, the Notes and the Note Guarantees is euro. Any amount received or recovered in a currency other than euro in respect of the Notes (whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Parent Guarantor, any Subsidiary or otherwise) by the Holder or by the Trustee in respect of any sum expressed to be due to it from the Issuer or a Guarantor will constitute a discharge of the Issuer and the Guarantors only to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Note, the Issuer and the Guarantors will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer and the Guarantors will indemnify the recipient against the cost of making any such purchase.

For the purposes of this indemnity, it will be sufficient for the Holder or the Trustee to certify that it would have suffered a loss had an actual purchase of euro been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro on such date had not been practicable, on the first date on which it would have been practicable). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer and the Guarantors, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect to any sum due under any Note, any Guarantee or any other judgment or order.

## Concerning the Trustee

The Issuer shall deliver written notice to the Trustee within thirty (30) days of becoming aware of the occurrence of a Default or an Event of Default. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The Holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture will provide that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

The Issuer and the Guarantors jointly and severally will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with its duties.

## Listing and admission to trading

Application has been made to list the Notes on the Official List of the LxSE and to admit the Notes to trading on the LxSE's regulated market.

## Additional information

Anyone who receives this Prospectus may, following the Issue Date, obtain a copy of the Indenture, the form of Note, the Security Documents, the Security Pooling and Intercreditor

Agreement and the New Senior Facilities Agreement without charge by writing to Schaeffler AG, Industriestraße 1-3, 91074 Herzogenaurach, Germany, in care of Investor Relations.

So long as the Notes are listed on the Official List of the LxSE and admitted to trading on the LxSE's regulated market and the rules and regulations of the LxSE shall so require, copies of the financial statements included in this Prospectus may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Luxembourg.

## Governing law

The Indenture, the Note Guarantees and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Security Pooling and Intercreditor Agreement is governed by English law. The Security Documents are, or will be, governed by applicable local laws of the jurisdiction under which the Liens are granted.

## Consent to jurisdiction and service of process

The Indenture will provide that the Issuer and each Guarantor (other than any Guarantor incorporated in the United States) will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011, as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantees brought in any U.S. federal or New York state court located in the City of New York and will submit to such jurisdiction.

## Enforceability of judgments

Substantially all of the assets of the Issuer and the non-U.S. Guarantors are outside the United States. As a result, any judgment obtained in the United States against the Issuer or any such Guarantor may not be collectable within the United States.

## Prescription

Claims against the Issuer or any Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

## Certain definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"**Acquired Debt**" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

**"Applicable Premium"** means, with respect to any Note at any redemption date, the excess of (A) the present value at such redemption date of (1) the redemption price of such Note on July 1, 2014 (such redemption price being described under *"—Optional redemption"* exclusive of any accrued and unpaid interest); *plus* (2) all required remaining scheduled interest payments due on such Note through July 1, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Bund Rate plus 50 basis points over (B) the principal amount of such Note on such redemption date. For the avoidance of doubt, calculation of the Applicable Premium shall not be a duty or obligation of the Trustee or the Paying Agents.

"**Asset Sale**" means:

(1) the sale, lease, conveyance or other disposition of any assets by the Parent Guarantor or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption *"—Repurchase at the option of Holders—Change of Control"* and/or the provisions described above under the caption *"—Certain covenants—Merger, Consolidation or Sale of Assets"* and not by the provisions described under the caption *"—Repurchase at the option of Holders—Asset Sales"*; and

(2) the issuance of Equity Interests by any Restricted Subsidiary or the sale by the Parent Guarantor or any of its Restricted Subsidiaries of Equity Interests in any of the Parent Guarantor's Subsidiaries (in each case, other than directors' qualifying shares).

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets (including Equity Interests) having a Fair Market Value of less than €25.0 million;

(2) a transfer of assets or Equity Interests between the Parent Guarantor and any Restricted Subsidiary or among any Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary to the Parent Guarantor or to a Restricted Subsidiary;

(4) the sale, lease or other transfer of products, services, equipment, accounts receivable, inventory, trading stock and other assets (including any real or personal property) in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Parent Guarantor, no longer economically practicable to maintain or useful in the conduct of the business of the Parent Guarantor and its Restricted Subsidiaries taken as a whole);

(5) licenses and sublicenses by the Parent Guarantor or any of its Restricted Subsidiaries of software or intellectual property in the ordinary course of business;

(6) any surrender or waiver of contract rights or the settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption *"—Certain covenants—Limitation on Liens"*;

(8) the sale or other disposition of cash or Cash Equivalents;

(9) a Restricted Payment that does not violate the covenant described above under the caption *"—Certain covenants—Limitation on Restricted Payments,"* a Permitted Investment or any transaction specifically excluded from the definition of Restricted Payment;

(10) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(12) any sale, transfer or other disposition of Securitization Assets and related assets in connection with any Qualified Securitization Financing;

(13) the sale, transfer or other disposition of any interest in any joint venture to the extent required by any customary buy/sell arrangement entered into in connection with the formation of such joint venture;

(14) the sale, transfer or other disposition of any Unrestricted Continental Shares.

"**Asset Sale Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"**Board of Directors**" means:

(1) with respect to the Parent Guarantor or any other corporation, the board of directors (or analogous governing body) of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to the Issuer or any other limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"**Bund Rate**" means, as of any redemption date, the rate per annum equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) "**Comparable German Bund Issue**" means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to July 1, 2014, and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to July 1, 2014; provided, however, that, if the period from such redemption date to July 1, 2014 is less than one year, a fixed maturity of one year shall be used;

(2) "**Comparable German Bund Price**" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Parent Guarantor obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "**Reference** German **Bund Dealer**" means any dealer of German Bundesanleihe securities appointed by the Parent Guarantor in good faith; and

(4) "**Reference German Bund Dealer Quotations**" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Parent Guarantor of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Parent Guarantor by such Reference German Bund Dealer at 3:30 p.m. Frankfurt am Main, Germany time on the third Business Day preceding the relevant date.

"**Business Day**" means a day other than a Saturday, Sunday or other day on which banking institutions in Frankfurt, London, Luxembourg or New York or a place of payment under the Indenture are authorized or required by law to close.

"**Capital Lease Obligation**" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet (excluding the footnotes thereto) prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"**Capital Stock**" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"**Cash Equivalents**" means:

(1) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union or the United States of America, Switzerland or Canada, as the case may be;

(2) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by a bank or trust company which is organized under, or authorized to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada; provided that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "A-1" or higher by Moody's or A+ or higher by S&P or the equivalent rating category of another internationally recognized rating agency;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and

(5) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

"**Change of Control**" means the occurrence of any of the following:

(1) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Parent Guarantor and its Restricted Subsidiaries taken as a whole to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act) other than a Permitted Holder;

(2) the adoption by the stockholders of the Parent Guarantor of a plan or proposal for the liquidation or dissolution of the Parent Guarantor, other than a transaction permitted under *"Certain covenants—Merger, Consolidation or Sale of Assets;"*

(3) prior to the consummation of an Initial Public Equity Offering, any event, the result of which is that the Family Shareholders cease to be the Beneficial Owners, directly or indirectly, of shares representing more than 50% of the voting power of the Parent Guarantor's Voting Stock;

(4) after the consummation of an Initial Public Equity Offering, (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder or Permitted Holders, is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the voting power of the Parent Guarantor's outstanding Voting Stock, or (ii) any event, the result of which is that the Family Shareholders cease to be the Beneficial Owners, directly or indirectly, of shares representing more than 30% of the voting power of the Parent Guarantor's Voting Stock, or (iii) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder or Permitted Holders, is or becomes the Beneficial Owner, directly or indirectly, of a larger percentage of the voting power of the Parent Guarantor's outstanding Voting Stock than the Permitted Holders (for the purposes of this clause (4), such other person or group shall be deemed to beneficially own all Voting Stock of a specified entity directly held by a Parent Entity, if such other person or group becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of such parent entity and Permitted Holders do not Beneficially Own more than 50% of the Voting Stock of such Parent Entity); or

(5) the Parent Guarantor ceases to own, directly or indirectly, 100% of the issued and outstanding Voting Stock of the Issuer, other than director's qualifying shares and other shares required to be issued by law.

"**Change of Control Offer**" has the meaning assigned to that term in the Indenture governing the Notes.

"**Collateral**" means the rights, property and assets securing the Notes and the Note Guarantees as described in the section entitled "*—Security"* and any rights, property or assets in which a Lien has been granted to secure the Obligations of the Issuer and the Guarantors under the Notes, the Guarantees and the Indenture from time to time.

"**Consolidated Coverage Ratio**" means, as of any date of determination, the ratio of (1) the aggregate amount of the Consolidated EBITDA for the period of its most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements are in existence to (2) the aggregate amount of the Consolidated Net Interest for such four fiscal quarters; *provided* that with respect to the calculation of the Consolidated Coverage Ratio:

(a) the Consolidated EBITDA and the Consolidated Net Interest shall be calculated for the relevant 12-month period by giving effect on a pro forma basis

(i) as if Indebtedness incurred by the Parent Guarantor or any of its Restricted Subsidiaries since the beginning of such period that remains outstanding on such date of determination and being still outstanding at the date of determination, had been incurred on the first day of the relevant 12-month period;

(ii) if the transaction requiring the calculation of the Consolidated Coverage Ratio is an incurrence of Indebtedness, as if such Indebtedness to be incurred had been incurred on the first day of the relevant 12-month period (but not giving effect to any additional Indebtedness to be incurred on the date of determination as part of the same transaction or series of transactions pursuant to the second paragraph under the caption "*—Certain covenants—Limitation on Indebtedness"*); and

(iii) as if Indebtedness repaid, repurchased or otherwise discharged after the end of the last relevant quarter end date with the proceeds of the incurrence of the Indebtedness referred to under (i) and (ii), had been discharged on the first day of the relevant 12-month period;

(b) if any Indebtedness has been repaid, repurchased, or otherwise discharged since the beginning of the relevant 12-month period so that is no longer outstanding on the relevant quarter end date (other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Consolidated EBITDA and Consolidated Net Interest for such period will be calculated after giving effect on a pro forma basis to such discharge of such Indebtedness, including with the proceeds of new Indebtedness, as if such discharge had occurred on the first day of the relevant 12-month period;

(c) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries will have discontinued operations (as determined in accordance with IFRS) or made any disposal of assets:

(i) the Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA for the relevant 12-month period directly attributable to the discontinued operations (as determined in accordance with IFRS) or assets which are the subject of such disposal of assets for such period (or increased by such amount, if it was negative); and

(ii) Consolidated Net Interest for such period will be reduced by an amount equal to the Consolidated Net Interest for the relevant 12-month period directly attributable to any Indebtedness repaid, repurchased or otherwise discharged in connection with such discontinued operations (as determined in accordance with IFRS) or disposal of assets (or, if the shares of any Restricted Subsidiary of the Parent Guarantor are sold, the Consolidated Net Interest for the relevant 12-month period directly attributable to the Indebtedness of such Restricted Subsidiary if and to the extent the Parent Guarantor and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(d) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries made an investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary or is merged with or into the Parent Guarantor) or an acquisition of assets which—taken as such—constitute an operating unit, division or line of business, Consolidated EBITDA and Consolidated Net Interest for such period will be calculated after giving pro forma effect thereto (including the incurrence of any Indebtedness) (as determined in good faith by a responsible financial or accounting officer of the Parent Guarantor) as if such investment or acquisition had occurred on the first day of the relevant 12-month period.

Whenever a *pro forma* effect is to be given to any calculation, the *pro forma* calculations will be determined in good faith by a responsible financial or accounting officer of the Parent Guarantor. If any Indebtedness bears a floating rate of interest and is being given *pro forma*

effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any interest rate hedging applicable to such Indebtedness). Any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

"**Consolidated EBITDA**" for any period means Consolidated Net Income of the Parent Guarantor for such period, plus the following, to the extent deducted in calculating such Consolidated Net Income for such period, without duplication:

(a) Consolidated Net Interest; *plus*

(b) provisions for taxes based on income or profits of the Parent Guarantor and its Restricted Subsidiaries; plus

(c) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees) and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles) of the Parent Guarantor and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or a reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in any prior period); plus

(d) any income or charge attributable to any post-employment benefit scheme other than the current service costs and any past service costs and any past service costs and curtailments and settlements attributable to such scheme; minus

(e) any non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (11) of the definition of Consolidated Net Income) other than any items which represent the reversal in such period of any accrual of, or reserve for, cash charges or expenses in a future period,

in each case on a consolidated basis and determined in accordance with IFRS.

"**Consolidated Net Income**" means, for any period, the aggregate of the net income (loss) of the Parent Guarantor and the Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with IFRS; *provided* that:

(1) (i) any extraordinary or exceptional gain, loss or charge; (ii) any asset impairments charges; or (iii) any non-cash charges or reserves in respect of any restructuring, redundancy, integration or severance, in each case, will be excluded;

(2) the net income (or loss) of any Person (other than the Parent Guarantor) that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be excluded, except that equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Parent Guarantor or a Restricted Subsidiary as a dividend or other distribution;

(3) solely for the purpose of determining the amount available for Restricted Payments under clause (3)(a) of the second paragraph under the caption "*—Certain covenants—Limitation on Restricted Payments,*" any net income or loss of any Restricted Subsidiary (other than any Subsidiary Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) by operation of the terms of such

Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released; (b) restrictions pursuant to the Notes or the Indenture; and (c) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date) except that the Parent Guarantor's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer, the Parent Guarantor or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(4) any net gain or loss realized upon the sale or other disposition of any asset or disposed operations of the Parent Guarantor or any Restricted Subsidiaries (including pursuant to any sale-leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Parent Guarantor) will be excluded;

(5) any one time non-cash charges or any amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganization or restructuring involving the Parent Guarantor or its Subsidiaries will be excluded;

(6) the cumulative effect of a change in accounting principles will be excluded;

(7) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(8) any non-cash compensation charge or expenses arising from any grant of stock, stock options or other equity based awards will be excluded;

(9) any goodwill or other intangible asset impairment charges will be excluded;

(10) all deferred financing costs written off and premium paid in connection with any early extinguishment of Indebtedness and any net gain or loss from any write-off or forgiveness of Indebtedness will be excluded; and

(11) any capitalized interest on any Subordinated Shareholder Debt will be excluded.

"**Consolidated Net Interest**" means, for any period, without duplication and in each case determined on a consolidated basis in accordance with IFRS, the sum of:

(1) the consolidated interest expense (net of interest income) of the Parent Guarantor and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

(2) the consolidated interest expense (but excluding such interest on Subordinated Shareholder Debt) of the Parent Guarantor and its Restricted Subsidiaries that was capitalized during such period; plus

(3) any interest on Indebtedness of another Person that is guaranteed by the Parent Guarantor or one of its Restricted Subsidiaries or secured by a Liens on assets of the Parent Guarantor or one of its Restricted Subsidiaries; plus

(4) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortization of fees) with respect to Indebtedness; plus

(5) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary, other than dividends on Equity Interests payable to the Parent Guarantor or a Restricted Subsidiary.

"**Consolidated Secured Debt Leverage Ratio**" means, as of any date of determination, the ratio of (1) the Senior Secured Indebtedness as of the last day of the Parent Guarantor's most recent fiscal quarter ending prior to the date of such determination for which financial statements are in existence to (2) the aggregate amount of the Consolidated EBITDA for the period of its most recent four consecutive fiscal quarters ending prior to the date of such determination for which financial statements are in existence; *provided* that with respect to the calculation of the Consolidated Secured Debt Leverage Ratio:

(a) the Consolidated EBITDA and the Senior Secured Indebtedness shall be calculated for, or as of the end of, the relevant 12-month period by giving effect on a *pro forma* basis

  (i) as if Indebtedness incurred by the Parent Guarantor or any of its Subsidiaries since the beginning of such period that remains outstanding on such date of determination and being still outstanding at the date of determination, had been incurred on the first day of the relevant 12-month period;

  (ii) if the transaction requiring the calculation of the Consolidated Secured Debt Leverage Ratio is the creation of a Lien to secure Indebtedness, as if the Indebtedness to be incurred had been incurred, and such Lien had been created, on the first day of the relevant 12-month period (but not giving effect to any additional Indebtedness to be incurred on the date of determination as part of the same transaction or series of transactions pursuant to the second paragraph under the caption "—Certain covenants—Limitation on Indebtedness");

  (iii) as if Indebtedness repaid, repurchased or otherwise discharged after the end of the last relevant quarter end date with the proceeds of the incurrence of the Indebtedness referred to under (i) and (ii), had been discharged on the first day of the relevant 12-month period; and

  (iv) as if any Lien to secure Indebtedness created after the end of the last relevant quarter end date had been created on the first day of the relevant 12-month period.

(b) if any Indebtedness has been repaid, repurchased, or otherwise discharged since the beginning of the relevant 12-month period so that is no longer outstanding on the relevant quarter end date (other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Consolidated EBITDA for such period and Senior Secured Indebtedness as of the end of such period will be calculated after giving effect on a pro forma basis to such discharge of such Indebtedness, including with the proceeds of new Indebtedness, as if such discharge had occurred on the first day of the relevant 12-month period;

(c) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries will have discontinued operations (as determined in accordance with IFRS) or made any disposal of assets:

  (i) the Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA for the relevant 12-month period directly attributable to the discontinued operations (as determined in accordance with IFRS) or assets which are the

subject of such disposal of assets for such period (or increased by such amount, if it was negative); and

(ii) the Senior Secured Indebtedness as of the end of such period will be reduced by an amount equal to the Indebtedness that is directly attributable to any Indebtedness repaid, repurchased or otherwise discharged in connection with such discontinued operations (as determined in accordance with IFRS) or disposal of assets, but only to the extent such Indebtedness was originally included in the calculation of Senior Secured Indebtedness (or, if the shares of any Restricted Subsidiary of the Parent Guarantor are sold, the Senior Secured Indebtedness as of the end of such period directly attributable to such Restricted Subsidiary if and to the extent the Parent Guarantor and its continuing Restricted Subsidiaries are no longer liable for the Indebtedness included in the calculation of Senior Secured Indebtedness after such sale);

(d) if since the beginning of the relevant 12-month period the Parent Guarantor or any of its Restricted Subsidiaries made an investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary or is merged with or into the Parent Guarantor) or an acquisition of assets which—taken as such—constitute an operating unit, division or line of business, Consolidated EBITDA for such period and Senior Secured Indebtedness as of the end of such period will be calculated after giving pro forma effect thereto (including the incurrence of any Indebtedness) (as determined in good faith by a responsible financial or accounting officer of the Parent Guarantor) as if such investment or acquisition had occurred on the first day of the relevant 12-month period.

Whenever a *pro forma* effect is to be given to any calculation, the *pro forma* calculations will be determined in good faith by a responsible financial or accounting officer of the Parent Guarantor. Any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period. Any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

"**Continental**" means Continental AG.

"**Continental Group**" means Continental and any Subsidiary of Continental.

"**continuing**" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"**Credit Facilities**" means one or more debt facilities, instruments or arrangements incurred by the Parent Guarantor or any Restricted Subsidiary (including the New Senior Facilities Agreement) or commercial paper facilities or indentures or trust deeds or note purchase agreements, in each case, with banks, other institutions, funds or investors, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit, bonds, notes debentures or other corporate debt instruments or other indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks or institutions and whether provided under the New Senior Facilities Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, agreements, security agreements and collateral documents).

"**Default**" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Equity Offering**" means an offering of Capital Stock (other than Redeemable Capital Stock) with respect to any Person pursuant to (x) a registration statement that has been declared effective by the U.S. Securities and Exchange Commission pursuant to the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to equity securities issuable under any employee benefit plan of the Parent Guarantor) or a public offering outside of the United States; or (y) Rule 144A and/or Regulation S or other private placement exemption under the U.S. Securities Act to professional market investors or similar persons.

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Issuer or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in The *Financial Times* in the *"Currency rates"* section (or, if *The Financial Times* is no longer published, or if such information is no longer available in The *Financial Times,* such source as may be selected in good faith by the Issuer) on the date of such determination.

"**European Government Obligations**" means any security that is (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture whose long-term debt is rated "Aa2" or higher by Moody's or "AA" by S&P or the equivalent rating category of another internationally recognized rating agency, for the payment of which the full faith and credit of such country is pledged; or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"**Event of Default**" has the meaning assigned to such term in *"—Events of Default and Remedies."*

"**Existing Notes**" means the €800,000,000 senior secured notes due 2017, the $600,000,000 senior secured notes due 2017, the €400,000,000 senior secured notes due 2019 and the $500,000,000 senior secured notes due 2019 issued by Schaeffler Finance B.V. under a New York law governed indenture dated February 9, 2012.

"**Fair Market Value**" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by the Parent Guarantor's chief executive officer, chief financial officer or responsible accounting or financial officer of the Parent Guarantor.

"**Family Shareholders**" means Georg F. W. Schaeffler and Maria Elisabeth Schaeffler and in each case their respective legal or appointed heirs.

"**Finance Subsidiary**" means each direct or indirect Subsidiary of the Parent Guarantor (other than the Issuer) whose sole purpose is to raise financing for the Parent Guarantor's consolidated group, and which neither owns any material assets (other than receivables arising from loans to other members of the group and bank deposits) nor has any equity interests in any Person.

"**Fitch**" means Fitch Ratings.

"**Guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business, of all or any part of any Indebtedness (whether arising by agreements to keep-well, to take or pay or to maintain financial statement conditions, pledges of assets or otherwise).

"**Guarantors**" means, collectively, each of the Parent Guarantor, the Initial Subsidiary Guarantors and any Subsidiary of the Parent Guarantor that executes a Note Guarantee in accordance with

the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"**Hedging Obligations**" means, with respect to any specified Person, the obligations of such Person under:

(a) interest rate swap agreements, (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(b) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

"**IFRS**" means International Financial Reporting Standards as endorsed by the European Union and in effect as of the Issue Date; *provided* that for purposes of the covenant described under the caption "*—Certain covenants—Reports,*" "IFRS" means International Financial Reporting Standards as endorsed by the European Union and in effect from time to time.

"**IHO Debt**" means (i) the €3,252,921,420.42 junior term loan and revolving facilities dated November 20, 2009, among, *inter alia,* Schaeffler Verwaltungs GmbH, Schaeffler Holding GmbH & Co. KG, Commerzbank Aktiengesellschaft, Landesbank Baden-Württemberg, UniCredit Bank AG and The Royal Bank of Scotland plc, and (ii) the €3,293,000,000 junior zero coupon bonds due 2018 issued by Schaeffler Verwaltungs GmbH, in each case as amended, supplemented or otherwise modified from time to time.

"**Indebtedness**" means, with respect to any specified Person, any indebtedness of such Person (without double counting) (excluding accrued expenses and trade payables):

(a) in respect of moneys borrowed;

(b) evidenced by bonds, notes, debentures or similar instruments for which such Person is responsible or liable;

(c) representing Capital Lease Obligations;

(d) representing any Hedging Obligations;

(e) representing reimbursement obligations in respect of letters of credit, bankers' acceptances or similar instruments or in respect of receivables facilities or other similar facilities;

(f) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed;

(g) preferred stock of any Restricted Subsidiary; and

(h) Redeemable Capital Stock of such person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price plus accrued and unpaid dividends,

if and to the extent any of the preceding items (other than letters of credit, Hedging Obligations, preferred stock and Redeemable Capital Stock) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by the specified Person of any Indebtedness of any other Person to the extent guaranteed by such Person; *provided, however,* that in the case of Indebtedness secured by a Lien, the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Person. "Indebtedness" shall not include (i) Subordinated

Shareholder Debt; (ii) any amounts that would otherwise be included in any of clauses (a) to (c), (e) or (f) (but not with respect to clause (d)) above, to the extent that such amounts would be included only as a result of the application of International Accounting Standard 39; (iii) in connection with the purchase by the Parent Guarantor or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however,* that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter; and (iv) for the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes. The amount of Indebtedness under Hedging Obligations of a Person will be calculated by reference to the net liability of such Person thereunder (as determined in accordance with IFRS as of the date of the most recent financial statements available at the date of determination).

"**Initial Public Equity Offering**" means the first Public Equity Offering of common stock or common equity interests of the Parent Guarantor or any Parent Entity (the "**IPO Entity**") following which there is a Public Market.

"**Investment Grade Rating**" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or an equivalent rating by any other Rating Agency.

"**Investments**" means, with respect to any Person, any direct or indirect advance, loan or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued or owned by, any other Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS. "Investment" excludes (x) commission, travel and similar advances to officers and employees made in the ordinary course of business; and (y) extensions of trade credit on commercially reasonable terms in accordance with normal trade practices. If the Parent Guarantor or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Parent Guarantor will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Parent Guarantor's Investments in such Restricted Subsidiary that were not sold or disposed of. The acquisition by the Parent Guarantor or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Parent Guarantor or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value and, to the extent applicable, shall be determined based on the equity value of such Investment.

"**Issue Date**" means the original issue date of the International Offering Notes, which is expected to be July 4, 2012.

"**Lien**" means with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement or any lease in the nature thereof.

"**Moody's**" means Moody's Investors Service, Inc.

"**Net Proceeds**" means the aggregate cash proceeds received by the Parent Guarantor or any Restricted Subsidiary in respect of any Asset Sale (including, without limitation, any cash

received upon the sale or other disposition of any consideration received in non-cash form or Cash Equivalents substantially concurrently received in any Asset Sale), net of the direct costs relating to such Asset Sale and the sale of such other consideration received in non-cash form, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale (in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements), and all distributions and other payments required to be made to minority interest holders (other than the Parent Guarantor or any of its Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Sale, and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with IFRS.

"**New Senior Facilities Agreement**" means the €8,000,000,000 Syndicated Senior Term Loan and Multicurrency Revolving Credit Facilities Agreement dated January 27, 2012, among, among others, the Guarantors, BNP Paribas, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, HSBC Bank plc., J.P. Morgan Limited, Landesbank Baden-Württemberg, The Royal Bank of Scotland plc and UniCredit Bank AG, as arrangers, and Deutsche Bank Luxembourg S.A., as agent, as amended, restated or otherwise modified or varied from time to time.

"**Non-Recourse Debt**" means Indebtedness as to which neither the Parent Guarantor nor any Restricted Subsidiary (1) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness); or (2) is directly or indirectly liable as a guarantor or otherwise.

"**Note Guarantee**" means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"**Obligations**" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"**Officer**" means, with respect to any Person, the chairman or any executive director of the Board of Directors, the chief executive officer and the chief financial officer of such Person or a responsible accounting or financial officer of such Person.

"**Officer's Certificate**" means a certificate signed by an Officer.

"**Parent Entity**" means any direct or indirect parent company or entity of the Parent Guarantor.

"**Parent Guarantee**" means the Guarantee by the Parent Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"**Pari Passu Indebtedness**" means (i) any Indebtedness of the Issuer which is *pari passu* in right of payment with the Notes and (ii) with respect to any Note Guarantee, Indebtedness which is *pari passu* in right of payment with such Note Guarantee.

"**Permitted Business**" means (i) any business, services or activities engaged in by the Parent Guarantor or any of its Restricted Subsidiaries on the Issue Date; and (ii) any businesses, services and activities that are related, complementary, incidental, ancillary or similar to any of the foregoing, or are extensions or developments of any thereof.

"**Permitted Collateral Liens**" means the following types of Liens on the Collateral:

(i) Liens on the Collateral to secure the Notes and the Note Guarantees issued on the Issue Date;

(ii) Liens on the Collateral to secure Indebtedness permitted to be incurred under clause (b) of the first paragraph of the covenant described under the caption "*—Certain Covenants—Limitation on Indebtedness;*" provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees (x) on a senior or pari passu basis, if such Indebtedness is Pari Passu

Indebtedness or (y) on a senior basis, if such Indebtedness is Subordinated Debt; provided, further, that each of the parties thereto will have entered into the Security Pooling and Intercreditor Agreement;

(iii) Liens on the Collateral to secure Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace or discharge, any Indebtedness which is secured by a Lien on the Collateral pursuant to clauses (i) or (ii) above or this clause (iii); provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees (x) on a senior or pari passu basis, if such Indebtedness is Pari Passu Indebtedness or (y) on a senior basis, if such Indebtedness is Subordinated Debt; provided, further, that each of the parties thereto will have entered into the Security Pooling and Intercreditor Agreement;

(iv) Liens on the Collateral to secure Indebtedness permitted under clause (1) or (11) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;*" provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees (x) on a senior or pari passu basis, if such Indebtedness is Pari Passu Indebtedness or (y) on a senior basis, if such Indebtedness is Subordinated Debt; provided, further, that each of the parties thereto will have entered into the Security Pooling and Intercreditor Agreement;

(v) Liens securing the Parent Guarantor's or any Restricted Subsidiary's obligations under Hedging Obligations (other than Hedging Obligations in respect of commodity prices and only to the extent such Hedging Obligations (x) relate to Indebtedness referred to in clauses (i) through (iv) above or (y) constitute foreign currency hedging in the ordinary course of business) permitted by clause (10) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;*" provided that all property and assets of the Parent Guarantor and its Restricted Subsidiaries securing such Indebtedness also secure the Notes and the Note Guarantees on a senior or pari passu basis; provided, further, that each of the parties thereto will have entered into the Security Pooling and Intercreditor Agreement;

(vi) Liens on the Collateral securing Indebtedness permitted under clause (14) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness"* (to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured and is specified in this definition of "Permitted Collateral Liens"); and

(vii) Liens of the type described in clauses (iii), (iv), (v), (vi), (vii), (viii)(B), (x), (xv), (xvii), (xviii), (xix), (xxi), (xxii), (xxiii), (xxvi), (xxviii) and (xxix) of the definition of Permitted Liens (without giving effect to the proviso to the definition of such term).

For the avoidance of doubt, for purposes of this definition of "Permitted Collateral Liens" a Lien with respect to any asset shall be deemed to be incurred in connection with any acquisition of the asset subject to such Lien (including by way of a merger or similar business combination) at the time such acquisition (or such merger or similar business combination) becomes effective.

"**Permitted Holders**" means the Family Shareholders and Related Parties. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"**Permitted Investment**" means any of the following:

(a) Investments in: (i) the Parent Guarantor or a Restricted Subsidiary of the Parent Guarantor; or (ii) another Person if as a result of such Investment such other Person becomes a Restricted Subsidiary of the Parent Guarantor or such other Person is merged or

consolidated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Parent Guarantor or a Restricted Subsidiary of the Parent Guarantor;

(b) expenses, loans or advances to cover payroll, travel entertainment, moving, other relocation and similar matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS;

(c) Investments existing on, or made pursuant to legally binding commitments in existence on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; provided that the amount of any such Investment may be increased (x) as required by the terms of such Investment as in existence on the Issue Date; or (y) as otherwise permitted under the Indenture;

(d) loans and advances (or guarantees to third party loans, but not any forgiveness of such loans or advances) to directors, officers or employees of the Parent Guarantor or any of its Subsidiaries made in the ordinary course of business and consistent with the Parent Guarantor's past practices or past practices of the Subsidiaries, as the case may be, in an amount outstanding not to exceed at any one time €15.0 million;

(e) Investments in a Person to the extent that the consideration therefor consists of the net proceeds of the substantially concurrent issue and sale (other than to any Subsidiary of the Parent Guarantor) of shares of the Parent Guarantor's Qualified Capital Stock; provided that the net proceeds of such sale have been excluded from, and shall not have been included in, the calculation of the amount determined under clause (3)(b) of the second paragraph of the covenant described under the caption "*—Limitation on Restricted Payments;*"

(f) (i) stock, obligations or securities received in satisfaction of judgments, foreclosure of liens or settlement of debts; and (ii) any Investments received in compromise or resolution of (x) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Parent Guarantor or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (y) litigation, arbitration or other disputes;

(g) Investments resulting from the acquisition of a Person that at the time of such acquisition held instruments constituting Investments that were not acquired in contemplation of the acquisition of such Person; and

(h) Investments in joint ventures having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value) not to exceed, when taken together with all other Investments made pursuant to this clause (h) that are at the time outstanding, the greater of (i) €600.0 million; and (ii) 5.0% of Total Assets; provided, however, that if any Investment pursuant to this clause is made in a Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries,"* such Investment shall thereafter be deemed to have been made pursuant to clause (a) of the definition of "Permitted Investments" and not this clause (h);

(i) Investments in cash or Cash Equivalents;

(j) Investments in the Notes (including any Additional Notes) and any other indebtedness of the Parent Guarantor or any Restricted Subsidiary;

(k) Investments represented by Hedging Obligations permitted by clause (10) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness"*;

(l) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business; or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "*—Certain covenants—Limitation on Liens;*"

(m) any Investments in connection with a Qualified Securitization Financing, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or any related Indebtedness;

(n) Investments in receivables owing to the Parent Guarantor or any Restricted Subsidiary created or acquired in the ordinary course of business;

(o) any guarantee of Indebtedness permitted to be incurred by the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness;*"

(p) any Investment to the extent made using as consideration Qualified Capital Stock of the Parent Guarantor, Subordinated Shareholder Debt or Capital Stock of any Parent Entity;

(q) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (q) that are at the time outstanding not to exceed the greater of €600.0 million and 5.0% of Total Assets; provided, however, that if any Investment pursuant to this clause is made in a Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under the caption "*—Certain covenants—Designation of Restricted and Unrestricted Subsidiaries,"* such Investment shall thereafter be deemed to have been made pursuant to clause (a) of the definition of "Permitted Investments" and not this clause (q); and

(r) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "*—Repurchase at the option of Holders—Asset Sales."*

"**Permitted Liens**" means:

(i) any Lien securing the Notes and/or the Note Guarantees;

(ii) any Lien existing on the Issue Date;

(iii) any Lien imposed by law, such as carriers', warehousemen's, landlord's and mechanic's Liens, in each case included in the ordinary course of business;

(iv) any Lien on property at the time the Parent Guarantor or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Parent Guarantor or any Restricted Subsidiary; provided that such Lien is not created, incurred or assumed in connection with, or in contemplation of, such acquisition and does not extend to any other property owned by the Parent Guarantor or any Restricted Subsidiary;

(v) any Lien on property (including Capital Stock) of a Person existing at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Parent Guarantor or any Restricted Subsidiary; provided that such Lien was in existence prior to the contemplation of such Person becoming a Restricted Subsidiary or such merger or consolidation, was not incurred in contemplation thereof and does not extend to any assets other than those of the person that becomes a Restricted Subsidiary or is merged with or into or consolidated with the Parent Guarantor or any Restricted Subsidiary;

(vi) any Lien arising in connection with conditional sale, retention of title, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(vii) any Lien arising under general business conditions in the ordinary course of business other than as a result of a default, including without limitation the general business conditions of any bank or financial institution with whom the Parent Guarantor or any of its Restricted Subsidiaries maintains a banking relationship in the ordinary course of business (but, for the avoidance of doubt, other than any Lien in respect of borrowed money);

(viii) any Lien to secure (A) Indebtedness under Hedging Obligations and (B) cash management arrangements, in each case permitted to be incurred by clause (10) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness"*:

(ix) any Lien in favor of the Parent Guarantor or any Restricted Subsidiary;

(x) any Lien securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(xi) any Lien on Securitization Assets and related assets incurred in connection with any Qualified Securitization Financing (including Liens encumbering cash deposits in bank accounts established in connection with a Qualified Securitization Financing and Liens encumbering cash and Cash Equivalents collected from receivables that are part of or subject to a Qualified Securitization Financing);

(xii) any Lien created or subsisting in order to comply with the requirements of Section 8a of the German Altersteilzeitgesetz and of section 7e of the German Social Security Code (*Sozialgesetzbuch IV*) or any comparable non-German law legal requirement;

(xiii) any Lien to secure Indebtedness permitted by clause (5) of the second paragraph of the covenant described under the caption "*—Certain covenants—Limitation on Indebtedness"* covering only the assets acquired with such Indebtedness;

(xiv) any Lien on any proceeds loan made by the Parent Guarantor or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted to be incurred under the Indenture and securing that Indebtedness;

(xv) any bankers' Liens, rights of set off or similar rights and remedies as to deposit accounts (including any Lien created or subsisting over any asset held in any securities depositary or any clearing house pursuant to the standard terms and procedures of the relevant securities depositary or clearing house applicable in the normal course of trading), any Lien arising out of judgments or awards not constituting an Event of Default and notices of lis pendens and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(xvi) any Lien created or subsisting over any assets of, shares in, or debts or other obligations of, a Project Company or special purpose company securing Indebtedness incurred by that Project Company or special purpose company in order to finance a project or asset (provided the incurrence of such Indebtedness is permitted under the Indenture and the Fair Market Value of any assets (including cash) made available by the Parent Guarantor and its Restricted Subsidiaries to such Project Companies or special purpose companies does not in the aggregate exceed €100 million at any time);

(xvii) Liens to secure the performance of statutory obligations, trade contracts, insurance, surety or appeal bonds, workers' compensation obligations, leases, performance bonds, guarantees, bankers' acceptances or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(xviii) Liens for taxes, assessments or government charges or claims not yet due or payable or subject to penalties for non-payment or which are being contested in good faith and for which a reserve or other appropriate provision, if any, as will be required in conformity with IFRS will have been made;

(xix) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(xx) leases, licenses, subleases and sublicenses of assets in the ordinary course of business;

(xxi) survey exceptions, encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, utility agreements, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(xxii) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Parent Guarantor or any Restricted Subsidiary has easement rights or on any real property leased by the Parent Guarantor or any Restricted Subsidiary and subordination or similar agreements relating thereto and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(xxiii) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(xxiv) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(xxv) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(xxvi) any interest or title of a lessor under any operating lease;

(xxvii) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(xxviii) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(xxix) Liens arising from U.S. Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Person in the ordinary course of business

(xxx) Permitted Collateral Liens;

(xxxi) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (i) through (xxx) and the following clauses (xxxii) and (xxxiv); provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured the Indebtedness being refinanced or is in respect of property that is the security for a Permitted Lien hereunder;

(xxxii) any Lien securing obligations (including Indebtedness); provided that, at the time of incurrence and after giving pro forma effect thereto, the aggregate amount of obligations (including Indebtedness) outstanding secured by such Liens pursuant to this clause (xxxii) does not exceed 5.0% of Total Assets;

(xxxiii) Liens on Unrestricted Continental Shares securing Indebtedness permitted to be incurred under the Indenture; and

(xxxiv) any Lien created or subsisting over any assets of any Restricted Subsidiary of the Parent Guarantor incorporated in Brazil, China, India or South Korea securing Indebtedness permitted to be incurred under the Indenture,

*provided,* in each case, that any Lien securing Indebtedness under the New Senior Facilities Agreement or securing Indebtedness incurred under Credit Facilities to refinance such Indebtedness shall not be a Permitted Lien.

For the avoidance of doubt, for purposes of this definition of "**Permitted Liens**" a Lien with respect to any asset shall be deemed to be "incurred" in connection with any acquisition of the asset subject to such Lien (including by way of a merger or similar business combination) at the time such acquisition (or such merger or similar business combination) becomes effective.

"**Permitted Refinancing Indebtedness**" means any Indebtedness of the Parent Guarantor or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, exchange, defease or discharge other indebtedness of the Parent Guarantor or any Restricted Subsidiary (other than intercompany Indebtedness (other than any proceeds loan)); *provided* that:

(1) the aggregate principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has (a) a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; or (ii) after the final maturity date of the Notes; and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is expressly contractually subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the Holders or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and

(4) such Indebtedness is incurred either by the Issuer or a Guarantor if the Issuer or any Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

"**Permitted Upstream Payments**" means the declaration and payment of dividends or other distributions or the making of loans by the Parent Guarantor or its Restricted Subsidiaries or the making of payments of principal or interest on any Subordinated Shareholder Debt, in each case (i) to any Permitted Holder for the purposes of the payment of (1) interest and fees in respect of the IHO Debt, (2) taxes and costs and expenses, each incurred and due and payable by any Permitted Holder, (3) withholding tax with respect to any dividends declared to any Permitted Holder or (4) principal or interest on Subordinated Shareholder Debt provided by a Permitted Holder to fund the payment of withholding tax on dividends declared by the Parent Guarantor or (ii) to any holder of Capital Stock of the Parent Guarantor other than a Permitted Holder; *provided* that payments under clause (ii) are in an amount no greater than the amount of dividends the holders of Capital Stock of the Parent Guarantor other than Permitted Holders would be entitled to if the payments under clauses (i) and (ii) were made in the form of a *pro rata* dividend to all holders of Capital Stock of the Parent Guarantor.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or other entity.

**"Pre-Expansion European Union"** means the European Union as of January 1, 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after January 1, 2004; *provided* that "Pre-Expansion European Union" shall not include any country whose long-term debt does not have a long-term rating of at least "AA" by S&P or at least "Aa2" by Moody's or the equivalent rating category of another internationally recognized rating agency.

"**Project Company**" means any Restricted Subsidiary of the Parent Guarantor whose principal activity is or will be the ownership, development and/or operation of a specified project and whose creditors do not have recourse to, or the benefit of, any guarantee, indemnity, bond or security granted by the Parent Guarantor or any of its other Restricted Subsidiaries (other than in relation to shares in or obligations owed by such Project Company).

**"Public Equity Offering"** means, with respect to any Person, a bona fide underwritten primary public offering of the shares of common stock or common equity interests of such Person, either:

(1) pursuant to a listing on the regulated market of the Frankfurt Stock Exchange or any other nationally recognized regulated stock exchange or listing authority in a member state of the Pre-Expansion European Union; or

(2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Equity Interests issued or issuable under any employee benefit plan).

"**Public Market**" means, any time after:

(1) a Public Equity Offering of the IPO Entity has been consummated; and

(2) at least 20% of the total issued and shares of common stock or common equity interests of the IPO Entity has been distributed to investors other than the Permitted Holders (or any Subsidiary or immediate family member thereof or any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consists of any one or more Permitted Holders or such Subsidiary or family shareholder thereof) or any other direct or indirect shareholders of the Parent Guarantor as of the Issue Date.

"**Qualified Capital Stock**" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"**Qualified Securitization Financing**" means any financing pursuant to which the Parent Guarantor or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any other Person or grant a security interest in, any Securitization Assets (and related assets) in any aggregate principal amount equivalent to the Fair Market Value of such Securitization Assets (and related assets) of the Parent Guarantor or any of its Restricted Subsidiaries; *provided* that (a) the covenants, events of default and other provisions applicable to such financing shall be on market terms (as determined in good faith by the Parent Guarantor's Board of Directors or senior management) at the time such financing is entered into; (b) the interest rate applicable to such financing shall be a market interest rate (as determined in good faith by the Parent Guarantor's Board of Directors or senior management) at the time such financing is entered into; and (c) such financing shall be non-recourse to the Parent Guarantor or any of its Restricted Subsidiaries except to a limited extent customary for such transactions (as determined in good faith by the Parent Guarantor's Board of Directors or senior management).

"**Rating Agencies**" means Moody's and S&P; *provided* that if S&P, Moody's or any Successor Rating Agency (as defined below) shall cease to be in the business of providing rating services

for debt securities generally, the Issuer shall be entitled to replace any such Rating Agency or Successor Rating Agency, as the case may be, which has ceased to be in the business of providing rating services for debt securities generally, with (i) Fitch, if Fitch is then in the business of providing rating services for debt securities generally, or (ii) if Fitch is then not in the business of providing rating services for debt securities generally or Fitch is already a Successor Rating Agency, any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Issuer as a replacement agency (any such rating agency pursuant to clause (i) or (ii), as the case may be, a "**Successor Rating Agency**").

"**Redeemable Capital Stock**" means any class or series of Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, matures or is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the Notes or is redeemable at the option of the holder thereof at any time prior to such final Stated Maturity (other than upon a change of control of the Parent Guarantor in circumstances in which the Holders would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; *provided* that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any "change of control" or "asset sale" occurring prior to the Stated Maturity of the Notes will not constitute Redeemable Capital Stock if the "change of control" or "asset sale" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "*—Repurchase of the Option of the Holders—Change of Control*" and "*—Repurchase of the Option of the Holders—Asset Sales*" and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "*—Repurchase of the Option of the Holders—Change of Control*" and "*—Repurchase of the Option of the Holders—Asset Sales*".

"**Related Party**" means:

(1) any controlling stockholder, partner or member, or any 50% (or more) owned Subsidiary, or immediate family member (in the case of an individual), of any Family Shareholder; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a 50% or more controlling interest of which consist of any one or more Family Shareholders and/or such other Persons referred to in the immediately preceding clause.

"**Restricted Investment**" means an Investment other than a Permitted Investment.

"**Restricted Payments**" means any of the following:

(a) to declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Capital Stock of the Parent Guarantor or any of its Restricted Subsidiaries (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor and including any distribution by way of payment of withholding tax with respect to dividends declared) (other than to the Parent Guarantor or any Restricted Subsidiary of the Parent Guarantor) except for dividends or distributions payable solely in the Parent Guarantor's Qualified Capital Stock or in options, warrants or other rights to acquire Qualified Capital Stock or in Subordinated Shareholder Debt;

(b) to purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any Capital Stock of the Parent Guarantor or any Parent Entity;

(c) to make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Debt (other than intercompany Indebtedness between the Parent Guarantor and any of its Restricted Subsidiaries or among Restricted Subsidiaries of the Parent Guarantor) except (i) a payment of interest or principal at the Stated Maturity thereof; or (ii) the purchase, repurchase or other acquisition of Indebtedness purchased in anticipation of satisfying a scheduled sinking fund obligation, principal installment or scheduled maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition;

(d) to make any payment (whether made in cash, securities or other property, except for the Parent Guarantor's Qualified Capital Stock, options, warrants or other rights to acquire Qualified Capital Stock or Subordinated Shareholder Debt) on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt; or

(e) to make any Restricted Investment.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as at the date of transfer.

"**Restricted Subsidiary**" means any Subsidiary of the Parent Guarantor that is not an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services.

"**Securitization Assets**" means any accounts receivable, inventory, royalty or revenue streams from sales of inventory.

"**Securitization Fees**" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not the Parent Guarantor or any of its Restricted Subsidiaries in connection with any Qualified Securitization Financing.

"**Securitization Repurchase Obligation**" means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Security Documents**" means the security agreements, the pledge agreements, the collateral assignments and other instruments and documents executed and delivered pursuant to the Indenture or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time and pursuant to which the Collateral is pledged, assigned or granted to or on behalf of the relevant Security Trustee for the benefit of (among others) the Holders and the Trustee or notice of such pledge, assignment or grant is given.

"**Security Pooling and Intercreditor Agreement**" means the security pooling and intercreditor agreement dated as of January 27, 2012 made between, among others, the Issuer, the Guarantors, the mandated lead arrangers under the New Senior Facilities Agreement, the lenders under the New Senior Facilities Agreement, the Security Trustees, the agent for the New Senior Facilities Agreement, certain hedging counterparties, Schaeffler Verwaltungs GmbH and the other parties named therein, and to which the Trustee accedes on or about the Issue Date, as amended, restated or otherwise modified or varied from time to time.

"**Senior Secured Indebtedness**" means, as of any date of determination, the amount of any outstanding Indebtedness of the Parent Guarantor and its Restricted Subsidiaries that is secured by a Lien and Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor.

"**Significant Subsidiary**" means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries that are Restricted Subsidiaries (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Parent Guarantor; or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Parent Guarantor.

"**Stated Maturity**" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"**Subordinated Debt**" means Indebtedness of the Issuer or any Guarantor that is expressly subordinated in right of payment to the Notes or the Note Guarantee of such Guarantor, as the case may be, pursuant to a written agreement.

"**Subordinated Shareholder Debt**" means, collectively, any debt provided to the Parent Guarantor by any Parent Entity or any Family Shareholder or Related Party, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Debt; *provided* that such Subordinated Shareholder Debt:

(1) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior to the first anniversary of the final maturity of the Notes (other than through conversion or exchange of any such security or instrument for Equity Interests of the Parent Guarantor (other than Redeemable Capital Stock) or for any other security or instrument meeting the requirements of the definition);

(2) does not (including upon the happening of any event) require the payment of cash interest prior to the first anniversary of the final maturity of the Notes;

(3) does not (including upon the happening of any event) provide for the acceleration of its maturity nor confers on its shareholders any right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, in each case, prior to the first anniversary of the final maturity of the Notes;

(4) is not secured by a lien on any assets of the Parent Guarantor or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Parent Guarantor;

(5) is subordinated in right of payment to the prior payment in full in cash of the Notes and the Note Guarantees in the event of any default, bankruptcy, reorganization, liquidation, winding up or other disposition of assets of the Issuer and the Guarantors at least to the same extent as the "Parent Liabilities" (as defined in the Security Pooling and Intercreditor Agreement) are subordinated to the Notes and the Note Guarantees under the Security Pooling and Intercreditor Agreement;

(6) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or the Note Guarantees or compliance by the Issuer or the Guarantors with their respective obligations under the Notes, the Note Guarantees and the Indenture;

(7) does not (including upon the happening of an event) constitute Voting Stock; and

(8) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Capital Stock (other than Redeemable Capital Stock) of the Parent Guarantor;

*provided, however,* that any event or circumstance that results in such Indebtedness ceasing to qualify as Subordinated Shareholder Debt, such Indebtedness shall constitute an incurrence of

such Indebtedness by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the incurrence of such Indebtedness and any dividend payments made in the form of Subordinated Shareholder Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"**Subsidiary**" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise; and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity,

*provided* that none of Continental and its Subsidiaries shall at any time or under any circumstances qualify or be treated as a Subsidiary of the Parent Guarantor or any of its Subsidiaries unless (a) a domination agreement (*Beherrschungsvertrag*), an integration (*Eingliederung*), a management agreement (*Betriebsführungsvertrag*), a business surrender agreement (*Betriebsüberlassungsvertrag*) or a business lease agreement (*Betriebspachtvertrag*), each as contemplated in sections 291, 292 and 319 of the German Stock Corporation Act (*Aktiengesetz*) has become effective between Continental and/or any of its Subsidiaries as dominated entity and the Parent Guarantor or any of its Restricted Subsidiaries as dominating entity (*provided, further* that neither the Parent Guarantor nor any of its Restricted Subsidiaries may enter into a profit and loss pooling agreement (*Gewinnabführungsvertrag*) with any member of Continental Group without a domination agreement with Continental being in place); or (b) Continental or its Subsidiaries would be required to be fully consolidated in consolidated financial statements of the Parent Guarantor or its Subsidiaries prepared in accordance with IFRS (and based on accounting interpretations thereof as in effect as of the Issue Date); and provided further that Schaeffler Beteiligungsholding GmbH & Co. KG and any other entity through which the Parent Guarantor or any of its Subsidiaries holds any shares in Continental from time to time and in which the Parent Guarantor or any of its Subsidiaries (directly or indirectly) holds any share or interest shall in any event be deemed to be a Subsidiary of the Parent Guarantor.

"**Tax**" means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other additions thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax).

"**Taxes**" and "**Taxation**" shall be construed to have corresponding meanings.

"**Total Assets**" means the total assets of the Parent Guarantor and its Restricted Subsidiaries as shown on the most recent balance sheet of the Parent Guarantor, determined on a consolidated basis in accordance with IFRS.

"**Unrestricted Continental Shares**" means those shares of Capital Stock of Continental that are "Unrestricted Continental Shares" pursuant to the terms of the New Senior Facilities Agreement (or, if the New Senior Facilities Agreement has been replaced, including by way of a refinancing, by another syndicated credit facility agreement, pursuant to the terms of such agreement) from time to time; *provided* that (i) the payment or other transfer by the Parent Guarantor or its

Restricted Subsidiaries of dividends received with respect to, and proceeds from the disposal of, such "Unrestricted Continental Shares" to a Parent Entity and (ii) the disposal or other transfer of such "Unrestricted Continental Shares" to a Parent Entity by way of dividend in kind, are then permitted pursuant to the terms of the New Senior Facilities Agreement or such other agreement, as the case may be, including by operation of a waiver obtained under such agreement; provided further, that for purposes of clause (xxxiii) of the definition of "Permitted Liens" the foregoing proviso shall be disregarded.

"**Unrestricted Subsidiary**" means any Subsidiary of the Parent Guarantor that is designated by the Board of Directors of the Parent Guarantor as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption "*—Certain covenants—Transactions with Affiliates,"* is not party to any agreement, contract, arrangement or understanding with the Parent Guarantor or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Parent Guarantor or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Parent Guarantor; and

(3) is a Person with respect to which neither the Parent Guarantor nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests; or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results.

"**Voting Stock**" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

# Limitations on validity and enforceability of the Guarantees and the Collateral and certain insolvency law considerations

The validity and enforceability of the Guarantees and the Collateral will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defenses that may limit their validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Guarantees and the Collateral, and a summary of certain insolvency law considerations, in the jurisdictions in which the Issuer, the Guarantors and the providers of Collateral are organized. In the event that any one or more of the Issuer, the Guarantors and the providers of Collateral or any other of the Parent Guarantor's subsidiaries experienced financial difficulties, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or what the outcome of such proceedings would be. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer, the Guarantors and the providers of the Collateral. The descriptions below are only a summary and do not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the Subsidiary Guarantees and the Collateral. If additional Subsidiary Guarantees and/or Collateral are required to be granted pursuant to the Indenture in the future, such Guarantees and/or Collateral will also be subject to limitations on enforceability and validity, which may differ from those discussed below. See "Risk factors—Risks related to the Guarantees and the Collateral—Enforcement of the Guarantees across multiple jurisdictions may be difficult."

***European Union***

The Issuer and several of the providers of the Subsidiary Guarantees and the Collateral are organized under the laws of member states of the European Union.

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "**EU Insolvency Regulation**"), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the member state (other than Denmark) where the company concerned has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its "center of main interests" is a question of fact on which the courts of the different member states may have differing and even conflicting views. Furthermore, "centre of main interests" is not a static concept and may change from time to time. Although under Article 3(1) of the EU Insolvency Regulation there is a rebuttable presumption that a company would have its respective "centre of main interests" in the member state in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "centre of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties". The European Court of Justice has ruled in a recent judgment that a debtor company's main center of interests must be determined by attaching greater importance to the place of the company's central administration, as may be established by objective factors which are ascertainable by third parties. Where the bodies responsible for the management and supervision of a company are in the same place as its registered office and the management decisions of the company are taken, in a manner that is ascertainable by third parties, in that place, the presumption, that the center of the company's main interests is located in that place, shall be irrebuttable. Where a company's central administration is, however, not in the same place as its registered office, the presence of company assets and existence of contracts for the financial exploitation of those assets in a member state other than that in which the registered office is situated cannot be regarded as sufficient factors to rebut the above-mentioned presumption, unless a comprehensive assessment of all relevant factors makes it possible to establish, in a manner that is ascertainable by third parties, that the company's actual center of management and

supervision and of the management of its interests is located in that other member state. The factors to be taken into account include, in particular, all the places in which the debtor company pursues economic activities and all those in which it holds assets, in so far as they are ascertainable by third parties.

If the center of main interests of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation, with these proceedings governed by the *lex fori concursus, i.e.m* the local laws of the court opening such main insolvency proceeding. Insolvency proceedings opened in one member state under the EU Insolvency Regulation are to be recognized in the other member states (other than Denmark), although secondary proceedings may be opened in another member state. If the "center of main interests" of a debtor is in one member state (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another member state (other than Denmark) have jurisdiction to open "territorial proceedings" only in the event that such debtor has an "establishment" in the territory of such other member state. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other member state. If the company does not have an establishment in any other member state, no court of any other member state has jurisdiction to open territorial proceedings in respect of such company under the EU Insolvency Regulation.

***Austria***

*Insolvency*

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Austria and/or having its center of main interests in Austria (the "**Austrian Provider**"), insolvency proceedings will be governed by Austrian law (for example, if the Austrian Provider's center of main interests is within Austria or if it has an establishment in the territory of the Republic of Austria or, where the EU Insolvency Regulation does not apply, if it has assets in Austria). Under certain circumstances, bankruptcy proceedings may also be opened in Austria in accordance with Austrian law over the assets of companies that are not organized under Austrian law.

The following is a brief description of certain aspects of Austrian insolvency law.

Insolvency proceedings (*Insolvenzverfahren*) must be opened by a court upon application by the debtor or a creditor whenever it has been established that a company is illiquid (*zahlungsunfähig*), i.e. in principle unable to pay its debts when they fall due, or is over-indebted in terms of insolvency law (*insolvenzrechtlich überschuldet*), i.e. in principle that the liabilities exceed its assets at liquidation values and there is a negative forecast on the company's future survival (*negative Fortbestehensprognose*), provided that the insolvency estate's value is sufficient to cover at least the costs of the insolvency proceedings. Restructuring proceedings (*Sanierungsverfahren*), upon application by the debtor, may also be initiated, if the risk of the debtor's inability to pay its debts when they fall due is at least imminent (*drohende Zahlungsunfähigkeit*) and the debtor files an application for the opening of such proceedings.

Depending on whether or not a permissible restructuring plan (*Sanierungsplan*) is presented together with the application for the opening of insolvency proceedings the insolvency proceedings will be designated as restructuring proceedings (*Sanierungsverfahren*) or bankruptcy proceedings (*Konkursverfahren*). Whenever the debtor applies for the opening of insolvency proceedings as restructuring proceedings and presents a permissible restructuring plan (*Sanierungsplan*) offering a quota of at least 20% to the unsecured creditors payable within a maximum of two years after the approval of the plan (in case of entrepreneurs), the insolvency proceeding is called restructuring proceeding (*Sanierungsverfahren*). A debtor may present such a restructuring plan in the course of a bankruptcy proceeding whereby, if the

restructuring plan was presented after the bankruptcy proceedings were opened, the proceeding will be continued to be designated as bankruptcy proceeding (*Konkursverfahren*).

Restructuring plans (*Sanierungspläne*) generally intend to discharge the debtor from a part of its debts (up to 80%) and to enable the debtor to continue its business activities. A qualified simple majority of unsecured creditors must approve the restructuring plan. Qualified simple majority means that the simple majority of unsecured creditors in number present at the hearing must vote in favor of the restructuring plan and that the total sum of these unsecured creditors' claims must amount to more than 50% of the unsecured claims present at the hearing. If the restructuring plan (*Sanierungsplan*) is accepted by the creditors, confirmed by the court and fulfilled by the debtor, the latter is released from the rest of its debts.

If the debtor applies for the opening of insolvency proceedings and presents qualified documents together with a restructuring plan (*Sanierungsplan*) offering a quota of at least 30% to the unsecured creditors payable within a maximum of two years after the approval of the plan it is entitled to self administration (*Sanierungsverfahren mit Eigenverwaltung unter Aufsicht eines Verwalters*) which may be withdrawn, if, for example, negative effects on the creditors' positions can be expected. If the realization of a restructuring plan (*Sanierungsplan*) fails, the insolvency proceeding will be continued as bankruptcy proceeding (*Konkursverfahren*).

Unless the debtor meets the requirements for self administration, the debtor is not any longer in the position to dispose of the assets subject to insolvency, i.e. the insolvent's estate (*Insolvenzmasse*), as from the opening of insolvency proceedings. The opening takes effect as of 0:00 a.m. Austria time of the day following the publication of the receiving order (*Insolvenzedikt*) in the official insolvency data base (www.edikte.justiz.gv.at). After the initiation of insolvency proceedings legal acts of the debtor in relation to the debtor's estate take no effect towards the creditors. The court appoints an insolvency administrator (*Insolvenzverwalter*) along with its decision on the opening of insolvency proceedings, and, if it deems this necessary in view of the specifics or size of the debtor's business or in case certain legal requirements are met (*e.g.*, intended sale of the entire business of the debtor), a creditors' committee (*Gläubigerausschuss*) to assist the insolvency administrator. After the opening of insolvency proceedings without self administration (*i.e.*, bankruptcy proceedings or restructuring proceedings without self administration) only the insolvency administrator is entitled to act on behalf of the debtor's estate.

The insolvency administrator's main task is to administer and realize the assets of the insolvent's estate effectively. According to Austrian insolvency law, the insolvency administrator generally shall continue the debtor's business in order to enable a potential reorganization of the debtor's business either by realizing the debtor's restructuring plan (which he may also apply for during the bankruptcy proceedings) or by a sale of the debtor's business or assets. If neither a restructuring plan nor the sale of the debtor's business or assets is possible, the insolvency administrator will break up the company and the bankruptcy proceedings will ultimately lead to the sale of the debtor's assets and distribution of the proceeds of such sale, the debtor remaining liable for its residual debts.

If the debtor meets the requirements for self administration the debtor is monitored by a court appointed restructuring administrator (*Sanierungsverwalter*) to whom certain transactions are reserved.

Unsecured creditors (*Insolvenzgläubiger*) shall file their claims with the competent court within the time period set out in the court order on the opening of insolvency proceedings. At the so-called examination hearing (*Prüfungstagsatzung*), which is held at the competent court, the insolvency administrator has to declare whether he acknowledges or contests a claim filed. If the insolvency administrator acknowledges a creditor's claim, this creditor is entitled to participate in the insolvency proceeding, which means that he will finally receive the quota that is distributed to the unsecured creditors. If a creditor's claim is contested by the insolvency administrator, the creditor has to assert its claim in civil proceedings in order to maintain its right to participate in the insolvency proceedings.

Claims of unsecured creditors in insolvency proceedings, which were created before the opening of these proceedings, rank *pari passu*. Taxes, social security contributions, wages and salaries are, as such, not privileged or preferential claims under Austrian insolvency law. Claims which lawfully arose against the debtor's estate after the opening of the proceedings, so called privileged claims (*Masseforderungen*) or claims which are secured by collateral (such as by a mortgage, a pledge over bank accounts or shares, a pledge or an assignment of receivables for security purposes or a pledge or security transfer of moveable assets), so-called preferential claims (*Absonderungsrechte*), enjoy priority in insolvency proceedings. Creditors who have a right to preferential treatment may participate in the pro rata distribution only to the extent that the proceeds from the realization of the assets charged to them did not cover their claims or if they have waived their right to preferential treatment. Secured Creditors do not have a voting right on the restructuring plan to the extent their claim is covered by security.

The costs of the insolvency proceedings and certain liabilities accrued during insolvency proceedings are privileged claims (*Masseforderungen*) and rank prior to all other claims. Creditors with a right of separation of assets (*Aussonderungsberechtigte*), such as creditors with retention of title, remain unaffected by the opening of insolvency proceedings though they may be barred from exercising their rights for a maximum period of six months following the opening of insolvency proceedings, if the exercise of such rights would endanger the carrying on of the debtor's business and the interdiction does not cause a severe personal or economic damage to the Secured Creditor. The same applies for Secured Creditors of preferential claims (*Absonderungsberechtigte*).

Once formal proceedings have been opened it is not possible to obtain an execution lien any more. All execution proceedings against the debtor are stayed (*Vollstreckungssperre*). Execution liens obtained within the last 60 days before formal proceedings were opened expire.

Section 25a para 1 of the Austrian Insolvency Code provides that for a period of six months from the opening of insolvency proceedings contractual partners of the debtor may terminate contracts only for cause. In this context, the deterioration of the economic situation or the lack of timely performance by the debtor prior to the opening of insolvency proceedings is not considered a cause allowing a termination. This restriction only applies if a termination of a contract would jeopardize the continuation of the debtor's business. No restrictions apply if a termination of a contract is inevitable to prevent the contractual partner from incurring severe personal or economic damages or the debtor does not timely perform its contractual obligations after the opening of the insolvency proceedings.

Pursuant to section 25b para 2 of the Austrian Insolvency Code, a contractual stipulation providing for the right to withdraw from an agreement or an automatic termination in the event of opening of insolvency proceedings against the other party is not enforceable.

The Austrian Business Reorganization Act (*Unternehmensreorganisationsgesetz*) governs business reorganizations, which are designed to enable businesses in temporary financial distress to continue to do business after having undergone a reorganization procedure. Only the debtor may apply for the opening of a reorganization procedure, provided, however, that it is still solvent at the time of its application. The relevant criteria for the opening of a business reorganization procedure are a quota of own funds (*Eigenmittelquote*) of less than 8% and a fictitious duration of debt redemption (*fiktive Schuldentilgungsdauer*) of more than 15 years, in each case as defined in the Austrian Business Reorganization Act.

Pursuant to section 19 of the Austrian Business Reorganization Act, a contractual stipulation providing for the right to withdraw from an agreement or for its automatic termination in the event of the opening of reorganization proceedings relating to the other party is not enforceable

Austrian law also provides for certain creditors to be subordinated by law (in particular, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of funds or payment of a consideration).

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings.

*Limitation on enforcement*

The grant of Collateral and Guarantees by the Austrian Provider is subject to Austrian capital maintenance rules (*Kapitalerhaltungsvorschriften*) pursuant to Austrian corporate law, in particular Section 82 of the Austrian Act on Limited Liability Companies (*Gesetz über Gesellschaften mit beschränkter Haftung*) ("**GmbHG**").

The GmbHG prohibits an Austrian limited liability company from disbursing its assets to its shareholders in circumstances other than as a distribution of profits (if, to the extent and as long as available for distribution under Austrian law), by a reduction of share capital or as liquidation surplus on liquidation of that corporation. Guarantees, share pledges and any other collateral granted by an Austrian limited liability company or limited partnership (the unlimited partner of which is a corporation) in order to guarantee or secure liabilities of a direct or indirect parent or sister company are considered disbursements under the GmbHG and are thus invalid and unenforceable if the granting of such guarantees or security interests by the Austrian Provider were not at arm's length terms or for the Austrian Provider's corporate benefit. Therefore, in order to enable Austrian subsidiaries to guarantee, or to grant collateral to secure, liabilities of a direct or indirect parent or sister company and in order to reduce the risk of violating the GmbHG and the resultant invalidity and unenforceability, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries incorporated or established in Austria. Pursuant to such limitation language, the secured parties agree to enforce the collateral and the beneficiaries of the guarantees agree to enforce the guarantees against the Austrian subsidiary only to the extent that such enforcement does not result in a breach of the GmbHG. Accordingly, any guarantees of the Austrian Provider and the security will be so limited.

No case law is available to confirm and it is thus not certain whether such limitations, in particular regarding limitation of the guarantee or security interest to abide by the Austrian capital maintenance rules, would be valid and enforceable under Austrian law and achieve the desired effect of legally preserving the guarantee or security interest to the extent possible or whether the guarantee or security interest could be deemed void in its entirety. Moreover, Austrian capital maintenance rules are subject to ongoing court decisions and it cannot be ruled out that future court rulings may further limit the access of creditors and/or shareholders to assets of subsidiaries constituted in the form of a corporation or of a limited partnership the general partner or general partners of which is or are corporations.

*Hardening periods and fraudulent transfer*

Under the avoidance rules of the Austrian Insolvency Code (*Insolvenzordnung*), an insolvency administrator may, by action of avoidance or by defense of avoidance, under certain circumstances, challenge any transaction (which term for the purposes of this section "Hardening Periods and Fraudulent Transfer" includes, without limitation, the granting of security and the guaranteeing, assuming and/or paying of debt).

General requirements for avoidance are: (i) the avoidance must result in an increase of the insolvent's estate (*Befriedigungstauglichkeit*); (ii) the challenged legal action or challenged legal transaction must have caused a direct or indirect discrimination of the other creditors (*Gläubigerbenachteiligung*); and (iii) the avoidance claim generally must be filed by the insolvency administrator within one year after the opening of the insolvency proceedings at the latest.

In particular, the following legal transactions and legal acts (*Rechtshandlungen*) are voidable with respect to the debtor's creditors:

- Avoidance due to intent to discriminate (*Anfechtung wegen Benachteiligungsabsicht*): Transactions concluded in order to discriminate other creditors may be challenged if they were entered into within 10 years prior to the opening of insolvency proceedings and the other party knew about the debtor's intention to discriminate. If the other party was not aware but should have been aware of the debtor's intention to discriminate its creditors the period is shortened to two years prior to the opening of the insolvency proceedings. If the legal act was concluded with or for the benefit of a close relative (relatives, in-laws) the burden of proof regarding the knowledge of the intention to discriminate is shifted to the relative, i.e. the relative must prove that he or she had no knowledge and was not negligent in having no knowledge respectively. Should the debtor be a legal entity capable of being a party in a lawsuit then members of the managerial and supervisory bodies, shareholders with unlimited liability as well as shareholders pursuant to section 5 of the Austrian Equity Subordination Act (*Eigenkapitalersatzgesetz*) (*i.e.*, in particular shareholders controlling the debtor or holding a stake of at least 25% or other persons not being a shareholder and exercising a dominant influence like a majority shareholder) are deemed to be close relatives. The same applies to persons which were a "relative" in the year preceding the opening of insolvency proceedings.
- Avoidance due to squandering of assets (*Anfechtung wegen Vermögensverschleuderung*): Avoidance may apply to certain contracts, including purchase, supply and exchange contracts, entered into by the debtor that are considered a squandering of assets at the expense of other creditors, if the counterparty to the contract had or should have knowledge of such squandering. Squandering of assets is assumed if an obvious incongruity exists between performance and consideration. Section 28 no 4 of the Austrian Insolvency Code applies to transactions that took place within one year prior to the opening of insolvency proceedings.
- Avoidance of transactions with no consideration and analogous transactions (*Anfechtung wegen unentgeltlicher und ihnen gleichgestellter Verfügungen*): Dispositions of the debtor that were concluded free of charge or are equivalent to such dispositions may be challenged. A disposition free of charge requires that the disposing person acts with the intention not to receive any consideration in return. The disposition amounts to a sacrifice by the debtor. Examples for such dispositions are: donations, acknowledgement of a debt, security for liabilities, and payment of someone else's debt. Among others things, if the debtor receives an adequate consideration in return (*angemessenes Entgelt*) the disposition may not be challenged pursuant Section 29 of the Austrian Insolvency Code. Any economic benefit or interest may be qualified as a consideration. Section 29 of the Austrian Insolvency Code applies to dispositions concluded within two years prior to the opening of insolvency proceedings.
- Avoidance due to preferential treatment (*Anfechtung wegen Begünstigung*): The payment of or granting of security to a creditor (*Befriedigung oder Sicherstellung*) carried out by the insolvent debtor after its material insolvency or after filing an application for the opening of insolvency proceedings or within 60 days prior to such insolvency application may be avoided if (i) the creditor obtained security or satisfaction which it was not or not in that way or at that time entitled to, unless he was not favored by this transaction (objective preferential treatment) or (ii) the transaction took place for the benefit of a close relative unless such relative did not know and should not have known the debtor's intention of the preferential treatment or (iii) the transaction took place for the benefit of any other creditor who knew or should have known about the debtor's intention of the preferential treatment (subjective preferential treatment). Material insolvency means illiquidity (*Zahlungsunfähigkeit*) or over-indebtedness in terms of insolvency law (*insolvenzrechtliche Überschuldung*). "Close relative" has the same meaning as described above regarding an avoidance due to intent to discriminate (*Anfechtung wegen Benachteiligungsabsicht*). Objective preferential treatment

does not require any subjective elements on part of the counterparty. In particular, the counterparty's knowledge of the financial state of the debtor is irrelevant. Subjective preferential treatment requires the debtor's intention and the creditor's knowledge of the debtor's intention to favor a creditor. Transactions carried out more than one year before the opening of the insolvency proceedings may not be contested pursuant to Section 30 of the Austrian Insolvency Code. In case of transactions to the benefit of close relatives, the insolvency administrator in particular benefits from certain reliefs regarding burden of proof.

- Avoidance due to knowledge of insolvency (*Anfechtung wegen Kenntnis der Zahlungsunfähigkeit*): Pursuant to Section 31 of the Austrian Insolvency Code legal acts carried out by the insolvent debtor after its material insolvency or after filing for the opening of insolvency proceedings may be challenged if the legal act (i) constitutes payment of or granting of security to a creditor (*Befriedigung oder Sicherstellung*) or (ii) is considered a disadvantageous legal act (*nachteiliges Rechtsgeschäft*). The legal act by which a creditor's claim is satisfied or secured may only be challenged if the creditor knew or was negligently not knowing of the debtor's material insolvency or pending insolvency petition. A legal act is considered disadvantageous if the chances for satisfaction of other creditor's claims are worsened due to the legal act.

  Disadvantageous transactions of the debtor concluded with creditors may be challenged if such agreements are directly disadvantageous to other creditors and the contracting partner knew or should have known of the debtor's material insolvency or pending insolvency petition.

  Disadvantageous transactions of the debtor concluded with non-creditors may be challenged if such agreements are either directly or indirectly disadvantageous to creditors, however, only if the contracting partner (i) knew or should have known of the debtor's material insolvency or pending insolvency petition and (ii) the disadvantage for the insolvency estate was objectively predictable at the time of the transaction. Such objective predictability is in particular at hand if a restructuring plan is obviously flawed (*offensichtlich untaugliches Sanierungskonzept*).

  A transaction is considered indirectly disadvantageous (*mittelbare Nachteiligkeit*) if the transaction is objectively balanced, i.e. not directly disadvantageous but the transaction nonetheless lowers the recovery rate of creditors. In case of an indirectly disadvantageous transaction the contracting partner must prove that the disadvantage to the insolvency estate was objectively unpredictable. If the contracting partner and thus beneficiary of the satisfaction/securing or disadvantageous act is a close relative, he or she must in addition prove that he or she had no knowledge of the debtor's illiquidity or insolvency petition.

  Transactions carried out more than six months before the opening of the insolvency proceedings may not be contested pursuant to Section 31 of the Austrian Insolvency Code.

In addition to a receiver avoiding transactions according to the Austrian Insolvency Code, a creditor who has obtained an enforcement order (*Vollstreckungstitel*) could possibly also avoid any transactions according to the Austrian Avoidance Act (*Anfechtungsordnung*) outside of formal insolvency proceedings. The conditions for such action vary to a certain extent from the rules described above, and the avoidance periods are calculated from the date when such other creditor exercises its rights of avoidance in the courts.

*Parallel debt*

Under Austrian law, certain accessory security interests such as pledges require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The Holders will not be party to the security documents relating to the Collateral. In order for the Holders to benefit from security interests under accessory Collateral, the Security Pooling and Intercreditor Agreement provides for the creation of a parallel debt. Pursuant to the parallel debt, the General Security Trustee becomes

the holder of a claim equal to each amount payable by an obligor under the Notes and the Guarantees. The pledges governed by Austrian law will directly secure the parallel debt. The parallel debt concept as such is not known under Austrian law and a parallel debt governed by a foreign law (such as UK law) has not been tested under Austrian law, and there is no certainty that it will be held enforceable under Austrian law.

*Enforcement of judgments rendered in the United States*

According to the Austrian Enforcement Code (*Exekutionsordnung*), foreign judgments are only enforceable if reciprocity is warranted by a bilateral or multilateral treaty between the countries involved or by an ordinance (*Verordnung*) of the Austrian government (in which ordinance the Austrian government confirms reciprocity). The Republic of Austria and the United States have not entered into a treaty regarding the reciprocal recognition and enforcement of judgments rendered in either court, other than arbitration awards in civil and commercial matters. There is also no applicable ordinance of the Austrian government in place. As such, the courts of Austria will not recognize and/or enforce a judgment obtained in the courts of the United States, be it a judgment rendered by a United States federal or state court. Accordingly, the subject matter upon which a judgment has been obtained in a United States federal or state court would have to be re-litigated before Austrian courts in accordance with applicable Austrian Civil Procedure Laws (*Zivilprozessverfahren*). Only after having obtained a final judgment before Austrian courts enforcement procedures can be initiated under the Austrian Enforcement Code.

***Brazil***

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral, organized under the laws of Brazil and having its headquarters in Brazil, or being a Brazilian branch of a foreign company (each a "**Brazilian Provider**"), any main insolvency proceedings shall be initiated before Brazilian courts based on agreements governed by the laws of a foreign jurisdiction, such as the Notes, provided such law does not contravene Brazilian public policy, national sovereignty and good morals, that the choice of law is admissible under Brazilian Law and that Brazilian courts can assert jurisdiction over the particular subject matters. The law that will govern such proceedings will always be Brazilian law, which imposes the fulfillment of particular requirements, as described below. Any foreign documents to be admitted before a Brazilian court must be consularized, notarized and registered before a Brazilian registry of titles and deeds and, to the extent such foreign document is not written in Portuguese, translated by a sworn translator.

Foreign judgments by non-Brazilian courts ruling upon the laws of jurisdictions other than Brazil may be enforced in Brazil without reconsideration of the merits, by ratification of those judgments by the Brazilian Superior Court of Justice ("**STJ**"). That confirmation will generally be available if the foreign judgment: (i) fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted; (ii) is issued by a competent court after proper service of process (or declaration that the defendant was *in absentia* despite the proper efforts to locate it mandated by applicable law); (iii) is final and therefore not subject to appeals; (iv) provides for the payment of a certain sum; (v) is authenticated by a Brazilian consular office in the country where the foreign judgment has been issued and accompanied by a sworn translation into Portuguese; and (vi) is not contrary to Brazilian national sovereignty, public policy and good morals. The ratification process may take on average two years to complete.

As a rule, a plaintiff (whether Brazilian or non-Brazilian) who resides or is incorporated outside Brazil, during the course of judicial litigation in Brazil (generally at the outset), must provide a bond or such other form of security accepted by local courts to secure the future payment of court costs and court-mandated legal fees whenever such plaintiff owns no property in Brazil that may ensure such payment. The acceptability of any assets provided by such a plaintiff as security is subject to the decision of the court that has jurisdiction over the matter and is based on applicable law and case law. Nevertheless, if the enforcement proceeding is launched on the

basis of a debt instrument, counterclaim or on foreign judgments that have been duly confirmed by the STJ, such plaintiff will not be required to present the security—in the first two cases, because the law specifically so stipulates, and in the latter case because the situation will encompass the enforcement of a final and non-appealable decision, which may not cause the imposition of court costs and court-mandated legal fees on the plaintiff/enforcer.

Under Brazilian regulations, Brazilian companies are not required to obtain authorization from the Brazilian Central Bank in order to make payments under guarantees in favor of foreign persons, such as the holders of the Notes and the Issuer. There is no assurance that such regulations will continue to be in force at the time the Brazilian Provider is required to perform their payment obligations under the guarantees. If these regulations are modified and an authorization from the Brazilian Central Bank is required, the Brazilian Provider would need to seek an authorization from the Brazilian Central Bank to transfer the amounts under the guarantees out of Brazil or, alternatively, make such payments with funds held by the Brazilian Provider outside Brazil. There is no assurance that such an authorization will be obtained or that such funds will be available.

*Guarantees and security interests*

Under Brazilian law, guarantees may be either personal guarantees pursuant to which all of the assets of a guarantor (except for the place of abode of an individual who is a guarantor and for as long as he/she resides in such place, with one exception to such rule) secure the relevant obligations or, *in rem* guarantees ('security' under common law) pursuant to which only certain specific assets are indicated or segregated to secure an obligation (such as mortgages, pledges and others). The validity and enforceability of guarantees and security interests granted by a Brazilian subsidiary to its parent company abroad, such as the Brazilian Provider vis-à-vis the Issuer hereunder are subject to the effect of bankruptcy, insolvency, moratorium (*recuperação judicial e extrajudicial*), *falência,* fraudulent transfer or any other law of general application limiting or affecting the enforcement of contractual or legal rights, and by the effect of general principles of Brazilian civil law, such as probity and good faith and the social function of contracts and property.

*Guarantees*

A guarantee may be granted by a Brazilian company to guarantee obligations under the Notes, and its enforcement, to the extent such guarantee is governed by a foreign law, will be subject to limitations and requirements applicable to foreign agreements as mentioned above. Furthermore, under Brazilian law, certain rights of the guarantor such as, for instance, the right to be released from a guarantee if the guaranteed obligation is deemed null or void, cannot be waived. Also, a guarantor has the right to ask that an enforcement procedure be implemented against the primary obligor, rendering its obligation subsidiary to the latter's. Those rights, however, may be waived if waived expressly by the guarantor.

*Security interest*

Brazilian law must govern security agreements in certain cases, for example, if the asset given as security is a real estate located in Brazil; a share in a company established in Brazil; a receivable governed by Brazilian law; or a movable asset under the possession of a Brazilian resident, in the case of a pledge. The formal requirements of a security interest governed by Brazilian law depend on the nature of the relevant security and on the nature of the assets being granted as security, but will generally include written form, a detailed description of the secured obligations on the security instrument and registration before a competent public registry, failing which the security interest will not produce effects before third parties and will not afford the secured obligation preference in the event of insolvency.

*Insolvency issues*

Under Brazilian Law, one will be considered bankrupt whenever: (i) one fails, without legal reason, to pay a debt which is represented by a protested enforceable instrument and which exceeds the equivalent of 40 minimum wages, the total of which equates to BRL 21,800 in September 2011; or (ii) foreclosure proceedings are pending and one does not pay, deposit or appoint sufficient assets within the requisite legal term. A debtor may also be considered bankrupt if it: (i) sells its assets in advance or resorts to ruinous or fraudulent means to make payments; (ii) performs (or tries to perform by unequivocal actions) a sham transaction or the disposal of part or all of its assets to a third party, with the objective of delaying payments or of defrauding creditors; (iii) transfers its place of business without the consent of all creditors and does not maintain sufficient assets to settle its liabilities; (iv) performs a fraudulent (sham) transaction to transfer its main place of business to evade the law or to prejudice a creditor; (v) gives or increases security for an existing debt and does not maintain sufficient free and clear assets to settle its liabilities; (vi) becomes absent without leaving any competent representative with enough resources to pay the creditors; (vii) abandons its place of business or tries to hide from its domicile, head office or main place of business; and/or (viii) fails to perform an obligation due under a court reorganization plan in a corporate restructuring procedure (akin to Chapter 11 in the U.S.).

Brazilian bankruptcy laws may be less favorable to creditors than those of certain other jurisdictions. Holders may have limited voting rights at creditors' meetings in the context of a court reorganization proceeding, as explained below. In addition, any judgment obtained in Brazilian courts in respect of any payment obligations under the guarantee would normally be expressed in the real equivalent of the foreign currency amount of such sum at the exchange rate in effect: (i) on the date of actual payment; (ii) on the date on which such judgment is rendered; or (iii) on the date on which collection or enforcement proceedings are started against a Brazilian company. In the event of bankruptcy, the Subsidiary Guarantor's obligations, including the guarantee and security interest under the Notes, which are denominated in foreign currency, will be converted into reais at the prevailing exchange rate on the date of declaration of the bankruptcy by the court.

*Fraud against creditors and legal terms of debts (termo legal) period*

Under the allegation of fraud against creditors (*fraude contra credores*), a creditor, the judicial administrator and/or the public prosecutor may challenge transactions entered into by the Brazilian Provider if there is evidence that: (i) the insolvency of the Brazilian Provider was known at the time the transaction was carried out, or should be known; and/or (ii) if the transaction was carried out with the intention of defrauding creditors, there was a fraudulent collusion between the Brazilian Provider and the third party involved in the transaction; and the transaction caused effective damage to the insolvent estate of the Brazilian Provider. In such a situation, the transaction may be declared null and void, according to the provisions of Brazilian law.

In addition to the above, the court can set aside transactions which take place up to 90 days before (as the court decides) the bankruptcy request, the judicial recovery request or the first protest against the debtor due to failure of payment. These transactions include: (i) payments of debts that were not due and payable; (ii) payments made in a way which differed from those set out in the relevant contractual agreement; and (iii) the granting of new security to existing debts. The court can also set aside, regardless of whether the debtor intended to defraud creditors or whether the third party to the transaction knew of the debtor's financial difficulties: (i) transactions for no consideration carried out within two years of the declaration of bankruptcy; (ii) the waiver of inheritance rights in general by the debtor within two years of the declaration of bankruptcy; and (iii) the sale of the debtor's business if the value of the debtor's assets is insufficient to pay its debts and the consent of unpaid creditors has not been obtained, unless they have been (judicially or extrajudicially, through a public notary) notified of the sale and have not opposed it within 30 days. Certain transactions may also be rendered null and

void if it is proven that, even though no particular debt existed at the moment when the transaction was rendered null and void, a transaction by a party virtually insolvent going forward took place and the need to have funds to cover future obligations should have been foreseen by the parties to the transaction that was rendered null and void.

*Procedural fraud*

Under the allegation of procedural fraud (*fraude à execução*), a creditor may challenge transactions entered into by the Brazilian Provider if there is evidence that, by the time the transaction took place: (i) there was a pending claim filed against the Brazilian Provider; and (ii) the transaction led the Brazilian Provider to insolvency, *i.e.*, the payment of the credit held by the creditor was put at risk due to the Brazilian Provider's lack of sufficient assets to cover the payment claimed in the claim. In such case, it is not necessary for the creditor to produce evidentiary support of the fraud (neither guilt, nor evidence of intention), which may be presumed under special circumstances. It is also not necessary for the creditor to file a separate claim against the debtor as well: the transaction will simply be disregarded by the judge in charge of the case, according to the provisions of the Brazilian Civil Procedure Code.

*Formal procedures for insolvency*

The main types of formal procedures available for companies in financial difficulties are: (i) out-of-court recovery (*recuperação extra-judicial*); (ii) judicial recovery (*recuperação judicial*); and (iii) bankruptcy (*falência*). Brazilian Bankruptcy Law provides that some credits are excluded from judicial recovery proceedings (such as State claims, especially taxes, and some fiduciary credits) and the measures (before courts or not) taken by the respective holders are not subject to staying effects.

*Out-of-court recovery*

The out-of-court recovery is a private settlement between debtors and its creditors through which they agree to new conditions for the payment of existing debts. A debt repayment plan must be drawn and proposed by the debtor and if approved by creditors representing, at least 3/5 of each class of credit, the debtor may seek the plan's homologation (ratification) in court, once so homologated, the plan shall bind all creditors from all classes contemplated in such out-of-court recovery plan (even those who did not agree with the plan and who voted against it in a meeting of creditors), except for those creditors not subject to such out-of-court recovery plan or those arising from labor and tax claims, foreign exchange agreements, credits arising from financial leases and fiduciary ownership ("**Exempted Creditors**").

Any creditor may file challenges to the plan, but no credit claims (*habilitação de crédito*).

The debtor's request for homologation of the plan will not entail the suspension of the rights, actions or enforcement proceedings of the Exempted Creditors, which will continue running against the debtor. Moreover, the ratification of such a plan does not prevent the Exempted Creditors from requesting the debtor's liquidation.

If the plan in a non-judicial corporate reorganization proceeding is rejected by creditors or not confirmed by the court, the debtor can submit a new out-of-court reorganization plan or can file for judicial recovery proceedings.

Under out-of-court proceedings, shareholders and directors keep the control and management of the company.

*Judicial recovery*

Upon the filing of a request for judicial recovery and the consequent acceptance of it by the court, certain creditors are restrained from enforcing their rights. The judicial reorganization is requested by the debtor and binds all creditors existing up to the date when the court grants the request to process a judicial recovery, even those claims not yet due, except for (i) tax and

social security credits; (ii) credits relating to forward foreign exchange agreements; and (iii) credits arising from financial leases, fiduciary ownership or transfer of property, owner or committed seller of real estate, which agreement includes a provision rendering it irrevocable and the transaction non-cancellable, and purchase agreements with provisions relating to retention of title. Brazilian Bankruptcy Law provides for a stay period of 180 days, from the court order granting the processing of the judicial recovery procedure, during which the creditors cannot bring or continue any legal or foreclosure proceedings against the debtor, except for those which relate to tax claims, employment claims, claims that have a fiduciary claim to the underlying asset, and lessors, owners or committed sellers of real estate where the relevant agreement includes an irrevocability or irreversibility clause; and claims that have retention of title clauses or are beneficiaries of forward exchange agreements (however, these creditors cannot sell or remove assets which are deemed essential for the debtor's activities during the stay period). Within 60 days of such court order, the debtor should present its reorganization plan, which should set forth in detail: (i) the reorganization measures to be undertaken; (ii) a showing of the economic viability of the plan; and (iii) an economic financial report and an assessment of the assets and liabilities of the company undergoing restructuring, prepared by a qualified professional or by a specialized company.

If the reorganization plan is accepted by creditors, the court will confirm its applicability to the company and declare that the company has the right to implement it. Nevertheless, if any creditors oppose the plan, the court will convene a creditors' assembly to deliberate and vote on the plan. After such period (180 days) without the approval of a reorganization plan, those creditors are entitled to resume their legal proceedings against the debtor (or to initiate them).

Shareholders and directors also keep the control and management of the company, but may be removed if certain requirements are met. A creditor's committee (if any) and a court-appointed administrator (*administrador judicial*) will supervise the administrators' acts in order to guarantee that they comply with the legal requirements. The commencement of judicial and out-of-court recoveries does not have the effect of terminating the company's contracts. Nevertheless, the reorganization plan can provide for the termination and/or amendment of the conditions of those contracts.

For judicial recovery and bankruptcy proceedings, the debtor must present a list of creditors, classified according to the legal standards, including (i) labor credits; (ii) Secured Credits; and (iii) unsecured credits, as each of those classes of creditor votes separately on the approval of a reorganization plan (cram-down procedures are admissible under Brazilian Bankruptcy Law: if the reorganization plan is approved by creditors representing more than half of the amount of all claims represented at the meeting, regardless of class; by two classes of creditor or one class if there are only two classes of creditor; and by more than one third of the creditors belonging to the class which rejected the plan). Creditors that were not listed by the debtor are entitled to claim for inclusion (credit qualification). Creditors that disagree with the amount or classification in the list are entitled to claim for correction (correction request). On judicial recovery, all credits should be paid as established in the approved reorganization plan.

If the plan is approved, the debtor will remain subject to the judicial reorganization arrangement for no longer than two years. During this period, the failure on the part of the debtor to comply with any obligation established under the plan will entail the transformation of the judicial reorganization into a bankruptcy proceeding. After these two years, in the event of non-performance of any obligation established under the judicial recovery plan, any creditor may file for an enforcement proceeding or for bankruptcy.

*Bankruptcy*

Once the bankruptcy claim (*pedido de falência*) is accepted and the bankruptcy decree is issued, judicial measures filed by creditors must be stayed—and any claims will be submitted to the bankruptcy judge, who has jurisdiction over the debtor assets (*juízo universal*); an exception to this is made in the case of labor and tax suits and to those in which the bankrupt entity figures

as plaintiff or co-plaintiff. When a company is bankrupt, the unmatured debts become due and payable (including those of shareholders with unlimited and joint liability), with a pro-rata deduction of interest up to the date of the bankruptcy decree, all foreign currency claims are converted into Brazilian Real (at the exchange rate prevailing on the date of the bankruptcy decree), the debtor is automatically prevented from any business activity and from managing or disposing of its assets, the court appoints a judicial administrator to administer the bankruptcy, the judicial administrator collects the debtor's property and assets and values them, and shareholders cannot sell their shareholdings or otherwise withdraw from the company. If the value of the debtor's assets is insufficient to pay creditors no interest accrues on claims (except interest on debentures and secured claims, which can be paid from the proceeds of sale of the underlying security) and agreements which the debtor has entered into with third parties do not terminate automatically. The judicial administrator may perform these agreements if certain requirements are met.

In addition, and among other duties, the judicial administrator will proceed to the collection and assessment of all assets of the debtor, including any assets in the possession of a third party by reason of a pledge or deposit, for instance. Then, the assets sale will begin, so that the amounts due by the debtor can be repaid to creditors pursuant to a mandatory priority (described below) schedule with the proceeds obtained from such sales.

For bankruptcy proceedings, there is a statutory order of preferences/privileges to be observed by the judge on the payment of the credits. Brazilian law establishes the following order: (i) claims relating to employee contracts and accidents, limited to 150 times the monthly minimum wage per employee; (ii) claims of creditors that hold *in rem* security (up to the value of the assets given as security); (iii) federal, state and municipal tax claims, excluding fines; (iv) special privileged credits; (v) general privileged credits; (vi) all other unsecured claims; (vii) contractual and public fines and penalties, including tax penalties; and (viii) claims by the debtor's shareholders and managers which do not have an employment relationship with the debtor.

Nevertheless, prior to the payment of the credits mentioned in the paragraph above, the following extrajudicial credits shall be liquidated: (i) fees payable to the judicial administrator and his assistants and labor-related claims or occupational accident claims referring to services rendered after the decree of bankruptcy; (ii) extensions of credit provided by the creditors to the bankrupt estate; (iii) expenses with schedules, management, asset realization and distribution of the proceeds, as well as court costs of the bankruptcy proceedings; (iv) court costs with respect to actions and enforcement proceedings in which the bankrupt estate is defeated; (v) obligations resulting from legal acts performed during the judicial reorganization, such as *debtor-in-possession* loans, or after the decree of bankruptcy, and taxes which become due after the decree of bankruptcy.

Under Brazilian Law, credits secured by fiduciary liens are not subject to the ordinary bankruptcy or judicial recovery proceedings. Due to the nature of the security interest created by a fiduciary security structure (the ownership of the asset is conditionally transferred to the creditor), they are deemed as an exempted credit. Therefore, they are subject to a different recovery treatment, which includes a superpriority position vis-à-vis the other creditors. As such, fiduciary creditors are not subject to judicial reorganization and bankruptcy proceedings.

Due to the special treatment given to such fiduciary credits, the number of this kind of security has substantially increased in Brazil. It is worth mentioning that, despite the above explained in respect of the special treatment given to such security, there are court decisions stating that if the asset offered as a fiduciary security is considered essential for a debtor's commercial activities, then the fiduciary lien may be disregarded aiming at protecting the entity's businesses. In this case, the creditor would be classified as an *in rem* security creditor, and so would be subject to the above mentioned sequence for credit recovery.

*Participation of noteholders in insolvency legal procedures*

Courts in Brazil have taken different approaches regarding the representation of creditors of a bond or note issuance in insolvency procedures. Some courts, especially in the state of São Paulo, have admitted the representation of the holders of notes or bonds by an agent while other have required the direct participation of the beneficial owner of the notes, sometimes even considering the relevant note as independent credit.

*Cross-border reorganization*

Brazilian law has no specific provisions on cross-border reorganization or bankruptcy proceedings. Generally foreign court decisions must be submitted to ratification before a Brazilian court (*Superior Tribunal de Justiça*) in order to become enforceable in Brazil (*homologação de sentença estrangeira*) as already explained above. Court decisions taken on foreign judicial reorganization or bankruptcy proceedings may be subject to the same proceeding, observing the proper formal and material requirements. On the other hand, it must be highlighted that Brazilian courts have exclusive jurisdiction over the reorganization and bankruptcy of Brazilian companies, which means that only partial decisions (for instance, recognition of credits) may be taken by foreign courts, and being enforced in Brazil, once duly homologated.

***France***

*Insolvency*

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of France and/or having its centre of main interests in France (each a "**French Provider**"), any main insolvency proceedings would be initiated in France. French insolvency law, which generally favors the continuation of business and employment over the payment of creditors, would then govern those proceedings.

French insolvency law provides for three preventive proceedings and two insolvency proceedings.

*Preventive proceedings*

Among the preventive proceedings are special mediation and conciliation proceedings. The main characteristics of these proceedings are that (i) they are confidential, (ii) they do not necessarily involve all of the debtor's creditors, (iii) they are informal and flexible, and (iv) no rescheduling or waiver of debt may be imposed on the creditors without their consent. A debtor may however request the court to reschedule a portion of its debts for up to two years pursuant to Article 1244-1 *et seq.* of the French Civil Code.

The purpose of special mediation (*mandat ad hoc*) is to enable a company that is not already insolvent to overcome its financial difficulties by entering into an amicable arrangement with its main creditors. A company is insolvent according to the French test of illiquidity (*cessation des paiements*) when it cannot pay its liabilities as they fall due with its immediately available assets (*i.e.*, cash and other liquid assets). The special mediation procedure is conducted by a special mediator (*mandataire ad hoc*) appointed by the competent commercial court at the request of the company. The special mediator is appointed for a (renewable) fixed period with no coercive power to constrain the parties into entering into an amicable arrangement.

Conciliation proceedings also form part of preventive proceedings. A French debtor that faces existing or foreseeable legal, economic or financial difficulties and has not been insolvent for more than 45 days may apply for conciliation proceedings (*procédure de conciliation*) with the competent French court to overcome its difficulties by entering into an amicable conciliation agreement (*accord amiable*) with its main creditors. Under the conciliation proceedings, the court will appoint a conciliator (*conciliateur*) for a period of up to four months (renewable for one month) with the duty of facilitating, through confidential negotiations, the conclusion

between the debtor and one or more of its willing creditors of a conciliation agreement resolving the debtor's difficulties (*e.g.*, through debt forgiveness, debt rescheduling and/or new loans). The management of the company remains in the hands of its chairman or board. The conciliation agreement reached between the parties during the conciliation proceedings may be either (i) recorded by the President of the commercial court at the request of all parties to the conciliation agreement (*constatation*) or (ii) formally approved by the commercial court at the request of the debtor company (*homologation*). The court approval of such a conciliation agreement will provide protection to creditors in respect of certain lender liability issues. In the absence of fraud, the conciliation agreement will not, in the event of subsequent insolvency proceedings, be void or voidable on the grounds of suspect period (see below). In addition, funds made available to the debtor company for the purposes of ensuring the continuation of the company's activities pursuant to the approved conciliation agreement (otherwise than through subscribing to a share capital increase) will benefit from a lien taking priority over most other claims in the event of subsequent safeguard, reorganization or liquidation proceedings (so-called "new money priority").

In addition, a French debtor (having more than 150 employees or an annual turnover in excess of €20 million) which (i) is already involved in current conciliation proceedings, (ii) is not insolvent, (iii) is facing legal, economic or financial difficulties which it will not be able to overcome and (iv) has drafted a plan to ensure the sustainability of the company and has obtained from its main financial creditors (financial institutions and noteholders, as the case may be) (the "**Financial Creditors**") enough support for the proposed restructuring so as to make the adoption of the plan likely, may apply for accelerated financial safeguard proceedings (*procédure de sauvegarde financière accélérée*) with the competent French court. The court will appoint a judicial administrator (*administrateur judiciaire*) (most of the time the conciliator appointed during the conciliation proceedings) who will facilitate the drawing-up and negotiations with the Financial Creditors of a safeguard plan within a period of one month (renewable for one month) from the opening of the proceedings. The approval of such a safeguard plan requires a positive vote by the Financial Creditors representing at least two thirds of the aggregate claims of those who vote. If the Financial Creditors approve the company's proposals, the court then officially approves the safeguard plan and such court decision makes the plan binding on the dissenting Financial Creditors. Some of the other safeguard proceedings rules will be applicable during accelerated financial safeguard proceedings but it has to be noted that trade creditors are excluded from the proceedings and consequently they will continue to obtain payment of their debts in accordance with the terms of the existing contracts.

Finally, safeguard proceedings (*procédure de sauvegarde*) belong to the preventive proceedings. Safeguard proceedings can only be commenced at the request of companies that are not insolvent according to the French test of illiquidity (*i.e.*, unable to pay their debts as they fall due). The judgment opening the proceedings (the "**Opening Judgment**") triggers an observation period (*période d'observation*) of up to six months (renewable for another six months if needed and for a further six months in exceptional circumstances). The court will also appoint key officials: (i) one or several judicial administrators (*administrateur judiciaire*) with a duty to supervise or assist the debtor's management which remains in place, (ii) a creditors' representative (*mandataire judiciaire*), who has authority to act on behalf of and in the collective interest of creditors, and (iii) a supervisory judge (*juge commissaire*) supervising the proceedings.

Important features of the safeguard proceedings are as follows:

(a) With effect from the Opening Judgment:

- the debtor is prevented from making payments in respect of debts that arose before the Opening Judgment and debts which arise after the Opening Judgment but which are not useful to the safeguard proceedings or the observation period or in return for services provided for the debtor during this period;

- Secured Creditors of the debtor are not entitled to enforce their security interests during the observation period, and no further security may be granted over the company's assets without the prior consent of the supervisory judge;
- actions and proceedings against the debtor relating to the payment of any sum or involving the termination of any contract for a payment default, as well as actions relating to the enforcement of previously obtained judgments (voies d'exécution), are prohibited or suspended; and
- the accrual of interest is suspended, unless such interest relates to a loan agreement entered into for one year or more or to an agreement providing for a differed payment of one year or more.

(b) Notwithstanding any contractual provision to the contrary, existing agreements of the company may not be cancelled, rescinded, terminated or accelerated solely as a result of the opening of safeguard proceedings. Accordingly, events of default based on the opening of safeguard proceedings are not enforceable. The judicial administrator has the power to terminate the contract after receiving a formal notice from the other party to the contract requesting him to indicate whether he intends to continue the contract. The contract terminates upon notification of the administrator's decision to the other party or, failing any response, within one month after receipt of the formal notice. The judicial administrator also has the option of requesting the supervisory judge to terminate the agreement if the termination is necessary to the continuation of the debtor's business and does not excessively prejudice the other party's rights. The judicial administrator may only continue ongoing contracts if he believes that the company is in a position to perform its obligations thereunder. Any agreement not terminated by the administrator, and not terminated prior to the Opening Judgment, is continued in accordance with its terms. Failing to do so, the parties may terminate the agreement in accordance with the terms and conditions thereof.

(c) During the observation period, the debtor draws up a safeguard plan with the help of the judicial administrator. Such plan provides for waivers (partial or total) of debts and/or rescheduling of debts, a change of control (*i.e.*, a total sale of the debtor company's business) and/or a sale of certain business units. For companies having more than 150 employees and an annual turnover in excess of €20 million, the judicial administrator is required to organize two creditors' committees (being the credit institutions' committee (*comité des établissements de crédits*) and the main suppliers' committee (*comité des principaux fournisseurs*)) for the purposes of negotiating on the safeguard plan. The approval of the safeguard plan requires, with respect to each committee and to the general meeting of noteholders (if any), a positive vote by their members representing at least two thirds of the aggregate claims of those who vote. If both committees and the general meeting of noteholders approve the company's proposals, the court then officially approves the safeguard plan if it is found compatible with the interests of all the company's creditors. Such court decision makes the plan binding on the dissenting members of the committees and noteholders. Creditors which are not members of the creditors' committees are consulted individually. If one or more creditors' committees do not approve the proposed plan, a new plan is drafted and submitted to all of the creditors' approval on an individual basis. The court may impose delays of repayment for up to ten years for creditors refusing the plan or who have not been consulted on such plan.

In the event that the court does not approve a plan by the end of the observation period, and if the court refuses to extend it (or the maximum possible period, following extensions, has elapsed), the court may commence reorganization or liquidation proceedings if the company is in cessation of payments *(cessation des paiements)* or no recovery of the business is possible.

*Insolvency proceedings*

Unless conciliation proceedings are pending, the management of an insolvent debtor must file a request for the commencement of either reorganization or liquidation proceedings (if there are no prospects of recovery) with the relevant court within 45 days from the date on which the company became insolvent. A petition for the commencement of either reorganization or liquidation proceedings may also be filed by any unpaid creditor, or the public prosecutor or decided by the court on its own motion. The court will order either the commencement of:

- reorganization proceedings (*redressement judiciaire*), if there are prospects that the debtor's business may be reorganized; or
- judicial liquidation (*liquidation judiciaire*), if there are no such prospects.

Reorganization proceedings are available to businesses which are insolvent, but appear viable. Most of the organizational provisions of the safeguard proceedings apply to the reorganization procedure. When opening reorganization proceedings, the court will open a two-month observation period which can be renewed for up to 18 months. During the observation period, the company carries on with its existing management and with the assistance of the court-appointed judicial administrator (except in rarer cases where the management has been grossly negligent).

The Opening Judgment has substantially the same effects as in safeguard proceedings. As in safeguard proceedings, the administrator has the power to determine whether ongoing contracts should be terminated or continued if put on notice by the debtor's co-contracting party. At the end of the observation period (or any time during such period if the reorganization of the company's business appears impossible), the court may (a) approve a continuation plan (*plan de redressement*), (b) approve a sale of the debtor's business to a third party, either in full or in part through a sale plan (*plan de cession*), or (c) order the commencement of liquidation proceedings.

Where there are no prospects of recovery, the court orders the commencement of liquidation proceedings (*liquidation judiciaire*), and appoints a liquidator to take over the administration of the debtor's estate and dispose of its assets to pay off its creditors (if the court has ordered the commencement of reorganization proceedings first, in which case the creditors' representative (*mandataire judiciaire*) becomes a liquidator). On the date of the Opening Judgment, the company immediately ceases trading. However, where the assets of the company may be sold as a going concern the court may authorize the temporary continuation of the company's operations for up to three months (renewable once). As in safeguard and reorganization proceedings, the Opening Judgment imposes a stay of certain payments and proceedings. In addition, all debts of the insolvent company become immediately due on the date of the Opening Judgment (or at the end of the temporary continuation of the business, if any). Assets are sold either (i) separately, by auction or private sale, as deemed appropriate by the court, or (ii) as part of a sale of the debtor's business in the framework of a sale plan, in each case with a view to maximizing proceeds.

*Suspect period*

Where a debtor company is placed in reorganization or liquidation proceedings, the court has the power to set aside certain acts and payments made by the debtor during the suspect period (*période suspecte*), such period being defined as the period (up to eighteen months or twenty-four months for gratuitous acts) between the date on which the debtor is deemed to have become in a state of cessation of payments *(cessation des paiements)* and the Opening Judgment. Some acts are automatically set aside when they were made during the suspect period. These acts include, among others, unbalanced contracts, granting of new securities to secure previously incurred debts, gratuitous acts transferring the debtor's movable assets or immovable property, payment of a debt before its due date, stock options and payment of overdue debts made otherwise than in cash, bills of exchange, securities, wire transfer, Dailly

assignment, or any other usual means of payment in business relationships. In addition, the court has discretion to set aside any transaction entered into, or any payment of a due debt made by, the debtor if (i) such act or payment was done or made during the suspect period and (ii) the other party knew that the debtor was already insolvent when it made the payment or entered into the transaction.

*Statement of claims*

Creditors (other than employees) are required to submit, within two months of the publication of the Opening Judgment in the official gazette for civil and commercial matters (*BODACC*) (four months for non-French-resident creditors), a declaration of their claims to the court-appointed creditors' representative regarding debts that arose before the commencement of safeguard, reorganization or liquidation proceedings and debts which arise after the commencement of safeguard, reorganization or liquidation proceedings but which are not linked to the debtor's business or useful to the proceedings. Failure to submit the declaration of claim within the allotted time will deprive the creditors of the benefit of payments made by the debtor in accordance with the relevant plan.

*Ranking of creditors on insolvency proceedings*

Where, in the context of reorganization proceedings, the assets of the debtor are sold under a sale plan, creditors are paid out of the proceeds of such sale in accordance with the following ranking:

- the "super privileged" claims of employees;
- certain legal fees and expenses of the proceedings;
- claims secured by the so-called "new money priority" granted under a prior conciliation agreement approved (*homologué*) by the court;
- claims that arose after the Opening Judgment and which are useful to the proceedings or the observation period or in return for services provided to the debtor during this period;
- claims secured by security interests over real estate properties and special security interests over movable properties; and
- other claims, according to existing priorities.

In the context of liquidation proceedings, creditors are paid out of the proceeds of the sales of assets according to the following ranking:

- the "super privileged" claims of employees (covering the unpaid sums for the last 60 days of work, subject to certain caps);
- the legal fees and expenses of the proceedings; and
- claims secured by the so-called "new money priority" granted under a prior conciliation agreement approved (*homologué*) by the court;
- claims secured by security interests over real estate properties and special security interests over movable properties;
- claims that arose after the Opening Judgment and which are useful to the proceedings, the temporary continuation of the activity, or the observation period (in case of safeguard or reorganization proceedings previously opened) or in return for services provided to the debtor during this period or continuation of the activity; and
- other claims, according to existing priorities.

*Extension of insolvency*

A Court may extend the insolvency proceedings of one company to another, even when the second company is not in a situation of cessation of payment (*cessation des paiements*), in the case of (a) commingling of assets and liabilities between the companies (*confusion des patrimoines*) and (b) the fictitious nature of the companies (*fictivité*).

The commingling of assets and liabilities between companies may result from a mixing (*imbrication*) of assets and liabilities arising out of a general disorder in their respective accounts, which renders the determination of the companies' respective assets and liabilities impossible, or out of financial or business relationships between the relevant companies not being at arm's length, such as transfers of assets by one company to another without proper or any consideration. In practice, there are no precise criteria by which a court may characterize the merging of assets and liabilities of two companies. Certain decisions have emphasized that insolvency proceedings of a company may only be extended to another company when the degree of inter-relationship of the aggregate assets and liabilities of the relevant companies results in their being so inextricably linked that only a professional advisor could ascertain the actual respective asset/liability situation of the relevant companies. In this respect, it should be noted that French courts usually take into account both the accounting and the legal aspects of the interrelationship between the companies. The insolvency proceedings of a company may also be extended where there are unusual transfers of assets from one company in favor of another, if it can be argued that the two companies in reality form a single entity. This would be the case, for example, where a company is set up using the assets of another company in order for the company to shield, for example, its real estate assets from its creditors or where a company pays, without receiving an apparent corporate benefit, the debts of another company.

There is no precise legal definition of the concept of what amounts to the fictitious nature of a company. It has been held to apply where a separate legal entity exists in form only. The company does not have autonomy and does not in practice exist as an independent legal entity despite the existence of an independent legal structure and its creation results from a fraudulent intent. Thus, a French court would be entitled to extend the insolvency of a company to another company on the basis of the fictitious nature of the company if, for example, the business executives were the same, the companies' names were nearly identical, the companies' registered offices were located in the same place, the companies had the same activities or interests and/or the letter-heads of the companies were identical. As far as concerns real estate transactions, the merging of assets and liabilities between companies (*confusion des patrimoines*) and the fictitious nature of a company (*fictivité*) may be interconnected issues. However, the existence of one or more of these elements does not suffice to establish systematically the fictitious nature of a company, the establishment of which depends mainly on the facts, and is considered on a case-by-case basis.

*Limitation on enforcement*

The granting of guarantees or security interests by companies that are incorporated in France to secure payment obligations under the high-yield bonds is subject to the provisions of the French Commercial Code and the French Civil Code and the limitations set forth therein.

In case of safeguard proceedings (*procédure de sauvegarde*), judicial reorganization (*redressement judiciaire*) or judicial liquidation (*liquidation judiciaire*), guarantees, security interests and any other credit support whatsoever granted by a French company to secure the amounts made available to it could be null and void or reduced if found to be disproportionate to the said amounts. As these provisions have come into force recently, it is difficult to predict what a court would consider as being disproportionate credit support; however, it will presumably take into account whether the terms and conditions are customary for the type of transaction considered in light of market practices, and whether they are consistent with the financial capacities of the company.

The assets of a French company shall not be used in a manner detrimental to its corporate interest; consequently, the granting of upstream or lateral guarantees or security may constitute misuse of corporate assets of the relevant company (either stock companies or civil companies). In such context, there is a significant risk that the guarantee or the relevant security interests will be held invalid on the grounds that they were granted for an illicit consideration.

Accordingly, the guarantee or security interest granted by any French company to secure payment obligations under the Notes will be limited as follows under the limitation guarantee provisions relating thereto:

- the guarantee or security interest shall be in the overall interest of the group to which the French Provider belongs and shall not cover any obligations which if incurred would constitute a misuse of corporate assets within the meaning of article L. 242-6 of the French Commercial Code; and
- the guarantee or security interest of any French Provider covering the payment obligations of any company which is not a direct or indirect subsidiary (within the meaning of article L. 233-3 of the French Commercial Code) of such French Provider shall be limited to an amount not exceeding, at the time of the demand of payment under the guarantee or enforcement of the security interest, the aggregate outstanding amount of any inter-company loans (or other inter-company financial support in any form duly documented) made available from time to time to the relevant French Provider by such company under the Notes, it being specified that any payment made by the relevant French Provider in respect of the obligations of such company shall reduce, pro tanto, the outstanding amount in the inter-company loans due by the relevant French Provider under the inter-company loans referred to above; and
- the guarantee of a security interest shall be limited to the extent required by applicable law to the amount that the relevant French Provider can pay without exceeding its financial capacity or otherwise resulting in insolvency of the relevant French Provider as of the date the guarantee or security interest is granted or, if later further amended, restated, or reaffirmed, as of such later date.

*Limitation on enforceability of a Foreign judgment, choice of law*

Under French private international law, the choice of the laws of New York to govern the Notes and the Note Guarantees will not be upheld in any action or proceeding before a competent French court as a valid choice of law in the event that the relevant content of the laws of New York is not duly proved in any such proceeding and that the provisions of such laws invoked against it are considered by the French court to be contrary to *ordre public international français* (French international public policy doctrine as applied in private international matters) and French *lois de police* (mandatory rules of territorial application) (collectively, the "**French International Public Policy**"). In addition, the submission of any French Provider to the jurisdiction of the courts of New York is subject to the rules governing international *lis alibi pendens* under French private international law and the exclusive jurisdiction attributed to certain courts in relation to certain actions.

The French International Public Policy is clearly recognized as being narrower in scope and content than public policy as applied in domestic matters; its scope and content are not precisely or exhaustively defined under French law and are determined by French courts on a case-by-case basis taking into account the specific circumstances of each case. In addition, French International Public Policy may vary with time and the rules of French International Public Policy applied by a French court will be those determined by such court to be applicable at the time of its decision.

It should be further specified that:

- in the event that a French Provider is the subject of conciliation or appointment of a *mandataire ad hoc, sauvegarde* (safeguard), *redressement judiciaire* (bankruptcy administration) or *liquidation judiciaire* (liquidation) proceedings or any other French

insolvency-related proceedings, French law will (except in very limited circumstances) govern such proceedings and the rights and duties arising therefrom, in particular the limitations imposed on the rights of creditors as a result of such proceedings, and the competent French court will not recognize the jurisdiction of any foreign court in respect of such proceedings;

- when required to apply or analyze a foreign law in respect of any legal or contractual relationship, concept or mechanism, a French court will:

  I treat the relevant aspects of such foreign law as a factual matter the substance of which the relevant party or parties will be required to prove, in practice through written evidence (*e.g.*, through the submission of affidavits (*certificats de coutume*) of reputable jurists qualified in the foreign law concerned); and

  II apply the foreign law only to the extent that it does not conflict with French International Public Policy; and

- notwithstanding the choice of a foreign law to govern the Notes and the submission to the jurisdiction of any foreign courts, any enforcement against any of the French Providers or its assets in France will be subject to substantive and procedural French law and to the jurisdiction of French courts.

A final judgment for the award (of a civil or commercial nature) of a fixed and definite sum of money obtained after service of process in the required form and rendered against any of the French Providers by a court of competent jurisdiction in Germany (an "**EU Foreign Judgment**"), should be capable of recognition and enforcement in France, without a review of the substantive matters thereby adjudicated, through an action for Exequatur brought before the competent French court (subject to appeal against the Exequatur order itself, again without a review of the substantive matters adjudicated by the EU Foreign Judgment), (a) subject to and in accordance with the rules governing international *lis alibi pendens* in accordance with the provisions of European law pertaining to the recognition of judgments within the European Union member States (namely European Regulation no. 44/2001 of December 22, 2000) and (b) provided that:

- the procedure followed by the court that rendered the EU Foreign Judgment does not conflict with the French International Public Policy; and

- the EU Foreign Judgment does not conflict with French International Public Policy, is not tainted with fraud and is not incompatible with an earlier judgment rendered by a French court in the same matter.

Different rules would apply to the enforcement in France of a judgment rendered in the United States since the United States and France are not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters.

Accordingly, a judgment rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon U.S. federal or state securities laws, enforceable in the United States, would not directly be recognized or enforceable in France. A party in whose favor such judgment was rendered could initiate enforcement proceedings (*exequatur*) in France before the relevant civil court (*Tribunal de Grande Instance*).

Enforcement in France of such U.S. judgment could be obtained following proper (i.e., *non-ex parte*) proceedings if the civil court is satisfied that the following conditions have been met (which conditions, under prevailing French case law, do not include a review by the French court of the merits of the foreign judgment):

- the dispute is clearly connected to the country in which the judgment was rendered (U.S.) and the French courts did not have exclusive jurisdiction over the matter;

- such U.S. judgment does not contravene French International Public Policy rules, both pertaining to the merits and to the procedure of the case;

- such U.S. judgment is not tainted with fraud; and
- such U.S. judgment does not conflict with a French judgment or a foreign judgment which has become effective in France and there are no proceedings pending before French courts at the time enforcement of the judgment is sought and having the same or similar subject matter as such U.S. judgment.

Furthermore, if an original action is brought in France, French courts may refuse to apply the designated law if its application contravenes French public policy. Further, in an action brought in France on the basis of U.S. federal or state securities laws, French courts may not have the requisite power to grant all the remedies sought.

In addition, the discovery process under actions filed in the United States could be adversely affected under certain circumstances by French criminal law No. 68-678 of July 26, 1968, as modified by French law No. 80-538 of July 16, 1980 (relating to communication of documents and information of an economic, commercial, industrial, financial, or technical nature to foreign authorities or persons), which could prohibit or restrict obtaining evidence in France or from French persons in connection with a judicial or administrative U.S. action.

***Germany***

*Insolvency*

In the event of insolvency of a Subsidiary Guarantor, a provider of Collateral organized under the laws of Germany and/or having its centre of main interests in Germany (other than the Parent Guarantor) (together, the "**German Subsidiary Providers**") or the Parent Guarantor subject to the statements made above under the heading "European Union," any main insolvency proceedings would most likely be initiated in Germany. Such proceedings would then be governed by German law. The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzordnung*) may not be as favorable to creditors as the insolvency laws of other jurisdictions, including, *inter alia,* in respect of priority of creditors, the ability to obtain post-petition interest as well as security interests and the duration of the insolvency proceedings, and hence may limit the ability of creditors to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Germany.

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court *ex officio,* but require that the debtor and/or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be initiated either by the debtor or by a creditor in the event of over-indebtedness (*Überschuldung*) of the debtor or in the event of illiquidity (*Zahlungsunfähigkeit*), meaning that the debtor is unable to pay its debts as and when they fall due. According to a recent amendment to the German Insolvency Code, which will apply until December 31, 2013, a debtor is not considered over-indebted when its liabilities exceed the value of its assets if, given the circumstances, it is more likely than not that the debtor's business can survive as a going concern. According to the relevant provision applying as from January 1, 2014, over-indebtedness exists when the debtor's liabilities exceed the value of its assets, which must be assessed on the basis of an over-indebtedness balance sheet (*Überschuldungsstatus*) to be drawn up either (i) on the basis of the liquidation value of the debtor or (ii) based upon the going-concern value if a continuation of the business is more likely than not. If a limited liability company (*Gesellschaft mit beschränkter Haftung*), a stock corporation (*Aktiengesellschaft—AG*), a European law stock corporation based in Germany (*Societas Europaea—SE*), any other limited liability company or any company not having an individual as personally liable shareholder finds itself in a situation of illiquidity and/or over-indebtedness, the managing directors of such company are obliged to file for insolvency without delay but not later than three weeks after such illiquidity and/or over-indebtedness was established. In addition, only the debtor can file for the opening of insolvency proceedings in case of impending illiquidity (*drohende Zahlungsunfähigkeit*), if there is the imminent risk for

the company of being unable to pay its debts as and when they fall due, whereas impending illiquidity does not give rise to an obligation for the management of the debtor to file for insolvency proceedings.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the insolvency court may take preliminary protective measures to secure the property of the debtor during the preliminary proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor's assets during these preliminary proceedings as far as these protective measures are reasonable to protect the debtor's assets and/or to ensure the continuation of the debtor's business.

As part of such protective measures the court may appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*). The rights and duties of the preliminary administrator depend on the decision of the court. The duties of the preliminary administrator may be, in particular, to safeguard and to preserve the debtor's property and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings. Depending on the decision of the court, even the right to manage and dispose of the business and assets of the debtor may pass to the preliminary insolvency administrator.

During preliminary proceedings a "preliminary creditors' committee" (*vorläufiger Gläubigerausschuss*) can be set up if the debtor satisfies two of the following three requirements: a balance sheet total in excess of €4,840,000 (after deducting an equity shortfall if the debtor is over indebted), revenues of at least €9,680,000 in the twelve months prior to the last balance sheet date and/or fifty or more employees. The preliminary creditors' committee will be able to participate in certain important insolvency court decisions. It will have, for example, the power to influence the following: the selection of a preliminary insolvency administrator or an insolvency administrator (*vorläufige Insolvenzverwalter and Insolvenzverwalter*), orders for "debtor in possession" proceedings (*Anordnung der Eigenverwaltung*), and appointments of preliminary trustees (*Sachwalter*).

The court orders the opening (*Eröffnungsbeschluss*) of main insolvency proceedings (*eröffnetes Insolvenzverfahren*) if certain requirements are met, in particular if (i) the debtor is in a situation of impending illiquidity (if the petition has been filed by the debtor) or illiquidity and/or over-indebted and (ii) there are sufficient assets to cover at least the cost of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient, the insolvency court will only open main insolvency proceedings if third parties, for instance creditors, advance the costs themselves. In the absence of such advancement, the petition for opening of insolvency proceedings will usually be refused for insufficiency of assets.

Upon the opening of main insolvency proceedings, the right to manage and dispose of the business and assets of the debtor passes to the insolvency administrator (*Insolvenzverwalter*), who is appointed by the insolvency court unless debtor-in-possession (*Eigenverwaltung*) is ordered. In addition, the insolvency administrator may raise new financial indebtedness and incur other liabilities to continue the debtor's operations and satisfaction of these liabilities as preferential debts of the estate (*Masseschulden*) will be preferred to any insolvency claims of unsecured creditors (this also includes such portion of a, *in rem,* Secured Creditor's claim which exceeds the amount obtained through a disposal of the relevant collateral).

All creditors, whether secured or unsecured (unless they have a right to separate an asset from the insolvency estate (*Aussonderungsrecht*)), wishing to assert claims against the debtor in person need to participate in the insolvency proceedings. German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in the insolvency proceedings separately, but can instead only enforce them in compliance with the restrictions of the German Insolvency Act. Any judicial enforcement action brought against the debtor by any of its creditors is subject to an automatic stay once insolvency proceedings have been opened (and, if so ordered by a court, also between the time when an insolvency petition is filed and the time when insolvency proceedings commence). If, during the final

month preceding the date of filing for insolvency proceedings, a creditor acquires through execution (*i.e.*, attachment) a security interest in part of the debtor's property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon opening of the insolvency proceedings. Accordingly, unsecured creditors may file their claims in the insolvency proceedings and will be paid on a *pro rata* basis from the insolvency estate (to the extent sufficient assets are available). Secured Creditors are not entitled to enforce their security interests after an insolvency petition has been filed to the extent the Insolvency Code authorizes the insolvency administrator to dispose of the relevant collateral (though, between the time when an insolvency petition is filed and the time when insolvency proceedings comments, such stay on enforcement requires a court order) but have only certain preferential rights (*Absonderungsrechte*) in the insolvency proceedings. Whether or not, after the initiation of insolvency proceedings, a Secured Creditor remains entitled to enforce security granted to it by the relevant debtor depends on the type of security. However, even if the law vests the right of disposal regarding the relevant collateral in the insolvency administrator, the insolvent Secured Creditor retains a right of preferred satisfaction with regard to the disposal proceeds. As a consequence, the enforcement proceeds minus certain contributory charges for (i) assessing the value of the secured assets and (ii) realizing the secured assets are paid to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims.

Remaining amounts ("excess proceeds") are distributed among the unsecured creditors. If the Parent Guarantor or a German Subsidiary Provider grants security over its assets to other creditors than Holders, such security may result in a preferred satisfaction of such other creditors' secured claims (however, the preferential treatment would be limited to the proceeds obtained through the disposal of the relevant collateral). The excess proceeds resulting from the disposal of collateral provided to such other creditors many not be sufficient to satisfy the claims of the Holders against the Parent Guarantor under the Parent Guarantee or a German Subsidiary Guarantor under its Subsidiary Guarantee. In addition, it may take several years before proceeds from the liquidation of the insolvency estate, if any, are distributed to unsecured creditors. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and requires the consent of the debtor as well as the consent of each class of creditors in accordance with specific majority rules. Under German insolvency laws, it is possible to implement a debt-equity-swap through an insolvency plan. However, it will not be possible to force a creditor into a debt-to equity conversion if it does not consent to such debt-to-equity-swap.

If a company faces imminent illiquidity and/or over-indebtedness it may also file for preliminary "debtor in possession" proceedings. In such a case and upon request of the debtor, the court will prohibit enforcement measures (other than with respect to immoveable assets) and may implement other preliminary measures to protect the debtor from creditor enforcement actions for up to three months. During such period, the debtor shall, together with its creditors and a preliminary trustee (*vorläufiger Sachwalter*), prepare an insolvency plan which ideally will be implemented in formal "debtor in possession" proceedings (*Eigenverwaltung*) after formal insolvency proceedings have been opened.

Under German insolvency law, there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity has, from an insolvency law point of view, to be dealt with separately on an entity-by-entity basis (*i.e.*, there is no group insolvency concept under German insolvency law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather the claims of and *vis-à-vis* each entity have to be dealt with separately.

Other than secured and unsecured creditors, German insolvency law provides for certain creditors to be subordinated by law (in particular, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of funds or payment of a

consideration), while claims of a person who becomes a creditor of the insolvency estate only after the opening of insolvency proceedings generally rank senior to the claims of regular, unsecured creditors.

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings. Certain executory contracts become unenforceable at such time unless and until the insolvency administrators opts for performance.

*Limitation on enforcement*

Most of the German Subsidiary Providers are incorporated in the form of a GmbH (Limited Liability Company). Consequently, the grant of collateral (including a guarantee) by these companies is subject to certain provisions of the GmbH-Gesetz (Limited Liability Company Act).

As a general rule, sections 30 and 31 of the GmbH-Gesetz ("**Sections 30 and 31**") prohibit a GmbH from disbursing its assets to its shareholders to the extent that the amount of the GmbH's net assets (*i.e.*, assets minus liabilities and liability reserves) is already less or would fall below the amount of its stated share capital (*Stammkapital*). The granting of guarantees, share pledges and other security by a GmbH in order to guarantee or secure liabilities of a direct or indirect parent or sister company may be considered disbursements under Sections 30 and 31. Therefore, in order to enable German subsidiaries to issue guarantees or create security interests to secure liabilities of a direct or indirect parent or sister company without the risk of violating Sections 30 and 31, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries in the legal form of a GmbH or a limited liability partnership with a GmbH as its sole general partner GmbH & Co. KG incorporated or established in Germany. Pursuant to such limitation language, the beneficiaries of the guarantees or the security interests agree, subject to certain exemptions, to enforce the guarantees or the security interests against the German subsidiary only to the extent that such enforcement does not result in the GmbH's (or, in case of a GmbH & Co. KG, its general partner's) net assets falling below its stated share capital or, as the case may be, if the net assets are already below the amount of its stated share capital, to cause such amount to be further reduced. Accordingly, the security documents relating to Subsidiary Guarantees or Collateral provided by German Subsidiary Providers will contain such limitation language and the relevant Subsidiary Guarantees and Collateral will be limited in the manner described.

German capital maintenance rules are subject to ongoing court decisions. Future court rulings may further limit the access of shareholders to assets of their subsidiaries constituted in the form of a GmbH or a GmbH & Co. KG, which can negatively affect the ability of the subsidiaries to make payments on the Subsidiary Guarantees, of the secured parties to enforce the Collateral or of the beneficiaries of the Subsidiary Guarantees to enforce the Subsidiary Guarantees.

*Hardening periods and fraudulent transfer*

In the event of insolvency proceedings with respect to the Parent Guarantor or a German Subsidiary Provider governed by the insolvency laws of Germany, the Guarantee or Collateral provided by that entity could be subject to potential challenges by an insolvency administrator (*Insolvenzverwalter*) under the rules of avoidance as set out in the German Insolvency Code (*Insolvenzordnung*).

Under these rules, an insolvency administrator may challenge (*anfechten*) acts (*Rechtshandlungen*) and transactions (*Rechtsgeschäfte*) that are deemed detrimental to insolvency creditors and were effected prior to the commencement of insolvency proceedings. Such transactions can include the payment of any amounts to the Holders as well as granting them any security interest (including guarantees). The administrator's right to challenge transactions can, depending on the circumstances, extend to transactions during the ten-year period prior to the filing of the petition for commencement of insolvency proceedings. In the event such a transaction is successfully avoided, the General Security Trustee, the Continental

Shares Security Trustee and the Holders would be under an obligation to repay the amounts received or to waive the guarantee or the benefit of the security interest.

In particular, a transaction (which term includes the provision of security (including guarantees) and the repayment of debt) detrimental to the creditors of the debtor may be avoided according to the German Insolvency Act, *inter alia,* in the following cases:

- a transaction granting a creditor or enabling a creditor to obtain a security (including a guarantee) or satisfaction for a debt (*Befriedigung*) can be avoided if the transaction was effected (i) in the last three months prior to the filing of a petition for the commencement of insolvency proceedings, if at the time of the transaction the debtor was illiquid (*zahlungsunfähig, i.e.*, unable to pay its debt when due) and the creditor had knowledge thereof, or (ii) after a petition for the commencement of insolvency proceedings has been filed and the creditor had knowledge thereof or of the debtor being illiquid;
- a transaction granting a creditor or enabling a creditor to obtain a security (including a guarantee) or satisfaction for a debt to which such creditor had no right, no right at the respective time or no right as to the respective manner, can be avoided if the transaction was effected in the month prior to the filing of a petition for the commencement of insolvency proceedings or after such filing; if the transaction was effected in the second or third month prior to the filing, it can be avoided if at the time of the transaction (i) the debtor was illiquid, or (ii) the creditor knew that the transaction would be detrimental to the creditors of the debtor;
- a transaction effected by the debtor which is directly detrimental to the creditors of the debtor or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against the debtor is obtained or becomes enforceable, can be avoided if the transaction was effected (i) in the last three months prior to the filing of a petition for the commencement of insolvency proceedings against the debtor, if at the time of the transaction the debtor was illiquid and the other party to the transaction had knowledge thereof or (ii) after a petition for the commencement of insolvency proceedings has been filed against the debtor and the other party to the transaction had knowledge thereof or of the debtor being illiquid;
- a transaction whereby a debtor grants a guarantee or security interest for a third party debt might be regarded as having been granted gratuitously (*unentgeltlich*); a gratuitous transaction can be avoided if it was effected in the four years prior to the filing of a petition for the commencement of insolvency proceedings against the debtor;
- a transaction entered into by the grantor of the guarantee or security interest in the last ten years prior to the filing of a petition for commencement of insolvency proceedings or thereafter with the intent to prejudice its creditors can be avoided if the beneficiary of the transaction had knowledge of such intent at the time of the transaction;
- a transaction with respect to the claim of a shareholder for repayment of a shareholder loan (*Gesellschafterdarlehen*) or an equivalent claim can be avoided (i) in the event it provided security, if the transaction was effected in the last ten years prior to the filing of a petition for commencement of insolvency proceedings or thereafter or (ii) in the event it resulted in satisfaction, if the transaction was effected in the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter; and
- a transaction whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party can be avoided if the transaction was effected in the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter and if a shareholder of the debtor had granted security or was liable as a guarantor or surety (*Garant* or *Bürge*) (in which case the shareholder has to compensate the debtor for the amounts paid (subject to further conditions)).

In this context, "knowledge" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (*e.g.*, a subsidiary subject to the German insolvency laws) was unable to pay its debts generally as they fell due, that a petition for the opening of insolvency proceedings has been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's impending illiquidity and that the transaction prejudiced the debtor's creditors. With respect to a "related party," there is a general statutory presumption that such party had "knowledge." The term "related party" includes, subject to certain limitations, in the case of debtors that are corporate persons, members of the management or supervisory board, shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and persons who are spouses, relatives or members of the household of any of the foregoing persons.

If any of the Subsidiary Guarantees or Collateral by any of the German Subsidiary Providers were avoided or held unenforceable for any reason, a holder of the Notes would cease to have any claim or benefit in respect thereof. Any amounts received from a transaction that had been avoided would have to be repaid to the insolvent estate.

Furthermore, even in the absence of an insolvency proceeding, a third-party creditor who has obtained an enforcement order but has failed to obtain satisfaction of its enforceable claims by a levy of execution, under certain circumstances, has the right to avoid certain transactions, such as the payment of debt and the granting of security pursuant to the German Act on Avoidance (*Anfechtungsgesetz*).

In addition, under German law, a creditor who provided additional, or extended existing, funding to a debtor or obtained security from a debtor may be liable in tort if such creditor was aware of the debtor's (impending) insolvency or of circumstances indicating such debtor's (impending) insolvency at the time such funding was provided or extended or such security was granted. The German Federal Supreme Court (*Bundesgerichtshof*) held that this could be the case if, for example, the creditor was to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the debtor as the grantor of the guarantee or security was close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

*Parallel debt*

Under German law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The Holders will not be party to the security documents relating to the Collateral. In order for the Holders to benefit from security under "accessory" Collateral, the Security Pooling and Intercreditor Agreement will provide for the creation of a "parallel debt." Pursuant to the parallel debt, the General Security Trustee becomes the holder of a claim equal to each amount payable by an obligor under the Notes and the Guarantees. The pledges governed by German law will directly secure the parallel debt. The parallel debt procedure has not been tested in court under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law.

*Enforcement of US Judgements*

The Indenture and the Notes are subject to the laws of the state of New York (USA). If a judgment is obtained in a U.S. court against the Issuer or a Guarantor or a provider of Collateral, investors will need to enforce such judgment in jurisdictions where the relevant company has assets.

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability may not be enforceable, either in whole or in part, in Germany.

Notwithstanding, a final judgment for payment rendered by any federal or state court in the United States based on civil liability would generally be recognized by a German court upon all of the following:

(a) U.S. courts could take jurisdiction of the case in accordance with the principles on jurisdictional competence according to German law;

(b) the document introducing the proceedings was duly made known to the defendant in a timely manner that allowed for adequate defense;

(c) the judgment is not contrary to (i) any prior judgment which became *res judicata* rendered by a German court or (ii) any prior judgment which became *res judicata* rendered by a foreign court which is to be recognized in Germany and the procedure leading to the respective judgment is not in contradiction to any such prior judgment;

(d) the effects of its recognition will not be in conflict with material principles of German law, including, without limitation, fundamental rights under the constitution of Germany (*Grundrechte*). In this context, it should be noted that any component of a U.S. federal or state court civil judgment awarding punitive damages or any other damages which do not serve a compensatory purpose, such as treble damages, will not be enforced in Germany. They are regarded to be in conflict with material principles of German law;

(e) the reciprocity of enforcement of judgments is guaranteed; and

(f) the judgment became *res judicata* in accordance with the law of the place where it was pronounced.

Enforcement and foreclosure based on U.S. judgments may be sought against German defendants after having received an enforcement decision from a competent German court in accordance with the above principles. Subject to the foregoing, investors may be able to enforce judgments in Germany in civil and commercial matters obtained from U.S. federal or state courts. However, there can be no assurance that those judgments will be enforceable. In particular, the obligations need to be of a specific kind and type for which an enforcement procedure exists under German law. Enforcement is also subject to the effect of any applicable bankruptcy, insolvency, reorganization, liquidation, moratorium as well as other similar laws affecting creditor's rights generally.

Furthermore, German civil procedure differs substantially from U.S. civil procedure in a number of aspects. With respect to the production of evidence, for example, U.S. federal and state law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

If the party in whose favor such final judgment is rendered brings a new suit in a competent court in Germany, such party may submit to the German court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against the Company or such persons will be regarded by a German court only as evidence of the outcome of the dispute to which such judgment relates. A German court may choose to re-hear the dispute and may render a judgment not in line with the judgment rendered by a federal or state court of the United States.

***Hong Kong***

*Insolvency*

Insolvency proceedings with respect to the Subsidiary Guarantor incorporated under the laws of Hong Kong (the "**Hong Kong Guarantor**") may be commenced in Hong Kong and, if so, will, as a general rule, be based on Hong Kong insolvency laws.

Hong Kong insolvency laws are more favorable to Secured Creditors than to debtors and unsecured creditors who are afforded only limited protection from enforcement by Secured Creditors. The Hong Kong Guarantor is not a provider of any Collateral. As such, the Holders will be unsecured creditors with claims ranking *pari passu* with claims of other unsecured creditors of the Hong Kong Guarantor. The sole shareholder of the Hong Kong Guarantor has granted a charge over the shares of the Hong Kong Guarantor in favor of the General SecurityTrustee.

*Priority of claims in a Hong Kong liquidation*

In the event of a liquidation under Hong Kong law of the Hong Kong Guarantor, assets securing indebtedness may only be used to satisfy the liabilities of the Hong Kong Guarantor to its unsecured creditors after payment of all relevant secured indebtedness and after payment of all claims entitled to priority under Hong Kong insolvency law. Currently, these debts entitled to priority may include (a) certain amounts owed to the Government (including any applicable taxes), and (b) certain amounts owed to employees (which also have priority ahead of a floating charge). Further, all expenses (including the liquidator's remuneration) properly incurred in a winding up are also payable out of the company's assets in priority to all other claims.

Any interest accruing under or with respect to amounts due under the guarantee to which the Hong Kong Guarantor is a party with respect to any period after the commencement of liquidation proceedings would only be recoverable by the Holders from any surplus remaining after payment of all other debts proved in the proceedings and accrued and unpaid interest up to the date of the commencement of the proceedings.

Under Hong Kong insolvency law, any payment or other act relating to property made or done by a company within six months or two years in the event of transactions entered into with an "associate" (as defined in the Bankruptcy Ordinance (Cap. 6 of the laws of Hong Kong)) before the commencement of its winding up is invalid if the insolvent company in making that payment or doing that act did so with a view to giving a creditor an unfair preference. An unfair preference is given by a company to a person if it has the effect of putting a creditor, guarantor or surety of the company in a better position (in the event of the company going into insolvent liquidation) than if the action had not been taken. In order for an unfair preference claim to be successful, it must be shown that the company was influenced by a desire to produce that result and provided that, at the time or as a result of the preference, the company was unable to pay its debts. There is a presumption of such influence if the parties are "associates."

A floating charge on the undertaking or property of a company may be invalid if created in the period of twelve months ending with the presentation of a winding up petition of the company, unless it is proved that the company immediately after the creation of the charge was solvent, except to the extent of any cash paid to the company at the time of or subsequently to the creation of, and in consideration for, the charge (together with interest on such amount at the rate specified in the charge or at the rate of 12% per annum, whichever is less).

*Service of process and enforcement of judgments*

As there is no agreement for the reciprocal enforcement of judgments between Hong Kong and the United States, a judgment of the courts of the United States rendered in an action brought in such courts can only be enforced in Hong Kong by commencing a new action in the Hong Kong courts. However, provided the judgment of the courts of the United States is final

and conclusive (even if it can still be appealed) and is for a definite monetary sum the judgment would form the basis of a claim in respect of which an application for summary judgment could be made on the grounds that there was no defense to the claim. Accordingly, a final and conclusive judgment for a definite sum of money entered by a United States court in any suit, action or proceeding would be enforced by the Hong Kong courts, without re-examination or re-litigation of the matters adjudicated upon, provided that:

- the judgment was not obtained by fraud;
- the enforcement of the judgment would not be contrary to Hong Kong public policy;
- the judgment was not obtained in proceedings contrary to natural justice (in particular in circumstances where the defendant did not have adequate opportunity to defend the claim);
- the judgment is not inconsistent with a Hong Kong judgment in respect of the same matter;
- the judgment is not for multiple or penalty damages (as defined by the Protection of Trading Interests Ordinance (Cap. 471 of the laws of Hong Kong));
- enforcement proceedings are instituted within six years after the date of the judgment;
- the United States Court was a court of competent jurisdiction as a matter of Hong Kong law; and
- the original judgment was between the same parties as those before the Hong Kong court.

A judgment of a Hong Kong court will generally be given in the currency in which the claim is made but may be given in Hong Kong dollars in some cases. Subject to the foregoing, holders of the notes may be able to enforce judgments in Hong Kong, in civil and commercial matters, obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In particular, a Hong Kong court may decline to enforce those judgments if the Hong Kong court believed there was an insufficient connection between Hong Kong and the original dispute or if it considered that it would be contrary to Hong Kong public policy to do so.

***Hungary***

*Insolvency*

In the event of insolvency (*fizetésképtelenség*) of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Hungary and/or having its center of main interests in Hungary (each a "**Hungarian Provider**"), any main insolvency proceedings shall be initiated in Hungary before the county court (*törvényszék*) of competence based on the registered seat of the Hungarian debtor as of the date of submission of the insolvency petition. Hungarian law would then govern those proceedings. The insolvency proceedings cover two main proceedings: the bankruptcy proceeding (*csödeljárás*) and the liquidation proceeding (*felszámolási eljárás*). The bankruptcy proceeding has the aim of reorganizing business associations facing insolvency by way of composition with the creditors, and if it is not possible or not wanted, the liquidation proceeding aims to provide possible satisfaction (payment) to the creditors upon the dissolution and termination of the insolvent debtor. The insolvency laws of Hungary are mainly covered by the provisions of Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings ("**Hungarian Bankruptcy Act**").

The following is a brief description of certain aspects of the insolvency laws of Hungary.

Under Hungarian insolvency law, a bankruptcy proceeding may be initiated by the debtor company at the competent court. Legal representation of the debtor company is mandatory during the procedure. The prior consent of the members' (shareholders') meeting of the debtor company to the initiation of bankruptcy proceeding is required.

In the framework of the bankruptcy proceeding the debtor receives a payment moratorium the objective of which is to preserve the assets under bankruptcy protection with a view to reaching

a composition with creditors, during which period the debtor, the administrator (*vagyonfelügyelö*), the financial institutions maintaining the accounts of the debtor and creditors must refrain from taking any measure contradictory to the objective of the payment moratorium. During the payment moratorium (i) no claims may be set off against the debtor company (save for a claim submitted for the purpose of set-off until the commencement date of the bankruptcy proceeding in a lawsuit initiated by the debtor), (ii) no payment order can be processed on the accounts of the debtor company (save for certain exceptions, e.g. salaries, social security taxes, utility charges, costs of the administrator), (iii) no enforcement of payment obligations can be made, (iv) no satisfaction may be provided in connection with any pledge existing on the debtor's asset and no security that existed before the time of the opening of bankruptcy proceedings can be enforced, (v) the debtor company may undertake new obligations and make payments only with the approval of the administrator, and (vi) the agreement entered into with the debtor may not be rescinded or cancelled with reference to a payment default during the moratorium or because of the commencement of bankruptcy proceeding by the debtor company. As an exception to the freeze on security interests, the satisfaction from security deposit provided before the opening of bankruptcy proceedings and the application of close-out netting is permitted if either party is (a) a public sector body (within the meaning of EC Directive 2002/47), (b) the central bank of an EEA state, the European Central Bank or the Bank for International Settlements, (c) a credit institution, (d) an investment enterprise, (e) a financial enterprise, (f) an insurance company, (g) an undertaking for collective investment in transferable securities (within the meaning of EC Directive 85/611) or a company that manages the undertaking, or (h) a central counterparty, settlement agent or clearing house (within the meaning of EC Directive 2002/47), provided that entities listed in points (c)-(h) have their registered seat in an EEA state.

Under Hungarian insolvency law, a liquidation proceeding may be initiated (i) upon request by the debtor, the creditor or the receiver (*végelszámoló*), or (ii) *ex officio* (a) on the basis of a notification by the competent court of registration (*e.g.*, if the court of registration initiated the liquidation of the company), or (b) on the basis of a notification by the criminal court (if the enforcement procedure for the collection of a fine imposed upon a legal person has failed), or (c) if the parties did not manage to reach a composition during the bankruptcy proceedings or the composition is not in line with the laws of Hungary. The debtor may only request the opening of liquidation proceedings if it is (i) unable (*e.g.*, creditors' claims existed at the opening of, or arose during, a former bankruptcy proceeding have not been fully satisfied yet), or (ii) unwilling, to enter into bankruptcy proceedings.

The liquidation proceedings are controlled by the competent county court having jurisdiction based on the registered seat of the Hungarian debtor which monitors the due performance of the proceedings. The creditor may, simultaneously with the submission of the liquidation petition or anytime before the commencement of the liquidation, request the court to appoint a temporary administrator (*ideiglenes vagyonfelügyelö*) as a preliminary protective measure to secure the property of the debtor. The court must appoint the temporary administrator without delay if the creditor (i) is able to provide plausible grounds that the satisfaction of its claims at a later date is in jeopardy, (ii) can evidence the existence, the amount and the expiry of its claim in the form of a public deed (*közokirat*) or a private deed with full probative force (*teljes bizonyító erejü magánokirat*), and (iii) has advanced the fee of the temporary administrator. The duty of the temporary administrator is, in particular, to safeguard and to preserve the debtor's property and assets. Following the temporary administrator taking office, the managing director (management) of the debtor is restricted from entering into any contract considered to be in excess of the scope of normal business operations, where the company's assets are concerned, without the prior consent of the temporary administrator, or from entering into any other commitment, including where the debtor is compelled to performance under an existing contract.

The court will, within 60 days of receipt of the petition for the liquidation proceedings, order the liquidation of the debtor by decree if it finds that the debtor is insolvent. The court declares

that the debtor is insolvent (i) if the debtor fails to settle or contest its previously uncontested and acknowledged contractual debts within twenty days of the due date and thereafter fails to satisfy such debt upon receipt of the creditor's written payment notice, or (ii) the debtor fails to settle its debt within the deadline specified in a final court decision and, in an order for payment, or (iii) if the enforcement procedure (to collect the debt) against the debtor was unsuccessful, or (iv) if the debtor did not fulfill its payment obligation as set forth in the composition agreement concluded either in the bankruptcy or in the liquidation proceeding, or (v) if the preceding bankruptcy proceedings were terminated because no composition agreement was reached, or (vi) if in an insolvency proceeding initiated by the debtor or by the receiver the debtor's liabilities exceeded the debtor's assets, or the debtor was unable or presumably will not be able to settle its debt (debts) on the due date, and the members (shareholders) of the debtor fail to provide a statement of commitment—following due notice—to guarantee the funds necessary to cover such debts when due. A petition for liquidation may only be submitted based on grounds mentioned in points (i) and (ii) above if the principal amount of the is more than HUF200,000 (approximately €670).

The court appoints a liquidator (*felszámoló*) in its order on the opening of liquidation proceedings. Upon the opening of the liquidation proceedings, the right to manage and dispose over the business and assets of the debtor passes to the liquidator, who has full administrative and disposal authority over the debtor's assets, and who is only authorized to make any legal statements in connection with the assets of the company.

Following the entry into force of the order on liquidation, the court orders without delay the publication thereof in the Company Gazette. All debts of the debtor company are deemed payable (due) at the time of the opening of liquidation proceedings.

All creditors wishing to assert claims against the debtor need to participate in the liquidation proceedings. Hungarian liquidation proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in proceedings, other than the liquidation proceedings, separately, but can instead only enforce them in compliance with the restrictions of the Hungarian Bankruptcy Act.

Accordingly, creditors may report their claims in the liquidation proceedings to the liquidator for purposes of registration within 40 days from the publication of the opening of liquidation proceedings (privileged creditors). The liquidator also registers the claims against the debtor which are notified after the 40 day deadline, but within 180 days of the publication of the opening of liquidation proceedings (unprivileged creditors). These claims of unprivileged creditors will only be satisfied if there are sufficient funds remaining following the settlement of the privileged debts.

Pursuant to the provisions of the Hungarian Bankruptcy Act, the liquidator disposes of the debtor's assets through public sales at the highest market price. The liquidator effects the sale by way of tender or auction within 100 days from the publication of the opening of the liquidation proceedings. The liquidator, the administrator, the temporary administrator, the owner (member, shareholder, founder), the executive officer (*vezetõ tisztségviselõ*), director (*cégvezetõ*), supervisory board member, auditor, any employee of the liquidator, the administrator, the temporary administrator, and their close relatives and companies in which any of the aforementioned have a majority influence (as set forth in the Hungarian Civil Code) may not acquire any ownership or any other rights of value (*vagyoni értékü jog*) in the above-specified sale procedure. Furthermore, the acquirer may not set off its claim against the debtor with the purchase price in the public sale procedure (subject to some exceptions).

Under special circumstances set forth in the Hungarian Bankruptcy Act, the Hungarian government may qualify a debtor as a company of strategic importance. In this case, special bankruptcy and liquidation rules will apply.

*Limitation on enforcement*

If there are liquidation proceedings in progress against the Hungarian Providers, the guarantee or any security interest provided by that entity could be subject to potential challenges by the liquidator and/or any creditor of that entity in accordance with the below rules of the Hungarian Bankruptcy Act.

The creditor, and on behalf of the debtor, the liquidator may file for legal action before the court within 90 days from the time of gaining knowledge but within a one year deadline from the date of publication of the notice of liquidation to challenge:

- contracts or the debtor's other commitments concluded by the debtor within five years preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to conceal the debtor's assets or to defraud any one creditor or the creditors, and the other party had or should have had knowledge of such intent; or
- contracts or the debtor's other commitments concluded by the debtor within two years preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to transfer the debtor's assets without any compensation (including any security interest over the debtor's assets without any compensation), or if the stipulated consideration constituted unreasonable and extensive benefits to a third party; or
- contracts or the debtor's other commitments concluded by the debtor within 90 days preceding the date when the court received the petition for opening liquidation proceedings (or concluded thereafter) with the intent to give preference and privileges to any one creditor, such as the amendment of an existing contract to the benefit of a creditor, or to provide financial security to a creditor that did not have any previously.

Furthermore, the liquidator, on behalf of the debtor, is entitled to reclaim within 90 days from the time of gaining knowledge but within a one year deadline from the date of publication of the court order ruling liquidation, any service the debtor has provided within a 60 day period preceding the date when the court received the petition for opening liquidation proceedings (or provided thereafter) if it was provided to give preference to any one creditor and if such service is not usually provided in the normal course of business. Prepayment of a debt is, in particular, considered as giving preference or privileges to a creditor.

If any of the Subsidiary Guarantees or Collateral provided by the Hungarian Providers were to be successfully challenged or ordered unenforceable for any reason, a Holder would cease to have any claim or benefit in respect thereof. Any amounts received from a transaction that was successfully challenged or ordered unenforceable would have to be repaid to the insolvent entity.

***Romania***

*Insolvency*

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Romania and/or having its center of main interests organized in Romania (each a "**Romanian Provider**"), any insolvency would most likely be initiated in Romania and be governed by Romanian law. The Romanian insolvency law would thus affect the ability of creditors to enforce the Subsidiary Guarantees and the Collateral.

In general, the Romanian legal framework regarding insolvency proceedings, in particular the Romanian Insolvency Law 85/2006, as amended (the "**Romanian Insolvency Law**"), may not be as favorable to creditors and thus may limit the ability of creditors to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. The following is a brief description of certain aspects of the insolvency law in Romania.

Similar to other jurisdictions, insolvency proceedings in Romania are not initiated by the competent insolvency court *ex officio,* but require that the debtor, a creditor or any other person/institution expressly referred to by the Romanian Insolvency Law files a petition for the opening of insolvency proceedings, under certain circumstances. The insolvency procedure may be opened by the insolvency judge, *inter alia,* upon request of: (i) the debtor which is in a situation of insolvency or imminent insolvency (please see below), or (ii) any creditor who has a certain, liquid and due claim (*datorie certă, lichidă si exigibilă*) exceeding RON 45,000 (approximately €10,500) or, respectively, the sum of six national average gross wages per employee (in case of the creditors who are employees of the insolvent company), and was not paid within 90 days as of its maturity date, in such a scenario the debtor being in a state of presumed insolvency.

Insolvency is presumed by law to be obvious (*vădită*) when the debtor has not paid its debt towards one or more creditors within 90 days as of maturity date. This is a legal presumption (*juris tantum*) which can be challenged by providing evidence to the contrary, such as the existence of sufficient funds to pay the outstanding debts. Although insolvency is presumed by law with the passing of time, this does not mean that insolvency proceedings are automatically commenced at the end of the 90 day period.

Insolvency is deemed imminent when there is evidence that the debtor will not be able to pay the outstanding debt at maturity date, due to lack of available monies.

The law provides three main stages for an insolvency proceeding, although depending on its particular situation an insolvent debtor may not pass through all such stages.

Once the judicial insolvency proceedings are commenced, usually the first phase consists of a period of observation of the debtor's business. There will be no observation period if the debtor opted directly for the commencement of the bankruptcy proceedings (*procedura falimentului*) and the judge approved such option. During the observation period the activity, prospects and financial resources of the debtor are evaluated in order to establish whether reorganization (*procedura reorganizării*) is possible or if the procedure should convert into bankruptcy whereby the debtor's activity will be stopped and all its assets will be liquidated. In case of real prospects of rehabilitation of the debtor, carefully analyzed by the involved entities, a reorganization plan is proposed, based on which the debtor should direct its activity until recovery. In case the debtor is not entitled to reorganization under the Romanian Insolvency Law, a simplified insolvency procedure shall be commenced consisting of (i) the observation period (which is optional and should not extend for more than 50 days) and (ii) the bankruptcy phase.

The implementation of the reorganization plan is the second stage in the insolvency proceedings and is of utmost importance for creditors. In case of a successful plan, the creditors may recover an amount equal or close to the full amount of their claims against the debtor.

However, in the worst-case scenario, when the reorganization plan appears not to be feasible, or when no plan is proposed and/or confirmed, the bankruptcy procedure is commenced and the level of recovery of the creditors' claims will depend on the amount obtained following the liquidation of the debtor's assets. Nevertheless, any amounts recovered by the creditors during the reorganization (*procedura reorganizării*) shall not be subject to claw-back if the bankruptcy procedure is subsequently commenced with respect to the respective debtor.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the court will decide upon opening the insolvency proceedings (the general procedure or the simplified procedure, as the case may be). The law provides very short delays for the issuance of court decisions and for the submission of appeals, but in practice it is likely that such delays will not be strictly observed.

In case the court orders the opening of insolvency proceedings, the following will result:

if the debtor has not declared its intention to be reorganized, the right to manage and dispose of the debtor's business and assets will be transferred to the judicial administrator (*administrator judiciar*) or the liquidator (*lichidator*) (depending on whether the general or the simplified procedure is initiated) who is appointed by the insolvency court; on the contrary, if the debtor declared its intention for reorganization, its right of administration will not be lifted;

- if the debtor's right of administration is lifted, the judicial administrator or the liquidator will become the legal representatives of the debtor;
- the stay of all judicial and extrajudicial procedures against the debtor or debtor's assets for the recovery of claims; the stay may, however, be lifted by the insolvency court for the benefit of the Secured Creditors, upon their request, only with respect to the assets on which a security has been created and only subject to fulfillment of certain requirements;
- the freezing of claims, in the sense that no interest, default interest, penalty or any other amount whatsoever can be added to the debts which have arisen before the commencement of insolvency procedure;
- "cherry picking" in the sense that, with a view to maximizing the debtor's estate, the judicial administrator or the liquidator (as the case may be) may terminate any contract, any unexpired lease agreement or any other long-term agreement that were not either fully or substantially performed by all parties thereto; and
- the debtor's right to perform only the acts, operations and payments that may be characterized as falling within the usual course of its business; the acts, operations and payments that may not be characterized as falling within the scope of the debtor's current business activities must be authorized either by the insolvency judge or by the judicial administrator (in the latter case only on the basis of the creditors' committee approval).

The Romanian insolvency proceedings are collective proceedings so the creditors may not individually pursue their claims against the insolvent debtor, but only within and according to the rules governing the insolvency proceedings.

All ongoing agreements are considered to be maintained by operation of law at the date when the proceedings are opened (subject to the "cherry picking" that the judicial administrator or the liquidator is entitled to after the opening of the proceedings, as mentioned above). Termination clauses included in ongoing contracts that purport to be triggered by the commencement of an insolvency procedure against a Romanian company would not be recognized under Romanian law (being null and void).

The Romanian Insolvency Law sets forth a mandatory order of distribution for the repayment of creditors' claims in case of bankruptcy. Such legal distribution order is applicable to unsecured creditors, as well as to secured creditors which are considered unsecured for the part of their claim not satisfied from the amount obtained from the sale of the asset subject to security interest. The legal waterfall established by the law is the following:

- any fees and expenses related to the insolvency procedure;
- employees' claims;
- claims resulting from (i) loans (including ancillary expenses and interest) granted after the commencement of the insolvency procedure; or (ii) the continuation of the debtor's activity after the commencement of the insolvency procedure;
- budgetary (mainly tax) claims;
- claims representing amounts owed to third parties, based on alimony obligation, or any obligations of regular payment intended to insure basic means of survival;

- (in case of debtors which are natural persons engaged in trade activities) amounts established by the judge for supporting the debtor and its family;
- claims resulting from: (i) bank loans (including ancillary expenses and interest), (ii) supply of products, services or works, and (iii) rents;
- other unsecured claims (*creanţe chirografare*); and
- subordinated claims, in the following order:
  (1) shareholder loans, in case the shareholder owns at least 10% of the debtor's share capital or of the voting rights within the debtor's general meeting of shareholders or the loans granted by a member of the group of economic interest; and
  (2) claims resulting from acts which were concluded without consideration.

Holders of personal guarantees (envisaged to be granted in favor of the Holders) would be considered unsecured creditors (*creditori chirografari*) under Romanian law and thus have an unfavorable position in the distribution waterfall.

In case of reorganization, a different order of distribution can be established under the payment schedule included in the reorganization plan. The reorganization plan may be proposed under certain specific terms either by the debtor, the judicial administrator or by one or more creditors.

Under the Romanian Insolvency Law there are no provisions regulating the group insolvency (*i.e.*, no consolidation of the assets and liabilities of a group of companies in the event of insolvency). Thus, from an insolvency point of view, in case of group companies each entity has to be dealt with separately. As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather the claims of and regarding each entity must be dealt with separately.

*Hardening periods and fraudulent transfer*

Any guarantee, indemnity, security interest and other obligation of any of the Romanian Providers is subject to the limitations arising from the laws relating to bankruptcy, insolvency and all other laws affecting the rights of creditors generally.

In particular, limitations are provided by the Romanian Insolvency Law with regards to certain acts or operations performed prior to the opening of the insolvency procedure, which may be subject to judicial scrutiny. Such acts or operations detrimental to the insolvent debtor's creditors may be annulled at the request of the insolvency practitioner (*i.e.*, the judicial administrator or the liquidator) or of the creditors' committee (if the insolvency practitioner fails to make such a request). These categories of acts include:

(a) Fraudulent acts detrimental to the creditors entered into during the three years prior to the opening of insolvency proceedings;

(b) Creating or transferring rights to third parties through:
  (1) free transfers (without any consideration) during the three years prior to the opening of insolvency proceedings, except for humanitarian sponsorships;
  (2) commercial operations during the three years prior to the opening of insolvency proceedings, whereby the debtor's obligations obviously exceed the corresponding obligations of its counterparty;
  (3) acts entered into during the three years prior to the opening of insolvency proceedings with the intention of all involved parties to remove assets from the debtor's estate and thus protect them from enforcement by the debtor's creditors or to otherwise affect the creditors' rights;

(4) transfer of ownership to a creditor for repayment of a previous debt or otherwise in the creditor's benefit, during the 120 days prior to the opening of insolvency proceedings, if the amount that the respective creditor would have been entitled to receive in case of bankruptcy is lower than the value of the transfer;

(5) early repayments of debts in the 120 days before the commencement of the insolvency procedure, if the original due date was a date after the commencement of the procedure;

(6) creating or perfecting security interests during the 120 days prior to the opening of the insolvency procedures, for a claim which otherwise would have been unsecured; or

(7) acts of transfer or undertaking of obligations by the debtor during the two years prior to the opening of the insolvency procedure, with the intention to hinder or delay the insolvency or to defraud the creditor counterparty under a derivative/netting agreement.

(c) Acts concluded within the debtor's group or with related persons, as follows:

(1) operations concluded by the debtor with a shareholder holding more than 20% of the share capital or of the voting rights;

(2) acts concluded with a director, manager or member of the supervisory board of the debtor;

(3) acts concluded with any person having a dominant position over the debtor or its activity; or

(4) acts concluded with a co-owner regarding shared property.

As of the opening of an insolvency procedure (in accordance with Romanian Insolvency Law) against a Romanian debtor, the provisions of credit agreements involving such debtor may be amended by the judicial administrator, but only with the consent of all counterparties, so as to ensure future performance based on the arm's length principle. However, if a reorganization plan is approved, the amendment of the provisions of credit agreements may be made according to special procedural rules of the Romanian Insolvency Law and may include changes not consented to by all counterparties (*i.e.*, the creditors).

If any of the guarantees or security interests created by the Romanian Providers were avoided or held unenforceable for any reason, the beneficiary thereof would cease to have any claim or benefit in respect thereof. Any amounts received by a creditor in respect of a transaction that has been avoided would have to be repaid to the insolvent estate.

*Corporate benefit, intra-group guarantees and security interests*

Enforcement of any claim may be limited and thus challenged to the extent that it was not properly approved by the competent corporate body in accordance with the legal provisions and/or limitations, procedures or mechanisms included in the constitutive documents of the respective Romanian Provider or other agreements entered into by it.

Under Romanian law, any agreement or document entered into by a company (*societate comercială*) must have the ultimate purpose of obtaining benefits for the respective company, as per its scope of activity, and no agreements with gratuitous title (donations, etc.) are permitted to be concluded by such company. Considering the rules on corporate benefit, the Romanian Providers may exercise only such rights and perform such obligations corresponding to their authorized scope of business. Further, each activity performed or agreement entered into by a Romanian Provider must be in the company's commercial interest. For the purpose of mitigating (however not eliminating) the risk that a guarantee or security given by a Romanian Provider is considered as not being beneficial to the company's activity (*i.e.*, an *ultra vires* act), specific limitation language should be included in the agreements creating the respective guarantee/security and specific confirmation of corporate benefit should be included in the corresponding Romanian Provider's corporate decisions approving the entering into of such agreements.

However, whether sufficient corporate benefit exists is a factual matter and it is possible that an insolvency or other judge would determine that the corporate benefit received by a Romanian Provider by creating such guarantee or security was insufficient.

The creation of guarantees or security interests by the Romanian Providers is subject to certain provisions of the Romanian Company Law No. 31/1990 (the "**Romanian Company Law**").

Under the Romanian Company Law, it is forbidden for certain restricted persons (such as a founder, administrator, manager or legal representative, each a "**Restricted Person**") to cause a Romanian entity to grant to the Restricted Person guarantees or security interests for securing the Restricted Person's own liabilities, if granted by:

- the Romanian entity managed by that Restricted Person;
- an entity which is controlled by the entity managed by the Restricted Person; or
- an entity which controls the entity managed by the Restricted Person.

These acts are considered criminal offences of the Restricted Persons and may be sanctioned with imprisonment of up to three years. Generally, the purpose of this legal restriction is to ensure that there is no misappropriation of corporate funds by a Restricted Person. No limitation language may cure the breach of the above mentioned provision.

*Limitation on enforcement — Security interests over shares, guarantees*

The security granted in connection with a Romanian Provider is expected to consist in Romanian law security granted over the shares in the Romanian Providers. Romanian law security interests used to be governed by Title VI of Law 99/1999, as amended (the "**Romanian Security Law**"). The new Romanian Civil Code, as amended and restated by Law 71/2011 (the "**Romanian Civil Code**") has entered into force on 1 October 2011 and has abolished the Romanian Security Law.

Pursuant to the Romanian Civil Code, security interests in the form of mortgage may be created over shares. However, the specific rules governing the creation of Romanian law mortgages over shares are those set out under separate legislation. Except for a few provisions set out by the Romanian Company Law in relation to shares in joint stock companies (which arguably only apply to shares in joint stock companies), such separate legislation has not been enacted to date. This leads to uncertainty as to the set of rules that need to be observed upon creation of a mortgage over shares in a Romanian limited liability company prior to the enactment of such separate specific legislation (e.g. only the Romanian Civil Code's general rules governing contract law or a mix of rules governing contract law and rules applicable to mortgages over movable assets under the Romanian Civil Code).

It is arguable that the perfection of mortgages over shares in Romanian limited liability companies is governed by the general rules on these matters set out by the Romanian Civil Code for all mortgages over movable assets. The priority ranking of a mortgage over movable assets is obtained as at the moment when the publicity formalities are completed, the secured obligation occurs (*ia nastere*) and the mortgagor acquires title to the mortgaged assets. Publicity formalities consist in registration of the mortgage with the Electronic Archive (*Arhiva Electronică de Garanţii Reale Mobiliare*). The mortgage over shares in a Romanian limited liability company must also be registered in the shareholders' register (*registrul asociaţilor*) held by the issuer of the mortgaged shares.

It is not clear what is the enforcement regime applicable to mortgages over shares, in particular whether, in addition to the general enforcement procedure for movable assets under the Romanian Code of Civil Procedure, the enforcement regime for mortgages over movable assets set out by the Romanian Civil Code is also available to the mortgagee under a mortgage over shares.

The enforcement regime set out by the Romanian Civil Code consists of: (i) sale; (ii) appropriation; (iii) take over the mortgaged assets for administration purposes for a given

period of time. It is designed to provide the parties with a certain degree of flexibility in setting up in the mortgage agreement the specifics of the enforcement procedure. However, the scope of parties' freedom to tailor the enforcement procedure is significantly narrowed by the Romanian Civil Code as compared to the Romanian Security Law.

The sale of the mortgaged assets may not be performed by the mortgagee unless the competent court of law approves it. The sale itself takes place out of court (unless challenges are made to the enforcement—which are settled by the competent court) and is conducted by the creditor subject to certain requirements of commercial reasonability. The selling methods may range from direct sale to a third party to sale through a public auction and from sale of standalone items to block sales.

The proceeds obtained from the sale of the mortgaged asset must be distributed in the following order:

- the payment of the reasonable expenses for the conservation, taking into possession and sale of the mortgaged asset; and
- the payment of secured obligations in their order of priority, even if such obligations are subject to a term (*termen suspensiv*) or condition (*condiţie rezolutorie*).

Any remaining surpluses will be returned to the mortgagor.

The appropriation of the mortgaged asset may only occur if the mortgagor agrees in writing to the appropriation of the mortgaged asset by the mortgagee after occurrence of a breach of secured obligations. Upon appropriation the secured obligation is extinguished in its entirety, although the value of the mortgage assets may be lower than the amount of the secured obligations.

Take over the mortgaged assets for administration purposes entails the management of the mortgaged assets to the benefit of both mortgagor and mortgagee and exposes the mortgagee to potential liability towards the mortgagor for the management activities. In addition to that, it is not entirely clear whether the take over the mortgaged assets for administration purposes is a method of enforcement or rather a temporary measure for managing the assets before effectively performing the enforcement against the mortgagor.

The enactment of the Romanian Civil Code and the changes it brings about for the enforcement of mortgages over movable assets as compared to the Romanian Security Law can affect the predictability of the foreclosure process. In addition to that, local variations may also result from the inexperience and lack of sophistication of some judges.

A part of the Romanian doctrine is of the view that a mortgage over shares in limited liability companies would be difficult to enforce in the absence of consent from all shareholders given at the time of enforcement. This is based on the provisions in the Romanian Company Law pursuant to which the transfer by a shareholder of a limited liability company of its shares to a non-shareholder is conditional upon the approval of the shareholders holding ¾ of the share capital of that limited liability company. In the absence of a legal provision to the contrary, it follows that such approval is required not only for a voluntary transfer of shares, but also for the share transfers occurring as a result of the enforcement of a mortgage over shares.

Moreover, recent amendments to the Romanian Company Law provide that the validity of the transfer of shares in limited liability companies is conditional upon the following cumulative formalities being fulfilled:

- registration with the Commercial Registry of the resolution of the shareholders' general meeting approving the share transfer within 15 days as of the date of such resolution (the approval of the shareholders representing at least 75% of the share capital being required);
- the publication of the resolution in the Official Gazette of Romania; and

- the expiry of a 30 calendar day opposition term calculated as of the publication of the resolution in the Official Gazette (if no opposition is filed) or the communication of the court decision on the rejection of the opposition (if an opposition is filed); during the opposition period any creditor of the limited liability company or any other entity (including the Romanian fiscal authorities) that could be damaged by the resolution approving the share transfer can challenge the resolution and ask the court to oblige the limited liability company and/or the shareholders to repair the damage.

Nevertheless, the Romanian Company Law does not expressly provide how these formalities should be performed in case of a transfer that occurs as a result of the enforcement of a mortgage over shares. Thus, there is a risk that the above mentioned formalities would have to be observed even upon the enforcement of a mortgage over shares (*e.g.*, issuance a resolution approving the transfer of shares, registration and publication thereof).

'Negative pledge' covenants are generally regarded as unenforceable under Romanian law. In situations where such a covenant is included in an agreement and it is breached, the beneficiary of the covenant and creditor of obligations secured with a mortgage over the relevant assets would be precluded from accelerating and demanding immediate repayment of the secured obligations or of other obligations. However, in case the mortgagor is seeking to create a second mortgage over the same assets and if the ranking of the existing mortgage is affected by the new mortgage, the prospective mortgagee must obtain the consent of the existing mortgagee for creation of such mortgage.

'No disposal' covenants inserted in mortgage agreements, arguably are only valid if they are limited to a 49-year term and are justified by a serious and legitimate interest of the beneficiary. Unless otherwise expressly agreed, 'no disposal' covenants are deemed essential for the conclusion of the agreement they are a part of and, if invalid, they render the entire agreement null and void. Disposals performed in breach of 'no disposal' covenants are valid even if the acquirer of the mortgaged assets is aware of the covenant or of a stipulation that deems the disposal to constitute a breach of the obligation secured over such asset. However, the disposal acts by the mortgagor with respect to the mortgaged assets in a manner that makes it impossible for the mortgagee to enforce the mortgaged assets, are void upon the mortgagee's request, unless the mortgagee approved such acts.

Pursuant to Romanian law, independent guarantees/independent payment obligations are not writs of execution *per se*. Thus they cannot be directly enforced against the guarantor. The beneficiary of such a guarantee is not entitled to commence the enforcement proceedings based solely on the agreement setting out the guarantee obligation. The beneficiary of the guarantee must first lodge a court action for obtaining a court decision ascertaining that the main obligation was not performed and, as a consequence, the guarantee can be called upon. The enforcement against the guarantor shall be limited by the existence of any *in rem* security over the guarantor's assets, which would have priority in the distribution process.

The Romanian Civil Procedure Code sets forth a mandatory order for the repayment of creditors in the event of enforcement. In addition, certain limitations could arise in accordance with the enforcement provisions of the Romanian Civil Procedure Code, including:

- the character of the assets to be subject to enforcement (*i.e.*, there are certain types of assets exempted by law from the enforcement procedure);
- the actual existence in the debtor's estate of assets to be enforced or the actual possibility to sell the existent assets;
- advancing of certain procedural fees for certain enforcement measures or acts under certain conditions;
- the necessity of properly sending a formal notice *(somaţie)* to the debtor before starting the enforcement—the notice must provide a grace term within which the debtor is expected to perform its obligation and at the expiry of which the enforcement procedure can be initiated;

- the possibility to challenge the enforcement itself or any enforcement act within a prescribed time frame;
- the possibility to request the suspension of enforcement or even to request the intermediary suspension until the main suspension claim (*i.e.*, the claim for the suspension of the enforcement procedure) is resolved (subject to the payment of a bail);
- sanctions for not addressing certain procedural matters within the timeframe provided by law—statutory limitation period *(prescripţie extinctivă)* or termination of right by passage of time *(perimare)*;
- limitations on the acquisition price in case the enforcing creditor acquires the enforced assets—for movable assets the acquisition price must represent at least 75% of the initial proposed sale price, while for immovable assets the acquisition price must represent at least 75% of the valuation price of the respective asset;
- in case the creditor acquires a movable asset during the enforcement procedure, its title over the respective asset can be challenged only on grounds of fraud or nullity;
- in case the creditor acquires an immovable asset during the enforcement procedure, any restitution claim will be rejected if: (i) the relevant immovable asset was registered in the land registry and (ii) at least three years elapsed from the date of the registration in the land registry of the previous owner; in case of a non-registered immovable asset, the restitution claim will be signed off only after the expiry of a three-year term as of the date of the registration of the enforcement deed (*act de adjudecare*) in the land registry.

*Enforcement of Judgments rendered in the United States*

In the event that a final judgment of a competent U.S. Federal or New York State court in the Borough of Manhattan in the City of New York, New York is rendered with respect to a payment claim under the Subsidiary Guarantees, its recognition is subject to the conditions set out in Law 105/1992 on Private International Law, which include the following:

(i) (a) compliance with Romanian public policy, (b) compliance with Romanian provisions on the exclusive jurisdiction of Romanian courts, (c) the absence of fraud in connection with the proceedings of the foreign court and (d) compliance with the rule pursuant to which the same dispute should not have been settled or be in the process of being settled between the same parties in Romania;

(ii) the judgment whose recognition in Romania is sought is final (*este definitivă*) according to New York law;

(iii) the court rendering the respective judgment was competent;

(iv) there is reciprocity between Romania and the U.S./New York State with respect to the recognition of judgments; and

(v) when the judgment was given in default of appearance, there is evidence that the defendant was served with the document which instituted the court proceedings or with an equivalent document in sufficient time and in such a way to enable him to arrange for his defense and to challenge the judgment.

The enforcement of a U.S./New York State judgment will be subject to the rules of civil procedure and enforcement proceedings of Romania, *i.e.* in addition to the afore-mentioned conditions (lit (i) through (v) applied accordingly), and requires that the following two conditions are met:

(i) the judgment whose enforcement in Romania is sought can be enforced (*executoriu*) pursuant to U.S./New York State law; and

(ii) the enforcement of such judgment is not time barred by the Romanian statute of limitations.

*Parallel debt*

Under Romanian law, it is questionable whether security interests can be held on behalf of third parties, such as the beneficial owners of the Notes, who will not be parties to the security agreements entered into under Romanian law. The parallel debt structure used to mitigate this problem has not been tested under Romanian law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Romanian law.

***Slovakia***

*Insolvency—general*

In the event of insolvency of a Subsidiary Guarantor or a provider of Collateral organized under the laws of the Slovak Republic and/or having its center of main interests in the Slovak Republic (each a "**Slovak Provider**"), any main insolvency proceedings regarding the Slovak Providers could be initiated in the Slovak Republic. Slovak law would then govern those proceedings. The insolvency laws of the Slovak Republic, as laid out mostly in the Slovak Act on Bankruptcy and Restructuring (the "**Slovak Insolvency Act**").

The following is a brief description of certain aspects of the insolvency laws of the Slovak Republic. Slovak insolvency law differentiates between bankruptcy (*konkurz*) and restructuring proceedings (*reštrukturalizácia*).

The purpose of bankruptcy is to resolve the debtor's insolvency by liquidating and realizing its assets and by collectively proportionate satisfaction of creditors. Either the debtor itself or its creditors have the right to file a petition for bankruptcy.

Rather than file for bankruptcy, a petition for restructuring may be filed by the debtor or by a creditor (with debtor's consent). In legal terms, the purpose of restructuring is to resolve the debtor's insolvency by gradual satisfying the debtor's creditors in the manner agreed in the restructuring plan. The main idea is to rescue financially troubled businesses whenever there is a real chance that this is "economically" achievable and not at the expense of creditors (*i.e.*, the degree of satisfaction of the creditors must be higher than if the debtor would be liquidated in bankruptcy). The key features of the restructuring proceedings (which is, in some respects, similar to U.S. Chapter 11) are that: (1) the feasibility of the restructuring must be supported by an expert opinion prepared by an independent restructuring trustee (*reštrukturalizačný správca*) before the petition for restructuring is filed (the restructuring trustee may be appointed either by a debtor or a creditor with the consent of the debtor); (2) there will be a moratorium on enforcement of creditors' claims against the debtor; (3) the debtor remains in the possession of its business (DIP concept) under the supervision of a restructuring trustee, the court and the creditors; (4) the outcome of the restructuring proceedings is the preparation of the restructuring plan that must be approved by relevant majorities of the creditors (and in some circumstances, also by the shareholders) and subsequently endorsed by the court, (5) there is the option of binding dissenting creditors by the plan ("cram-down"); and (6) "new money" provided in the course of the restructuring proceedings enjoys a super-priority ranking (but not at the expense of the existing Secured Creditors).

In the case of the concurrency of the petition for the bankruptcy and the petition for the restructuring, the law prefers the latter (*i.e.*, restructuring proceedings may be opened after bankruptcy proceedings have been commenced but only before the bankruptcy has been declared—see below).

The Slovak Insolvency Act does not provide for a consolidation of insolvency proceedings over a group of companies, neither substantive (*i.e.*, treatment of assets and liabilities of multiple companies as one insolvency estate) nor administrative (*i.e.*, joint administration).

Initiation of insolvency proceedings will lead to, *inter alia,* partial or full (depending on the type and phase of the insolvency proceedings) restrictions on (1) the debtor's ability to enter into

legal transactions, (2) creditors' right of set-off, (3) creditors' right to terminate contracts with the debtor, and (4) individual enforcement actions by creditors.

Under Slovak law, the debtor is insolvent (*v úpadku*) if it meets the balance-sheet insolvency test (*i.e.*, over-indebtedness, *predlženie*) or under the cash flow insolvency test (inability to pay the debts as they fall due, *platobná neschopnosť*).

The balance sheet test is met if the debtor keeps accounting books, has more than one creditor and the value of its due and payable liabilities exceeds the value of its assets. As of January 1, 2013, the balance sheet test will be changed so that not only due but all debtor's liabilities (excluding subordinated debt, liabilities towards related parties and liabilities under contractual penalties) will be taken into account. However in determining the value of debtor's assets potential revenues generated by the debtor's future business conduct shall be taken into consideration.

The cash flow test is met if a debtor has more than one creditor and, 30 days after the maturity date, it is not able to satisfy at least two of its payables towards two different creditors. The debtor is not able to satisfy such payables if its 30 days overdue payables exceed its short-term liquid financial assets (such as cash, short-term deposits, debt securities maturing within next 30 days). When determining whether a debtor meets the cash flow test, all receivables originally owed to a single creditor during the 90-day period of time before the submission of a petition for declaration of bankruptcy shall be deemed to constitute one receivable.

The debtor is obliged under law to file for bankruptcy or restructuring proceedings within 30 days of the day when it became aware of, or (if acted with professional care) could become aware of, its insolvency (as of January 1, 2013, the debtor will be obliged to file for bankruptcy only if it meets balance sheet test). The same duty applies to the persons authorized to act for and on behalf of the debtor (directors, members of the board of directors, etc.), and it is sanctioned by (a) personal liability of the directors to the creditors for damage caused by late filing or failure to file (assumed to be in the amount of unsatisfied claim remaining after completion of bankruptcy proceedings unless proven otherwise) and (b) as of January 1, 2013 with the obligation to pay a penalty to the bankruptcy estate corresponding to the amount of debtor's registered capital (capped to double of minimum registered capital defined by the Act No. 513/1991 Coll. the Commercial Code, as amended (the "**Slovak Commercial Code**"), *i.e.*, €10,000 for limited liability companies (equivalent to a German GmbH, *spoločnosť s ručením obmedzeným*) and €50,000 for joint stock companies (equivalent to a German AG, *akciová spoločnosť*).

In case of insolvency proceedings in Slovakia in relation to a Slovak Provider, the ranking of its liabilities established contractually in the Security Pooling and Intercreditor Agreement might not be taken into account by the insolvency trustee, which may result in claims expressed to be ranked differently to be treated as ranking pari passu with each other. No assurance can be given that a Slovak insolvency trustee would observe the Security Pooling and Intercreditor Agreement.

*Bankruptcy proceedings and bankruptcy*

Bankruptcy proceedings are initiated by the competent court upon filing an application by the debtor (if its meets at least one of the insolvency tests, which is presumed and not further examined by the court in case of a debtor's petition) or a creditor (if the debtor meets the cash flow insolvency test).

A creditor will be successful in filing for bankruptcy only if it is able to declare its 30-day overdue payable and a 30-day overdue payable of one additional creditor and has in its possession at least one of the following documents proving its claim: (a) any document which may serve as a title for forced execution of claim against the debtor (*i.e.*, enforceable judgment or decision of a relevant public authority for payment obligation against the debtor, acknowledgement of debt by the debtor in an official notarial deed, etc.),

(b) acknowledgement of debt by the debtor with a notarized signature, (c) confirmation of an auditor, insolvency trustee or court sworn valuer, that the creditor accounts for its claim against the debtor in its books.

There is a two-step procedure for the declaration of bankruptcy. When the court ascertains that the debtor's or creditor's petition for declaration of bankruptcy "formally" complies with the statutory requirements, the court must decide to commence the bankruptcy proceedings within 15 days from the receipt of the petition. Otherwise the court shall reject the petition within the same period of time. In other words, in the first phase the court merely decides whether or not to commence the proceedings, which simply requires the receipt of a complete petition.

The court resolution on the commencement of the bankruptcy proceedings must be published in the Commercial Gazette (*Obchodný vestník*) without delay after it has been issued. The bankruptcy proceedings "effectively" commences at 12:00 a.m. of the day following the publication. The major effects of the commencement of bankruptcy proceedings are as follows (1) the debtor must restrict its activities to the ordinary legal acts only, (2) automatic stay of individual court or administrative enforcement proceedings in respect of the assets owned by the debtor; and (3) automatic stay of enforcement actions by an individual Secured Creditors (save for enforcement of a security interest over bank accounts, government bonds, transferable securities or continued enforcement of a security right by a public auction). The insolvency court is entitled to order protective measures to secure the property of the debtor during the preliminary proceedings. As part of such protective measures, in bankruptcy, the court can appoint a preliminary insolvency trustee. The duties of such preliminary trustee are set out by the court but usually include the duty to safeguard and preserve the debtor's property and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings.

Only after the commencement decision will the court go on to consider the evidence in order to decide whether or not to declare bankruptcy. In case of the debtor's petition, it takes five days. In the case of the creditor's petition, the period between commencement decision and the declaration decision is not strictly determined and depends on the length of the proceedings in which the debtor has a chance to prove its solvency and avoid bankruptcy (which may last from not less than 32 days to 80 days or even longer). The effects of the commencement of the proceedings remain in place after the declaration of the bankruptcy—supplemented by a number of additional restrictions. In the court resolution by which the bankruptcy is declared, a bankruptcy trustee (*správca konkurznej podstaty*) is appointed for the purpose of administering and realizing the debtor's estate. The trustee appointed by the court is selected randomly—for this purpose the court must use technical equipment specially designed for this task—to ensure that the selection of trustee is impartial. However, the creditors can later replace the trustee through voting on the creditors' meeting.

After the declaration of the bankruptcy, the trustee then takes full possession and the control over the debtor's assets.

A debtor may file for conversion of bankruptcy proceedings (but only until the bankruptcy is declared) into restructuring.

The law prescribes strict criteria which a trustee must consider when deciding whether or not to continue the debtor's business after the bankruptcy has been declared. In particular, the business should be kept going only if (a) the trustee can reasonably assume that the proceeds obtained by the sale of the debtor's assets will be materially higher than the proceeds from a sale if the business has been terminated, (b) the trustee is able to pay all taxes, custom duties and social security and health care premiums originating during the business conduct, and (c) the value of the assets subject to security interests will not substantially diminish during the business conduct. The aim of the law is to distinguish between the "liquidation" nature of bankruptcy proceedings and the "rescue" nature of restructuring proceedings. As the continuation of the debtor's business is conceptually a rescue measure, it should, due to the

risks related to the operation of any business, be used in bankruptcy proceedings only where it is "economically" justifiable.

All creditors, whether secured or unsecured need to participate in the insolvency proceedings by registering their claims (and filing evidence). Creditors shall register their claims (using a standard registration form prescribed by law) (a) within 45 days from the declaration of bankruptcy or (b) after the lapse of the initial 45-day period but only as unsecured claims with no voting rights attached (in which case the creditor will receive a share in proceeds distributed after its claim has been filed). All security interests if not filed within initial 45-day period shall cease to exist. Each secured claim must be registered on a separate form. The registration forms and all exhibits to them must be delivered to both the trustee and the insolvency court within the said deadline (however the filing takes effect also if only made with the trustee). A holder of security interest over the debtor's assets securing the creditor's claim against a third party (third party security interest) may also file its claim against a third party to the debtor's bankruptcy, but can only be satisfied from the proceeds of the sale of the assets which are subject to its security interest. Such claim may also by filed after the initial 45-day period, in such case the holder of a security will not have voting rights and its claim will be discharged as "claim against the estate" with lowest priority (please see below).

Claims in a currency other than euro shall be converted into euro at the official exchange rate issued by the European Central Bank as at the date of declaration of bankruptcy (or, if no exchange rate is quoted for the relevant currency by the European Central Bank, the trustee shall convert the claim into euro with professional care). The trustee will examine the registration documents and supporting evidence in relation to the claim, and is obliged to contest (within 30 days from expiration of the deadline for registration of claims) the filed claim if (according to the trustee's findings after having evaluated the claim with professional care) there are doubts as to the title, enforceability, amount, security, or the ranking of security. All creditors which have filed their claims have the right to contest all filed claims of other creditors (but in order to do so they must pay a deposit of €350 to the estate for each contested claim filed in a separate registration form. If that happens, the creditor loses its voting rights in respect of the contested claims to the extent of the contestation. Such creditor may then decide to defend its contested claim, within a period of 30 days from its claim being contested, by filing a petition with the insolvency court against the trustee / the relevant creditor asking the court to ascertain the claim. If the claim has been contested by a creditor, both the contested and the contesting creditors must pay an advance payment to the court for court costs (currently being €285 (revised on yearly basis)). If the claim has been contested by a creditor, the court may, upon request of the trustee (which the trustee must file with the court if requested by the contested creditor), grant voting rights to the contested creditor without undue delay after being requested to do that. The creditor then can exercise its voting rights until the court decides whether the creditor has a valid claim or not and afterwards only to the extent of the claim ascertained by the court.

If the bankruptcy is declared by the court, the law draws distinction between the "separated bankruptcy estate" and the "general bankruptcy estate." The former consists of assets which have been encumbered for the benefit of a Secured Creditor, whilst the latter consists of all other unencumbered assets. Rights of creditors secured by third party assets (*i.e.*, not belonging to a bankrupt debtor) are included in the separated bankruptcy estate of the relevant Secured Creditor. Except for financial collateral arrangements, Secured Creditors are not entitled to enforce the security interest outside the bankruptcy proceedings. In case of liquidation, Secured Creditors are entitled to instruct the trustee how to administer and/or dispose of the encumbered assets and the trustee can recover from the proceeds of sale of such assets any administrative expenses, which can be allocated to such assets or (proportionally to the total value of the bankruptcy estate) can not be allocated to any particular assets.

The proceeds of sale of assets constituting "separated bankruptcy estate" may only be used to satisfy the secured claim (after the trustee's fees, the administrative costs and the costs of

maintenance, preservation and sale related to the secured assets have been discharged). The unsecured creditors may be satisfied out of these proceeds only when the secured claim has been paid in full and there are still some proceeds left. This surplus then becomes a part of the "general bankruptcy estate," which is used for the benefit of all unsecured creditors. However, in cases when the debtor's business is operated as a going concern notwithstanding the bankruptcy declaration (see above which parameters the trustee must consider when deciding on the point of continuation of business operations), the ranking of the secured claim and post-insolvency claims may be more complex (as post-insolvency claims of creditors originating from the continued operation need to be discharged before the Secured Creditors' claims).

Any material actions in relation to secured assets must be discussed with all the stakeholders in such assets (including not just first-ranking Secured Creditors, but also any other secured, and possibly unsecured, creditors having an "economic" stake in the residual value of the same assets). Moreover, in some cases (for example, in connection with the realization of the assets in the bankruptcy estate), the trustee has the obligation to seek "binding" instructions from the affected stakeholders in relation to the realization of collateral.

The trustee must realize the debtor's estate in a way that ensures that the highest possible proceeds will be obtained within the shortest possible period incurring the lowest possible costs. When realizing the bankruptcy estate, save for certain exemptions, the trustee is free to use any available method of realization—however, the trustee must always act with professional care and ensure that the objective of realization mentioned above (*i.e.*, in respect of proceeds, time and costs) is fulfilled. Priorities among the administrative expenses are granted only to expenses of operation of the debtor's business after the bankruptcy order and are called "claims against the estate" (*pohľadávky proti podstate*). Such claims need to be satisfied before any creditors are paid. Subordinated claims may be satisfied in bankruptcy if there are proceeds left over after all other creditors are paid in full. Subordination of claims is recognized in Slovak bankruptcy proceedings only if documented by a specific Slovak law subordination instrument, which is not very useful because it is very inflexible and therefore is not being used very frequently. All related party claims and contractual penalties shall, for the purposes of their satisfaction, be treated as subordinated. A creditor of a related party claim or a claim under a contractual penalty is not granted any voting rights and any security securing the related party claim or the claim under a contractual penalty shall be disregarded for the purposes of the bankruptcy proceedings. A claim is considered a related party claim if it belongs or belonged to a person who is or was a debtor's related party. The Slovak Insolvency Act provides for legal definition of a related party, which includes, in the case of legal entities, (a) a debtor's statutory representatives, procurists, managers, members of supervisory board, (b) persons having a "relevant stake" in the debtor (owning directly or indirectly at least a 5% share interest in registered capital and voting rights or having the right to influence the management of the debtor similar to the 5% share interest in registered capital and voting rights), (c) statutory representatives, procurists, managers, members of supervisory board in the entities under letter (b) above, (d) close persons (relatives) to individuals mentioned in letters (a) to (c) and (e) any other person in which any person mentioned in letters (a) to (d) above has a "relevant stake." As described above, the pool of related party claims can be quite broad. The Slovak Insolvency Act applies to related party claims generally and does not provide for any exemptions.

When all assets from the relevant estate have been liquidated, the trustee is under a duty to prepare a distribution order and distribute the proceeds of sale to the relevant creditors (if from the "separated bankruptcy estate," to the relevant Secured Creditor; if from the "general bankruptcy estate," *pro rata* to the unsecured creditors). The trustee may decide to distribute the sale proceeds also after completion of a partial sale of the debtor's assets. The court is also entitled, on the request of the relevant creditors, to order the trustee to make a partial distribution of proceeds.

*Clawback in bankruptcy proceedings in relation to guarantees and security*

If a guarantee or security is provided by a company for obligations of another party without consideration, such guarantee or security may be challenged by the trustee or another creditor in bankruptcy proceedings of the guarantor in the Slovak Republic as a voidable legal transaction (*odporovatel'ný právny úkon*) due to being (1) undervalue/without adequate consideration (*bez primeraného protiplnenia*); (2) an act curtailing other creditors (*ukracujúci úkon*); or (3) an act preferring certain creditor(s) against other creditors (*zvýhodňujúci úkon*). In the event that the guarantee is for obligations of a related party, this risk is comparatively higher than if the guarantor and the principal debtor would be unrelated.

A guarantee or security may be challenged as undervalue if there was no consideration received by the provider for providing the guarantee or security, or if the consideration received was substantially lower than is customary, provided that the guarantee or security was granted during the time when the provider was already meeting an insolvency test or if granting of the guarantee or security itself has caused insolvency of the provider. It is assumed that the provider was insolvent at the time of granting the guarantee or security if the guarantee or security is for obligations of a provider's related party, unless it is proven to the contrary. The guarantee or security can be challenged as undervalue if it was granted within one year before the commencement of bankruptcy proceedings (or if the bankruptcy has been declared during restructuring proceedings (see below), if it was granted within one year before the commencement of restructuring proceedings), or three years before the commencement of bankruptcy proceedings (restructuring proceedings) if it secures obligations of a provider's related party.

A guarantee or security may be challenged as curtailing another creditor if it is established that by granting the guarantee or security or by performing under the guarantee the provider has curtailed its creditors (other than the direct beneficiary of the guarantee or security) with an intention to do so, which intention was or must have been known to the beneficiary. Again, in case of a guarantee or security for obligations of a provider's related party, the intention of the provider to curtail its other creditors and the awareness of the beneficiary of this intention will be assumed, unless it is proven to the contrary. The guarantee or security can be challenged as curtailing other creditors if it was granted within five years before the commencement of bankruptcy proceedings.

A guarantee or security may be challenged as preferential if it would be established that by granting the guarantee or security or by performing under the guarantee (1) one or more creditors of the provider have been given unreasonable advantage before its other creditors, or (2) the provider has unreasonably put itself into disadvantageous position to the detriment of its creditors; provided that the guarantee or security was granted during the time when the guarantor was already meeting an insolvency test or if granting of the guarantee or security itself has caused insolvency of the provider. It is assumed that the provider was insolvent at the time of granting the guarantee or security if the guarantee or security is for obligations of a party related to the provider, unless it is proven to the contrary. The guarantee or security can be challenged as preferential if it was granted within one year before the commencement of bankruptcy proceedings (or if the bankruptcy has been declared during restructuring proceedings (see below), if it was granted within one year before the commencement of restructuring proceedings), or three years before the commencement of bankruptcy proceedings (restructuring proceedings) if it secures obligations of a provider's related party.

A petition to challenge and set aside the guarantee or security on the above grounds may be filed by the trustee or by a creditor of the bankrupt guarantor or security provider (the latter only if the trustee has not filed the petition after it has been requested to do so by the creditor) within one year after declaration of bankruptcy by filing a petition with the insolvency court against all parties having benefit from the guarantee or security (being primarily the beneficiary and the principal debtor whose obligations have been secured), and only if as a result of the granting of or performance under the guarantee satisfaction of a claim duly registered in the

bankruptcy proceedings is curtailed. A claim against the bankrupt guarantor or security provider under a voidable guarantee or security may also be challenged by contesting the creditor's filed claim under the guarantee or security.

If the guarantee or security is successfully challenged, it shall be set aside and declared ineffective. As a result, the parties benefiting from it would have to return the benefit (or its equivalent in money terms) into the general bankruptcy estate of the debtor to be available to its general creditors. If the beneficiary of the guarantee or security would have to return any payment received under the guarantee or security into the bankruptcy estate, its claim secured by the guarantee or security would be automatically reinstated in the amount so returned, and would be subject to satisfaction from the general bankruptcy estate together with the other creditors of the debtor (*i.e.*, *pro rata*).

*Restructuring proceedings and restructuring*

A debtor may file the petition for its restructuring order only if it has appointed the restructuring trustee to prepare the restructuring opinion and in the prepared opinion not older than 30 days, the trustee recommended the restructuring as feasible. The debtor may appoint the trustee to prepare the opinion not only if it is already insolvent, but also in the cases where the insolvency is just imminent. The purpose of the opinion is to see whether the economic preconditions for the feasibility of debtor's restructuring are satisfied (comparing always against a bankruptcy scenario). The opinion must be prepared by a trustee who is listed in the list of qualified insolvency practitioners. The trustee must prepare the opinion in an impartial manner exercising professional care. The persons who instructed the trustee to prepare the opinion must provide the trustee with the required cooperation, especially with all documents, information and explanations required for a proper preparation of the opinion. The creditors are allowed to appoint the trustee and to make a petition for restructuring themselves, but only with prior consent of the debtor.

In the opinion, the trustee recommends restructuring of the debtor only if the following conditions are met: (1) the debtor has not ceased to perform business activities, (2) the debtor is insolvent (*i.e.*, meets at least one of the insolvency tests) or its insolvency is imminent, (3) it is reasonable to expect that at least the material part of operation of the debtor's business can be preserved, and (4) it is reasonable to expect that if restructuring is permitted, the degree of satisfaction of creditors of the debtor will be higher than if bankruptcy was declared.

In its schedule, the opinion may contain a draft restructuring plan and binding declarations of the debtor and of one or several creditors of the debtor regarding the draft restructuring plan (concept of a "pre-packed" plan).

After the court ascertains that the petition for restructuring "formally" complies with the statutory requirements and that it is supported by the expert opinion, the court must decide to commence the restructuring proceedings within 15 days from its receipt. Otherwise it shall reject the petition within the same period of time. The court resolution on the commencement of the restructuring proceedings must be published in the Commercial Gazette without delay after is has been issued. The restructuring proceedings "effectively" commences at 12 a.m. of the day following after such publication. At that time also the moratorium on creditors' actions becomes effective, the debtor must restrict its activities to the ordinary legal acts only and some additional effects associated with the commencement of the proceedings enter into force.

After the restructuring proceedings have been commenced, the next step for a court is to ascertain whether all preconditions to permitting restructuring have been satisfied. However, the court does not analyze the economic feasibility of the restructuring, as it is bound by the recommendation of the trustee expressed in its opinion. In other words, unless the opinion has formal deficiencies, if the trustee has recommended the restructuring, the court has the obligation to issue a resolution by which the restructuring is permitted. The court must decide whether or not to permit restructuring and appoint the trustee who prepared the opinion within 30 days from the commencement of the restructuring proceedings.

Once the restructuring has been permitted, the trustee's main duty is to supervise the business of the debtor. The trustee must carry out the supervision with professional care so that the debtor does not diminish the value of its assets or does not frustrate successful completion of the restructuring. If the debtor seriously or repeatedly breaches its obligations established by law, the trustee must without delay petition the court to declare a bankruptcy (*i.e.*, to convert the restructuring into bankruptcy proceedings). Moreover, in the course of the restructuring, the trustee must continuously monitor developments in the financial and business situation of the debtor and, if the financial situation or the business situation changes to the extent that the successful completion of restructuring can no longer be reasonably expected, the trustee must without delay petition the court to declare bankruptcy of the debtor (*i.e.*, to convert the restructuring into bankruptcy).

The creditors may, on their meeting, decide on the conversion of the restructuring into bankruptcy proceedings by a majority vote of the present creditors (counted by the value of their claims) also. Any creditor whose claims represent at least 10% of all votes may propose such voting.

During the restructuring the debtor remains in the possession of its business—however, it is under the supervision of the restructuring trustee, the court and the creditors. In addition, in the resolution permitting the restructuring, the court may determine the scope of those legal acts of the debtor that will be subject to prior approval by the trustee during the restructuring. The scope of these legal acts may be extended by the creditors' committee any time during the restructuring proceedings.

Creditors shall register their claims (using a standard registration form prescribed by law) within 30 days from the restructuring being permitted by court. Each secured claim must be registered on a separate form. The registration forms and all exhibits to them must be delivered to the trustee within the said deadline. Claims in a currency other than euro shall be converted into euro at the official exchange rate issued by the European Central Bank as at the date of ordering of restructuring (or, if no exchange rate is quoted for the relevant currency by the European Central Bank, the trustee shall convert the claim into euro with professional care). Failure to register claims within the stipulated time limit shall lead to rejection of the late application and, as a result thereof, the respective creditor shall lose its right to satisfaction of its claim in the restructuring. The trustee will examine the registration documents in relation to the claim, and is obliged to contest (within 30 days from expiration of the deadline for registration of claims) the filed claim if (according to the trustee's findings after having evaluated the claim with professional care) there are doubts as to the title, enforceability, amount, security, or the ranking of security. Unlike in bankruptcy, the creditors do not have the right to contest the claims of other creditors, but instead only have the right to suggest the trustee contesting other creditors' claims; the trustee, however, is not obliged to follow such suggestions. If that happens, the creditor of the contested claim may, within a period of 30 days from the contestation, file a petition with the insolvency court against the trustee asking the court to ascertain the claim. A creditor of a related party claim or a claim under a contractual penalty cannot exercise its voting rights, except on the creditors' meeting which votes on the restructuring plan.

The key idea and the desired outcome of the restructuring proceedings is the preparation of a restructuring plan which needs to be approved by the relevant majorities of the creditors (and in some circumstances, also by the shareholders) and subsequently endorsed by a court. In legal terms, the restructuring plan is a document providing for the creation, variation or termination of rights and obligations of persons identified in it as well as the scope and method of satisfaction of those parties to the plan who are either creditors with filed claims or the debtor's shareholders. A related party claim or claim under a contractual penalty cannot be, in the plan, granted a equal or higher rate of satisfaction than any other claim included in the plan. Before all the creditors (and in certain cases, the shareholders) vote on the approval of the plan, it

must first be submitted to the creditors' committee for its preliminary approval (within 90 days from the restructuring being permitted with possible extension by a further 60 days).

Once the creditors approve and the court confirms the plan, the plan is binding on all parties to the plan. The plan consists of a descriptive part and a binding part. The measures to be adopted by the plan are very flexible. For example, they may include typical "plain vanilla" restructuring of the debtor's financial indebtedness, the conversion of the debt to equity, the transfer of the debtor's assets or business to a newly established entity, merger, amalgamation or division of the debtor or a change of its legal form. The plan is prepared by the debtor, if the debtor has initiated the restructuring (on most occasions) or by the trustee, if any of the creditors has initiated the restructuring.

The court may confirm a plan modifying the capital structure of the debtor and restructuring its liabilities, if it is first approved by the creditors committee and then by each class of creditors. The classification of creditors is proposed by the proponent of the plan, subject to some statutory constrains (*e.g.*, secured and unsecured creditors need to be in separate classes, each Secured Creditor in a separate class (unless agreed otherwise), and, a separate class is created for all subordinated claims, related party claims and claims under contractual penalties). Each class must vote for the plan by the relevant majority prescribed by law. The court may decide that the consent of a particular creditor class is not required subject to a best interest of creditors tests, *i.e.* to verification that no creditor will be worse off under the plan than it would be in a bankruptcy scenario, and to the requirement that a majority in amount of all creditors and a majority of all classes vote for the plan. Several other conditions apply to the approval of a restructuring plan (the "cram-down").

*Limitations on intra-group guarantees and security*

Certain limitations under Slovak law apply in relation to guarantees or security in favor of parties related to the guarantor. Please note that these limitations apply only to a guarantor or security provider that is a joint stock company (*akciová spoločnosť*), and further, only in the cases where there is a "personal link" between such guarantor/security provider and the debtor of the obligation secured by the guarantee. The personal link will be established if one or more persons is a member of the statutory or supervisory body of both the guarantor/security provider and the debtor or if its is a general proxy or otherwise authorized to act on behalf both of these companies. The personal link will also be established if the individuals involved in the two companies are relatives or have another form of close relationship as defined by law. If a guarantor/security provider that is a Slovak joint stock company provides a guarantee or security for obligations of a debtor with whom it has such a personal link, such guarantee or security must be: (a) granted on arms' length terms (which is usually a matter of fact); and (b) approved in advance by the guarantor's/provider's supervisory board (unless the guarantor/provider is a parent company controlling the debtor whose obligations are guaranteed/secured).

The law fails to specify the consequences of the guarantee or security being granted in the breach of the above rule. Also, as this provision was introduced relatively recently, so far there exists no case law or standard interpretation, which would clarify these issues in more detail. Nonetheless, the Schaeffler Group assumes that there will always exist a certain risk that a guarantee or security provided by a Slovak joint stock company to an entity with whom it has a personal link, may be declared null and void once being in breach of the above requirements.

The requirement of arm's length basis as envisaged in Section 196a of the Slovak Commercial Code should be viewed in the context of the transaction as a whole and in the context of the factual matters pertaining to the agreed arrangement (see below which factual issues to consider).

The concept of arm's length basis can be interpreted at least in two ways under Slovak law. Firstly, from the perspective of whether the performance is made for "adequate consideration" and secondly, within the specific meaning given to this term under Section 196a of the Slovak Commercial Code. These two perspectives differ in the consequences should the law be

breached. If the transaction is not for "adequate consideration," it would be still valid, but could be challenged by a bankruptcy receiver on the relevant company's insolvency as an "undervalue transaction." Conversely, if the transaction is in breach of Section 196a of the Slovak Commercial Code, it would be invalid by operation of law.

Regarding the first mentioned perspective, though establishing what constitutes the adequate consideration is matter of fact rather than legal issue, it is the Schaeffler Group's view that if all obligors under the Notes documentation benefit from the mutual "cross-guarantee" structure (*i.e.*, any involved entity guarantees and secures the liabilities of all other involved entities), this may be reasonably sufficient to establish the adequate consideration. In other words, it may be argued that each obligor is giving its promise of guarantee in exchange for obtaining guarantees of its debts from its affiliated obligors.

Regarding the second mentioned perspective, if the concept of arms' length basis as used in section 196a of the Slovak Commercial Code is literally translated into English, this English translation reads that *"the performance must be on terms that are commonly used in the course of the ordinary commercial activity.*" Though there is practically no interpretation what is exactly meant by this wording, it may be reasonably argued that the transaction must be on terms that are not manifestly "one-sided" or manifestly "disadvantaging" one party at the expense of the other.

*Corporate benefit*

Even though there is no explicit mention of corporate benefit concept under Slovak law, this concept can possibly be derived from the directors' obligation to act with professional care in line with the best interests of the company and all its shareholders. A transaction in breach of such director's duty still remains valid, though the director may be personally liable for damages caused to the company by entering into such transaction.

*Restrictions on financial assistance*

Under Section 161e of the Slovak Commercial Code, a Slovak joint stock company (*akciová spoločnosť*) must not provide financing for acquisition of its shares by third parties or provide any guarantees or security over its assets to secure liabilities relating to acquisition of its shares by third parties. There are no applicable exceptions from this rule and no whitewash procedures are available. Transactions entered into in breach of this rule shall be null and void by operation of law. This restriction on financial assistance does not apply to any other form of companies than joint stock companies.

*Parallel debt*

Under Slovak law, certain "accessory" security interests such as pledges (*záložné práva*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The Holders will not be party to the security documents relating to the Collateral. In order for the Holders to benefit from security under "accessory" Collateral, the Security Pooling and Intercreditor Agreement will provide for the creation of a "parallel debt." Pursuant to the parallel debt, the General Security Trustee becomes the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by Slovak law will directly secure the parallel debt. The parallel debt procedure has not been tested in court under Slovak law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Slovak law.

*Limitations on guarantee and security outside insolvency*

Under Slovak law it is possible to set aside transactions (such as a creation of security interest) which have been entered into with the intention to harm another creditor holding an enforceable claim (confirmed by a court judgment or other official document allowing to conduct enforcement proceedings) at the time of the transaction, or which have actually

curtailed satisfaction of such creditor and which have been entered into between the debtor and a related party (the exact scope of related parties is established by law). The creditor whose enforceable claim has been curtailed can claim against the beneficiary setting aside such transactions, which have been entered into during the last 3 years prior to making the claim. The beneficiary can make a defense that it did not know about the bad intentions of the security provider. These instruments are not used very often since it is very difficult to prove an intention to curtail the creditor (unlike in bankruptcy, the intention is not presumed here).

*General limitations with regard to security*

Security under Slovak law and its enforcement is subject to the following key limitations:

- The ranking of security is established at the moment when publicity formalities have been accomplished. In general, the ranking of a pledge is based on the "first-in-time, first-in-right" principle, and the order of registration of the pledge in the relevant pledge registry will establish its ranking. Subsequently, creditors can agree to change the order of priority of their security interests and such agreement must be registered in the relevant pledge registry to take effect.
- Negative pledge undertakings are binding only as between the security provider and the Secured Creditor, and are not binding on third parties. As a result, the security provider can validly create a junior-ranking security over the same asset, over which it has granted Collateral. This does not apply to shares in joint stock companies, in relation to which only one security interest may exist at any one time.
- The pledge can be enforced only once there is a default with a payment obligation secured by the pledge.
- During enforcement of security, certain rules aimed at protection of the security provider will apply. These include (among others):
  - o appropriation of the collateral by the pledgee as a method of enforcement is not possible unless agreed between the pledgor and pledgee specifically after the pledge has become enforceable (*i.e.*, after the payment default has occurred in case of the secured claim and not at the time of entry into the pledge agreement);
  - o a mandatory waiting period of minimum 30 days which must lapse between the announcement of commencement of enforcement and the actual sale of the collateral within the enforcement process;
  - o duty of fair realization obliging the pledgee to sell the collateral for a fair market price, for which comparable assets are usually sold at the given time and place (in case of securities this is even strengthened to a maximum price that can be achieved after exercise of professional care);
  - o duty to inform the pledgor about the process of the enforcement (can be excluded in case of securities);
  - o duty to stop the enforcement at any time when the creditor has received an amount in discharge of its secured claim.
- If more than one pledge is established in relation to a certain asset (*e.g.*, in breach of a negative pledge undertaking), the senior creditor may be found to owe certain duties to the junior ranking creditors when enforcing its senior ranking pledge.

*Enforceability of a U.S. judgment in the Slovak Republic*

A judgment duly obtained in the New York State courts or United States federal courts shall be recognized and enforced in the Slovak Republic unless:

- the matter is one within the exclusive competence of the courts of the Slovak Republic pursuant to its laws, or is one beyond the competence of any judicial proceedings of a foreign authority, as determined by the laws of the Slovak Republic; or
- the decision is not final or enforceable in the state where it has been issued; or
- the decision is not a decision on the merits of the matter; or
- the party against whom such judgment is sought to be enforced has been deprived of an opportunity to participate in the foreign proceedings, especially if the summons or notice of the commencement of the foreign proceedings has not been duly served on the party; this exception does not apply if the party has not filed an appeal against the foreign judgment which has been duly served on it or if the party has waived the applicability of this exception; or
- a final decision in the same matter has previously been reached by a court of the Slovak Republic or by a foreign authority if that foreign authority's decision has been, or would be, enforced in the Slovak Republic; or
- recognition of the foreign judgment would be contrary to public policy (*ordre public*) of the Slovak Republic.

The terms "enforceable," "enforced" and the like as used herein means that the obligations assumed by the relevant party under the relevant document are of a type which the Slovak courts normally enforce or may enforce. It does not mean that those obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular:

- enforcement may be limited by bankruptcy, insolvency, liquidation, debt restructuring and other laws of general application relating to or affecting the rights of creditors;
- a court fee for any action filed in a Slovak court may be applicable; court fees may also be payable in connection with an appeal from an adverse judgment or in connection with other request to the court;
- certified translation of the judgment into the Slovak language will be required and the enforcement in the Slovak Republic will be based on such translation;
- enforcement may be limited by remedies available before Slovak courts, the acceptance by such courts of jurisdiction, the power of such courts to stay proceedings, the provisions of other principles of law of general application (*e.g.*, the concept of fair business conduct) and all limitations resulting from the laws of bankruptcy, insolvency, restructuring, liquidation, forced administration, any statutes of limitation and lapse of time or other laws affecting generally the enforcement of creditors' rights;
- any subsidies or other funds obtained from the state budget or from the budget of the European Union or any assets purchased from funds originated from the state budget or from the budget of European Union are immune from attachment and from execution and would not be available to creditors in any enforcement proceedings; and
- enforcement and recognition may be limited by public policy and mandatory provisions of Slovak law, as well as by such principles of Slovak law as fair business dealings, good faith, equal treatment of parties and *"non contra bonos mores."*

*Enforceability of an English judgment in the Slovak Republic*

A judgment of an English court in a civil or commercial matter (*e.g.*, a judgment granting a payment claim against the Slovak Providers) would be recognized and enforced in the Slovak Republic unless:

- the matter is one within the exclusive jurisdiction of the courts of an EU member state other than the United Kingdom under the Council Regulation (EC) no. 44/2001 of December 22, 2000;
- the decision is not final or enforceable in the state where it has been issued;
- recognition is manifestly contrary to public policy (*ordre public*) in the Slovak Republic;
- where the judgment was given in default of appearance, if the defendant was not served with the document that instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for its defense, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for it to do so;
- it is irreconcilable with an earlier judgment given by a Slovak court in a dispute between the same parties;
- it is irreconcilable with an earlier judgment given in another EU member state or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfills the conditions necessary for its recognition in the Slovak Republic; or
- it conflicts with certain provisions of Council Regulation (EC) no. 44/2001 of December 22, 2000 specified in Article 35 thereof.

The terms "enforceable," "enforced" and the like as used herein means that the obligations assumed by the relevant party under the relevant document are of a type which the Slovak courts normally enforce or may enforce. It does not mean that those obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular:

- enforcement may be limited by bankruptcy, insolvency, liquidation, debt restructuring and other laws of general application relating to or affecting the rights of creditors;
- a court fee for any action filed in a Slovak court may be applicable; court fees may also be payable in connection with an appeal from an adverse judgment or in connection with other request to the court;
- certified translation of the judgment into the Slovak language will be required and the enforcement in the Slovak Republic will be based on such translation;
- enforcement may be limited by remedies available before Slovak courts, the acceptance by such courts of jurisdiction, the power of such courts to stay proceedings, the provisions of other principles of law of general application (*e.g.*, the concept of fair business conduct) and all limitations resulting from the laws of bankruptcy, insolvency, restructuring, liquidation, forced administration, any statutes of limitation and lapse of time or other laws affecting generally the enforcement of creditors' rights;
- any subsidies or other funds obtained from the state budget or from the budget of the European Union or any assets purchased from funds originated from the state budget or from the budget of European Union are immune from attachment and from execution and would not be available to creditors in any enforcement proceedings; and
- enforcement and recognition may be limited by public policy and mandatory provisions of Slovak law, as well as by such principles of Slovak law as fair business dealings, good faith, equal treatment of parties and *"non contra bonos mores."*

***Switzerland***

*Bankruptcy*

In the event of bankruptcy of a Subsidiary Guarantor or a provider of Collateral organized under the laws of Switzerland (each of them a "**Swiss Provider**"), any bankruptcy proceedings would be initiated in Switzerland and be governed by Swiss law. The bankruptcy laws of Switzerland and, in particular, the provisions of the Swiss Federal Act on Debt Collection and Bankruptcy (*SchKG*), may not be as favorable to creditors as the insolvency laws of other jurisdictions, such as with respect to the priority of creditors, the ability to obtain post-petition interest as well as with respect to security interests (in particular as regards the enforcement thereof by the relevant Secured Creditor), and the duration of the insolvency proceedings, and hence may limit or impair the ability of creditors to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the bankruptcy laws of Switzerland.

Under Swiss bankruptcy law, in general, only those debtors who are entered in the register of commerce (*Handelsregister*) are subject to bankruptcy proceedings. Bankruptcy proceedings are not initiated by the competent bankruptcy court (*Konkursgericht*) ex officio, but require that the debtor and/or a creditor file a petition for the opening of bankruptcy proceedings (*Konkursverfahren*). Upon a creditor's request for initiation of enforcement proceedings (*Einleitungsverfahren*) filed with the competent debt collection office (*Betreibungsamt*), the relevant debtor (being registered in the register of commerce) is notified and threatened with bankruptcy. Upon a second request of the creditor within 20 days after service of the bankruptcy warning (*Konkursandrohung*), the bankruptcy court declares adjudication of bankruptcy with respect to the debtor concerned, if no opposition is declared or if opposition has been removed. In addition, the creditor may request the court in certain cases to open bankruptcy proceedings without prior enforcement proceedings (*Einleitungsverfahren*), in particular if a debtor being registered in the register of commerce has ceased payments (*Zahlungseinstellung*).

Bankruptcy proceedings can also be initiated by a debtor which is a corporation (*Aktiengesellschaft, abbreviated: "AG*") in the event of overindebtedness (*Überschuldung*). According to the relevant provision in art. 725 of the Swiss Code of Obligations ("**CO**"), if there is substantiated concern of overindebtedness, an interim balance sheet has to be prepared and submitted to the auditors for examination. Overindebtedness exists if, based on that interim balance sheet, the debtor's liabilities exceed the value of its assets on the basis of both (i) the liquidation value, and (ii) the going-concern value. In case of overindebtedness pursuant to art. 725 CO, the board of directors of the debtor is obligated to file for bankruptcy without delay unless creditors of the debtor subordinate their claims to those of other creditors of the debtor to the extent of that excess amount of liabilities. If the board of directors omits to file for bankruptcy, the auditors are obligated to do the filing. Upon filing for bankruptcy, the bankruptcy judge will adjudicate bankruptcy. However, at the request of the board of directors or a creditor, the judge may postpone the adjudication provided there is a prospect of a financial reorganization.

Virtually the same rules as to the duty to file a petition for bankruptcy, and the consequences thereof, apply if a Swiss Provider is a limited liability company (*Gesellschaft mit beschränkter Haftung, abbreviated GmbH*) (art. 820 CO).

Bankruptcy proceedings will be in the form of ordinary or summary proceedings (the latter if the case is simple or due to the lack of funds to pay the costs of ordinary proceedings). However, bankruptcy proceedings will immediately be terminated at the request of the bankruptcy office (*Konkursamt*) if the available funds do not even suffice to pay for summary proceedings unless third parties, for instance creditors, advance the costs.

Upon the opening of bankruptcy proceedings, all seizable assets owned by the debtor at that time form one sole bankrupt estate (*Konkursmasse*), irrespective of where these assets are

located. All other enforcement procedures against the debtor cease immediately. The right to manage the business and to dispose of the assets of the debtor passes to the bankruptcy office (*Konkursamt*), unless the creditors decide in the first meeting of creditors (*Gläubigerversammlung*) to appoint a private bankruptcy administrator (*ausseramtlicher Konkursverwalter*). The bankruptcy office (as bankruptcy administrator) and the private bankruptcy administrator (if appointed) respectively have full administrative and disposal authority over the debtor's assets, except for the decisions reserved to the meetings of creditors. All creditors of the debtor participate in the bankruptcy proceedings, unless they have a right to separate an asset from the bankrupt estate (*Aussonderungsrecht*). Swiss bankruptcy proceedings are collective proceedings and creditors may not separately pursue their individual claims in the bankruptcy proceedings. Creditors may file their claims with the bankruptcy administrator upon public announcement of the bankruptcy of the debtor and will be paid, according to the class of their claim (*Gläubigerklasse*). In case the available funds do not suffice to pay all claims, senior classes of claims enjoy priority over junior classes. Creditors of the same class are treated equally and their claims will be paid on a *pro rata* basis.

If a Swiss Provider which has granted a Subsidiary Guarantee goes bankrupt, the creditors secured by the relevant Subsidiary Guarantee will be ranked in the third class of claims (which includes all unsecured and nonpreferred claims). Creditors secured by a pledge (*Pfandrecht*) are not entitled to enforce their respective security interest outside the bankruptcy proceedings, once bankruptcy has been adjudicated, even if it has been agreed upon in the relevant pledge agreement or security agreement that the pledge may be realized freely (*i.e.*, without following the provisions of the Federal Act on Debt Collection and Bankruptcy (*SchKG*)). Pledged assets form part of the bankrupt estate and have to be handed over to the bankruptcy administrator (subject to the pledge). It will then be up to the bankruptcy administrator to realize the pledge in the course of the bankruptcy proceedings. However, the respective secured claims will be satisfied directly out of the proceeds from the realization of the respective pledge less the costs of inventorizing, administration and realization of the pledge; these costs will first be deducted from those proceeds (art. 262 *SchKG*). Hence, the Secured Creditor will not receive 100% of the proceeds resulting from the realization of the pledge. With the remaining assets of the debtor, the bankruptcy administrator will first satisfy the creditors of the bankrupt estate (*Massegläubiger*). Liabilities resulting from acts of the bankruptcy administrator after commencement of bankruptcy proceedings constitute liabilities of the bankrupt estate (*Masseschulden*). Claims of subordinated creditors in the bankruptcy proceedings will be satisfied only after the claims of all other creditors have been fully satisfied.

As an alternative solution to bankruptcy, the debtor (or, under certain circumstances, a creditor) may seek a composition with creditors (*Nachlassverfahren*) by applying to the composition court (*Nachlassgericht*) for a moratorium (*Nachlassstundung*) and submitting a draft agreement for a composition with creditors. If the court approves the moratorium, it appoints a commissioner (*Sachwalter*). The commissioner convokes a meeting of creditors which has to approve the draft composition agreement according to specific majority rules. The composition agreement (*Nachlassvertrag*) is subject to the approval of the composition court (*Nachlassgericht*). The Federal Act on Debt Collection and Bankruptcy (*SchKG*) provides for three different types of composition agreements: the ordinary composition agreement, the composition agreement with assignment of assets and the composition agreement in bankruptcy proceedings. In case of a composition agreement with assignment of assets, unsecured claims against a Swiss Provider will be treated like unsecured claims in bankruptcy; a creditor secured by a pledge is not obliged to hand in the pledged assets to the liquidators, but may basically liquidate the security by separate enforcement proceedings for the realization of collateral or, if so agreed upon, by private sale. The same is true in case of an ordinary composition agreement. Under an ordinary composition agreement, the unsecured creditors will normally receive a certain percentage of their claims in consideration of a waiver of the remaining part of the claim.

Under Swiss bankruptcy law, there is no consolidation of the assets and liabilities of a group of companies in the event of bankruptcy. In case of a group of companies, each entity has, from a

bankruptcy laws point of view, to be dealt with separately on an entity-by-entity basis (*i.e.*, there is no group bankruptcy or substantive consolidation concept under Swiss bankruptcy law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and vis-à-vis each entity have to be dealt with separately.

*Limitation on enforcement*

If the Swiss Providers are incorporated in Switzerland in the form of a corporation (*Aktiengesellschaft*), the grant of a security (such as a pledge or a guarantee) by the Swiss Providers is subject to certain provisions of the CO.

Under Swiss law, there are several provisions protecting the share capital as well as the (legal or mandatory) reserves of a corporation. As a result, a corporation may not make payments to its direct or indirect parent company (shareholder) unless such payment is made (i) as a dividend, or (ii) in the course of a formal reduction of the corporation's share capital, or (iii) in connection with a transaction agreed at arm's length. Based on Swiss legal doctrine, payments to a direct or indirect sister company are subject to the same provisions as payments to a direct or indirect parent company. Furthermore, the granting of a security (such as a pledge or a guarantee) for the benefit of a direct or indirect parent company (*i.e.*, to secure obligations of that direct or indirect parent) or a direct or indirect sister company, as well as other acts having a similar effect (such as the waiving of rights), are subject to the same principles as an actual payment. If the granting of a security in favor of, or a payment to, a direct or indirect parent company or a direct or indirect sister company is not made within the scope of a permissible payment to a parent company, such payment or such security may be null and void. More specifically, art. 680 para. 2 CO prohibits a corporation from repaying its share capital (including the agio, according to some legal scholars) to its shareholders. Guarantees, pledges and any other type of security granted by a corporation in order to secure liabilities of a direct or indirect parent company or a direct or indirect sister company are considered a hidden repayment of the share capital and/or the legal or mandatory reserves (which latter may not be paid to the shareholders either, art. 671 CO), if they have not been granted at arms' length. Any payment in violation of this rule will be considered to be null and void.

Therefore, in order to enable Swiss security providers to grant a security to secure liabilities of a direct or indirect parent company or a direct or indirect sister company without the risk of violating art. 680 para. 2 CO, it is standard market practice for guarantees, pledges and other security documents to provide for a so-called "limitation language." Pursuant to such "limitation language," the secured parties agree to enforce the security against the Swiss security provider, or apply the proceeds from the realization of the security to the secured liabilities of a direct or indirect parent or sister company, only to the extent of the maximum amount of the free reserves available for distribution of the relevant Swiss security provider (being the positive difference between the assets of the Swiss security provider and the aggregate of all liabilities, the amount of the registered share capital and the legal or mandatory reserves, all these amounts established in accordance with Swiss law), and taking into account the deduction of the Swiss withholding tax (*Verrechnungssteuer*) at the current rate of 35% (or such other rate in force from time to time) levied on any such reserves made available for distribution. In some cases, the Swiss withholding tax liability can be discharged by mere notification, *i.e.*, without an actual deduction. To the extent Swiss withholding tax had to be deducted, the amount so deducted may in full or in part be recoverable according to the applicable double taxation treaty. In addition, the statutory purpose of a corporation needs to comprise group support and financial assistance and certain corporate formalities to be completed, including, but not limited to, obtaining an interim audit report, shareholders' resolutions and board resolutions, may be required before performing obligations under the Subsidiary Guarantees and/or the enforcement of Collateral of a Swiss Provider.

The security documents relating to the Collateral and/or Subsidiary Guarantees to be provided by the Swiss Providers would contain such "limitation language."

Notwithstanding, these rules may limit the value of the Collateral and/or Subsidiary Guarantees.

The rules described above also apply if the Swiss Providers are incorporated in the form of a limited liability company (*Gesellschaft mit beschränkter Haftung*) (art. 793 CO).

The "limitation language" referred to above and the legal doctrine and market practice based on which the "limitation language" would be included in the relevant security documents has so far never been tested by a Swiss court.

A limitation on enforcement of the Collateral of the Swiss Providers may also result from the fact that the contemplated pledge can no longer be enforced outside the bankruptcy proceedings, once bankruptcy has been adjudicated.

*Hardening periods and fraudulent transfer*

In the event of the opening of bankruptcy proceedings with respect to the Swiss Providers, which would be based on and governed by the insolvency laws of Switzerland, the security granted or payments made by the Swiss Providers could be challenged, by the bankruptcy administrator (*Konkursverwalter*), any creditor to whom such right to challenge the security or payment has been assigned, and any creditor holding a provisional or definitive certificate of loss (each of these persons a "**Party Entitled to Claim,**" collectively the "**Parties Entitled to Claim**") by means of avoidance actions (*paulianische Anfechtungsklagen*), pursuant to art. 285 *et seqq.* of the Swiss Federal Act on Debt Collection and Bankruptcy (*SchKG*).

Based on these provisions, each Party Entitled to Claim may challenge transactions (*Rechtshandlungen*) that are deemed detrimental to bankruptcy creditors and were effected prior to the commencement of bankruptcy proceedings. Such transactions may include the payment of any amounts to the holders of the Notes under certain circumstances as well as granting them a security interest under certain circumstances.

Avoidance actions can be brought in the following cases:

- when a debtor makes donations or enters into similar transactions within one year preceding the opening of bankruptcy proceedings; or
- when a debtor whose liabilities exceed its assets (*i.e.*, when a debtor is overindebted (*überschuldet*)), within one year preceding the opening of bankruptcy proceeding, grants a security for existing liabilities which the debtor was until that point in time not obliged to secure, and the creditor is not able to prove that it was unaware—and needed not to be aware—of the debtor's overindebtedness; or
- when a debtor settles monetary claims of a creditor by other means than in cash or other customary means of payment within one year preceding the opening of bankruptcy proceeding, if the debtor was overindebted (*überschuldet*) at the time of the relevant settlement, and the creditor is not able to prove that it was unaware—and needed not to be aware—of the debtor's overindebtedness; or
- when a debtor discharges a debt of a creditor which is not yet due within one year prior to the opening of bankruptcy proceedings, if the debtor was already overindebted (*überschuldet*) at the time of the payment and the creditor is not able to prove that it was unaware—and needed not to be aware—of the debtor's overindebtedness; or
- when a debtor in a transaction intentionally disadvantages its creditors or favors certain of its creditors to the disadvantage of others, provided this intention is recognizable to the other party of the relevant transaction, and further provided that such transaction is performed within five years before the opening of bankruptcy proceedings.

In this context, "awareness" is generally deemed to exist if the creditor is aware of the facts from which the conclusion must be drawn that the debtor was overindebted. In this respect, the due diligence standards expected by Swiss courts from a creditor in order for it (*i.e.*, the creditor) to successfully prove that it needed not to be aware of the debtors' overindebtedness

are considerably high. The same holds true, *mutatis mutandis,* for the issue as to whether the debtor's "intention" to favor or disadvantage certain of his creditors at the detriment of the others was "recognizable." "Intention" does not require an actual willful act determined to disadvantage certain creditors or favor certain creditors to the disadvantage of others (*keine direkte Schädigungsabsicht*). It is sufficient that the relevant debtor accepts damage to certain creditors as a potential consequence of the relevant transaction.

Hence, once an avoidance action has been filed, there is a considerable risk that a Swiss court would answer the issue as to whether the debtor acted with "intention" and that such intention was "recognizable" in the affirmative and admit the relevant avoidance action. This is particularly true where the beneficiary (of the relevant transaction with the debtor) is a finance party (such as a creditor under a commercial loan agreement or a bond issue) or a related party (meaning, for instance, a member of the management or the board of directors or a large shareholder). Both normally have full or at least a good knowledge of the economic situation of the debtor.

The same provisions apply in the event of a composition with creditors with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*), a further insolvency proceeding under Swiss law that leads to a liquidation of the assets of the debtor. In a composition with creditors, the relevant hardening period of one and five years respectively is, depending on the nature of the relevant avoidable transaction, the one-year or five-years period preceding the grant of the moratorium (that, precedes the composition agreement with the creditors).

If any of the Collateral and/or Subsidiary Guarantees by the Swiss Providers would be avoided or held unenforceable as result of a successful avoidance action, the holders of the Notes would cease to have a claim that is secured by the relevant Collateral and/or Subsidiary Guarantees, respectively. In addition, any amounts received under a transaction that has been avoided or held unenforceable as result of a successful avoidance action (if any), must be refunded to the bankrupt estate.

An avoidance action would have to be brought by a Party Entitled to Claim at the latest within two years after the adjudication of bankruptcy or, in case of a composition agreement with assignment of assets, within two years after the confirmation of the composition agreement by the composition court.

*Parallel debt*

Under Swiss law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The beneficial holders of the Notes from time to time will not be party to the security documents relating to the Collateral. In order to permit the holders of the Notes from time to time to have a secured claim the security documents and the Security Pooling and Intercreditor Agreement will provide for the creation of a "parallel debt." Pursuant to the parallel debt, the General Security Trustee becomes the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by Swiss law will directly secure the parallel debt. However, the parallel debt concept has not been tested under Swiss law, and there is no certainty that it will be held enforceable under Swiss law.

*Limitation on enforcement of German judgment*

A final, non-appealable, conclusive and enforceable judgment against a Swiss Provider rendered by a court in Germany having jurisdiction in connection with a Subsidiary Guarantee would be enforceable in Switzerland without re-examination or re-litigation on the case, unless the judgment could not be recognized in view of Art. 34 and Art. 35 of the Lugano Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters of October 30, 2007. In particular, the judgment could not be enforced if it is manifestly incompatible with Swiss public policy or the court procedures leading to the judgment did not follow the

principles of due process of law. Also, any amount denominated in a foreign currency adjudicated in a final judgment which has to be enforced through Swiss debt collection authorities (*Schweizerische Zwangsvollstreckungsbehörden*) has to be converted into Swiss Francs. Finally, no statement can be made as to the time and efficiency of the recognition and enforcement in Switzerland of a final German judgment considering that also recognition and enforcement proceedings tend to be time consuming in Switzerland.

***The Netherlands***

The Issuer is incorporated in the Netherlands. Any insolvency proceedings relating to the Issuer's obligations under the Notes would likely be based on Dutch insolvency law. Under certain circumstances, bankruptcy proceedings may also be opened in the Netherlands in accordance with Dutch law against companies that are not established under Dutch law provided that such company has an office in the Netherlands. The following is a brief description of certain aspects of Dutch insolvency law.

There are two primary insolvency regimes under Dutch law: the first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. In practice however, a moratorium of payments often serves as a gate to a bankruptcy, and in a bankruptcy, the receiver (*curator*) may continue the activities of the company before selling the company or parts of it. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. A general description of the principles of both insolvency regimes is set out below.

An application for a moratorium of payments can only be made by the debtor itself. Once the request for a moratorium of payments is filed, the court will immediately (*dadelijk*) grant a provisional moratorium and appoint an administrator (*bewindvoerder*). A meeting of creditors is required to decide on the definitive moratorium. If a draft composition (*ontwerp akkoord*) is filed simultaneously with the application for moratorium of payments, the court can order that the composition will be processed before a decision about a definitive moratorium. If the composition is accepted and subsequently confirmed by the court (*gehomologeerd*), the provisional moratorium ends as soon as the court's decision becomes final. The definitive moratorium will generally be granted unless a qualified minority (more than one-quarter in amount of claims held by creditors represented at the creditors' meeting or more than one-third in number of creditors represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent. The moratorium of payments is only effective with regard to unsecured non-preferential creditors. Unlike Chapter 11 proceedings under U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims during a moratorium of payments, under Dutch law, secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company in moratorium of payments to satisfy their claims as if there were no moratorium of payments. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. The court may order a "cooling down period" (*afkoelingsperiode*) for a maximum period of four months during which enforcement actions by secured or preferential creditors are barred. Also in a definitive moratorium of payments, a composition (*akkoord*) may be offered to creditors. A composition will be generally binding on all unsecured and non-preferential creditors if it is (i) approved by a majority in number of the creditors recognized and admitted at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes and (ii) subsequently ratified (*gehomologeerd*) by the court. Under certain conditions, the court or the judge commissioner (*rechter commissaris*) (as the case may be) may derogate from this procedure. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effect a restructuring. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be claimed in a composition.

Under Dutch law, a debtor can be declared bankrupt when it is no longer able to pay its debts when due. The bankruptcy can be requested by a creditor of a claim that is due and payable but left unpaid when there is at least one other creditor. Under Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors in accordance with the respective rank and priority of their claims. The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment) which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their claims. However, certain creditors (such as Secured Creditors and tax and social security authorities) will have special rights that take priority over the rights of other creditors. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of the holders of the Notes that were not due and payable by their terms on the date of a bankruptcy of the Issuer will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the receiver to be verified. "Verification" under Dutch law means that the receiver determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings for the purpose of the distribution of the proceeds. The valuation of claims that otherwise would not have been payable at the time of the bankruptcy proceedings may be based on a net present value analysis. Interest payments that fall due after the date of the bankruptcy cannot be verified. The existence, value and ranking of any claims submitted by the holders of the Notes may be challenged in the Dutch bankruptcy proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver, the insolvent debtor and all creditors who have submitted claims may dispute the claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooi procedure*). These court procedures could cause holders of the Notes to recover less than the principal amount of their Notes or less than they could recover in a U.S. liquidation-Moreover, such procedures could also cause payments to the holders of the Notes to be delayed compared with holders of undisputed claims. As in moratorium of payments proceedings, in a bankruptcy a composition may be offered to creditors, which shall be binding on unsecured non-preferential creditors if it is (i) approved by a majority in number of the creditors recognized and admitted at the creditors' meeting, representing at least 50% of the amount of the claims that are admitted for voting purposes and (ii) subsequently ratified (*gehomologeerd*) by the court. Under certain conditions, the judge commissioner (*rechter commissaris*) may derogate from this procedure. The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a pro rata basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings. The actual effect depends largely on the way such subordination is construed.

Secured Creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a "cooling down period" for a maximum of four months during which enforcement actions by Secured Creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a Secured Creditor to enforce its security interest within a specified reasonable period of time, failing which the receiver will be entitled to sell the secured assets or collect the secured claims, if any, and the Secured Creditor will have to share in the bankruptcy costs and will have to await distribution by the receiver. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the Secured Creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in case of fraudulent conveyance or bad faith when obtaining the claim or the debt used for set-off. Moreover, to the extent that Dutch law applies, a legal act performed by a debtor (including, without limitation, (i) an agreement pursuant to which it guarantees the performance of the obligations of a third party or pursuant

to which it agrees to provide or provides security for any of its or a third party's obligations, (ii)additional agreements entered into by it benefiting from existing security and (iii) any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors and in bankruptcy by its receiver, if (i) it performed such acts without an obligation to do so (*onverplicht*), (ii) generally the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (iii) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of its creditors (existing or future) would be prejudiced. In addition, in the case of such a bankruptcy, the receiver may nullify the debtor's performance of any due and payable obligation (including (without limitation) an obligation to provide security for any of its or a third party's obligations) if (i) the payee (*hij die betaling ontving*) knew that a request for bankruptcy had been filed at the moment of payment, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

Under Dutch law, as soon as a debtor is declared bankrupt, all pending executions of judgments against such debtor, as well as all attachments on the debtor's assets (other than summary executions with respect to Secured Creditors), will be terminated by operation of law. Simultaneously with the opening of the bankruptcy, a Dutch receiver will be appointed. The proceeds resulting from the liquidation of the bankrupt estate may not be sufficient to satisfy unsecured creditors under the guarantees granted by a bankrupt guarantor after the secured and the preferential creditors have been satisfied. It is not uncommon that the proceeds are even insufficient to discharge the claims of preferential and Secured Creditors. Litigation pending on the date of the bankruptcy order is automatically stayed. Foreign creditors are, in general, not treated different from creditors that are incorporated or residing in the Netherlands.

The Indenture and the Notes are subject to the laws of the state of New York (USA). If a judgment is obtained in a U.S. court against the Issuer or a Guarantor or a provider of Collateral, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. In the absence of an applicable treaty to which the United States and the Netherlands are a party, a judgment obtained against the Issuer in the courts of the United States enforceable will not be directly enforceable in the Netherlands. In order to obtain a judgment which is enforceable in the Netherlands, the claim must be relitigated before a competent court of the Netherlands; the relevant Netherlands court has discretion to attach such weight to a judgment of the courts of the United States as it deems appropriate; based on case law, the courts of the Netherlands may be expected to recognize and grant permission for enforcement of a judgment of a court of competent jurisdiction in the United States without re-examination or relitigation of the substantive matters adjudicated thereby, provided that (i) the relevant court in the United States had jurisdiction in the matter in accordance with standards which are generally accepted internationally; (ii) the proceedings before such court complied with principles of proper procedure; and (iii) recognition and/or enforcement of such judgment does not conflict with the public policy of the Netherlands.

***United Kingdom***

Certain of the Subsidiary Guarantors and providers of Collateral are incorporated in, maintain their respective registered offices in and conduct their business and the administration of their interests on a regular basis in and from England and Wales (each a "**UK Provider**"). On the basis of these factors, an English court may conclude that the UK Providers have their center of main interests, within the meaning of the EU Insolvency Regulation, in England and therefore insolvency proceedings in England constituting "main insolvency proceedings" under article 3(1) of the EU Insolvency Regulation may be commenced in respect of a UK Provider.

*Priority of claims in a UK liquidation*

Upon liquidation of any UK Provider, the order of priorities is such that debts due by it to any holders of fixed charges over UK assets are paid first out of the realization proceeds of assets subject to such fixed charges (subject to the prior payment of the costs of preservation and realization of the fixed charge assets). Where there are floating charges, liquidation expenses (discussed further below), preferential creditors, and unsecured creditors to the extent of the "ring-fenced" fund (discussed further below) may be paid out of floating charge realizations in priority to payments to creditors secured by virtue of floating charges. Thereafter, any debts owing to holders of a floating charge would be paid to the extent they are secured by that charge. The categories of preferential debts include certain amounts payable in respect of occupational pension schemes relating to contributions due but unpaid, employee remuneration up to a specified amount and levies on coal and steel production. Where a floating charge created on or after September 15, 2003 exists, a certain part of the net proceeds of the realization of the assets covered by such floating charge would be "ring-fenced" and made available *pro rata* to unsecured creditors. Unsecured debts which are not preferential debts would be paid after the secured liabilities have been met from the relevant secured assets.

As discussed further below, certain of the security over UK assets expected to be created in favor of the General Security Trustee will be expressed as a fixed charge, but there is no certainty that the security will take effect as a fixed charge and it may well take effect as a floating charge. Where no security is provided by a UK Provider, the guarantee obligations of that UK Provider will be unsecured.

*Liquidation expenses*

The Insolvency Act 1986 (the "**UK Insolvency Act**") broadly states that in a liquidation of a company, where the assets available for payment of its general creditors (excluding any amount ring-fenced for unsecured debts as described above) are not sufficient to meet the liquidation expenses, certain specified liquidation expenses rank ahead of preferential debts and floating chargees' claims. In the case of litigation expenses, this is subject to rules restricting the application of this provision to certain litigation expenses approved by the floating chargee and any preferential creditors or the court.

Consequently, realizations by Secured Creditors upon the enforcement of floating charges and guarantee obligations could potentially be reduced by the amount of any liquidation expenses. If any fixed security is validly created, any claims of creditors holding such fixed security would rank ahead of any such liquidation expenses.

*Administration*

Administration is an insolvency procedure under the UK Insolvency Act, pursuant to which a company may be reorganized or its assets realized under the protection of a statutory moratorium. A company may be put into administration either pursuant to a court order or via an out-of-court process. Broadly speaking (and subject to specific conditions), a company can be placed into administration at the application of, among others, the company itself, its directors or one or more of its creditors (including contingent and prospective creditors). A holder of a qualifying floating charge over the assets of the company also has the right to appoint an administrator. In addition, he has the right to intervene in an administration application by nominating an alternative administrator or in certain very specific circumstances, by blocking the appointment altogether by the appointment of an administrative receiver.

Broadly speaking, an interim moratorium comes into effect when an application for an administration order (in the case of court appointment) or a notice of intention to appoint an administrator is made. At the commencement of the appointment of an administrator, a full statutory moratorium applies, pursuant to which creditors cannot take action against the company, including, among other things, commencing a legal process against the company, winding up the company or enforcing security or repossessing goods in the company's

possession under a hire purchase agreement without the consent of the administrator or permission of the court. Certain creditors of a company in administration may be able to realize their security over that Company's property notwithstanding the statutory moratorium. This is by virtue of the disapplication of the moratorium in relation to a "security financial collateral arrangement" (generally, cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. If a UK Provider were to enter administration, it is possible that the security granted by it or the guarantee granted by it may not be enforced while it is in administration.

Broadly speaking, expenses that qualify as expenses of the administration (and which include, among others, expenses properly incurred by the administrator in performing his functions and necessary disbursements incurred in the course of the administration) enjoy priority status. Claims of creditors may be submitted to the administrator, although court approval generally will be required before he can make a distribution to unsecured creditors. Time limits may be set for receipt and processing of claims before interim dividends are paid.

*Small companies moratorium*

Certain "small companies" for the purposes of putting together proposals for a company voluntary arrangement may seek court protection from their creditors by way of a "moratorium" for a period of up to 28 days, with the option for creditors to extend this protection for up to a further 2 months (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by order, extend or reduce the duration of either period).

A "small company" is defined for these purposes by reference to whether the company meets certain tests relating to a company's balance sheet, total turnover and average number of employees in a particular period (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by order, modify the moratorium eligibility qualifications and the definition of a "small company").

During the period for which a moratorium is in force in relation to a company, among other things, no winding up may be commenced or administrator or administrative receiver appointed to that company, no security created by that company over its property may be enforced (except with the leave of the Court or in the case of existence of financial collateral arrangements as defined in the Financial Collateral Arrangements (No 2) Regulations 2003 whereby the requirement to get a court order before enforcing security over small companies will not apply), no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the Court) and the company's ability to make payments in respect of debts and liabilities existing at the date of the filing for the moratorium is curtailed.

In addition, if the holder of security created by that company (other than financial collateral as above described) consents or if the Court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a security which as created was a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the security. Where the security in question is other than a floating charge, it shall be a condition of the chargee's consent or the leave of the Court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Certain small companies may, however, be excluded from being eligible for a moratorium (although the Secretary of State for Business, Enterprise and Regulatory Reform may, by regulations, modify such exclusions). As the law currently stands, companies that on the date of filing are party to an agreement which is or forms part of a capital market arrangement are excluded from being eligible for this small companies moratorium.

It is noted that none of the UK Providers will satisfy the eligibility criteria in order for the small companies moratorium to become applicable once the Subsidiary Guarantees and Collateral are granted.

*Possible challenges*

Under English insolvency law, a liquidator or administrator of a company has certain powers to apply to court to challenge transactions entered into by a company if the company is unable to pay its debts (as defined in the UK Insolvency Act) at the time of the transaction or if the company becomes unable to pay its debts as a result of the transaction.

A transaction might be challenged in this way (as a transaction at an undervalue) if it involved the company making a gift or otherwise entering into a transaction on terms that it received no consideration, or the company received significantly less value than it gave in return. The court has powers to make any order it thinks fit in order to restore the position to what it would have been had the company not entered into that transaction. A court will not intervene, however, if it is satisfied that the company entered into the transaction in good faith and for the purposes of carrying on its business and if, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company. The court can set aside transactions at an undervalue entered into by the company within a period of two years ending with the onset of insolvency (as this date is more specifically defined in the UK Insolvency Act).

A transaction might also be challenged in this way (as a preference) where the company has done something or suffered something to be done to put a creditor, surety or guarantor in a better position than the one he would have been in the event of the company going into insolvent liquidation. A court will not intervene however when the company was not influenced by a desire to put this person in a better position in the event of insolvent liquidation. If the preference is given to a person connected to the company (other than an employee), the court can go back two years from the date of the onset of insolvency. If the person is not connected to the company, the court can only go back and set aside those preferences entered into in the period of six months ending on the onset of insolvency.

Further, an administrator or a liquidator can apply to court to set aside an extortionate credit transaction. The court can review extortionate credit transactions entered into by the company up to three years before the day on which the company entered into administration or went into liquidation. A transaction is "extortionate" if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

The UK Insolvency Act provides that, in certain circumstances, a floating charge granted by a company during the "relevant time" may be invalid in whole or in part if certain conditions are met. In the case of a floating charge which is created in favor of a person that is not connected to the company, the relevant time is deemed to be the period of 12 months ending with the onset of insolvency and at the time the charge was granted the company must have been unable to pay its debts or became unable to pay its debts as a result of the transaction in respect of which the floating charge was granted. If the floating charge is created in favor of a person connected to the company, the relevant time is a period of two years ending with the onset of insolvency.

As a result of the rights to challenge described above, in the event that a UK Provider becomes unable to pay its debts within a period of up to two years of the issuance of the Notes, an administrator or liquidator is appointed and the conditions contemplated in the relevant legal provisions are met, the provision of the relevant Subsidiary Guarantees and Collateral may be challenged by a liquidator or administrator or a court may set aside the granting of the Subsidiary Guarantees and Collateral as invalid.

*Recharacterization of fixed security interests*

There is a possibility that a Court could find that the fixed security interests expressed to be created by the security documents governed by English law could take effect as floating charges as the description given to them as fixed charges is not determinative.

Where a UK Provider is free to deal with the secured assets without the consent of the chargee, the Court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge. Certain UK Providers are expected to grant security over shares and bank accounts. Such expected share security will be by way of equitable charge and any security document granting security over bank accounts will purport to grant fixed charges over such accounts upon the conversion (or "crystallization") of the relevant charges into fixed charges in accordance with the provisions of such security document. Whether the fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the General Security Trustee has the requisite degree of control over the UK Provider's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the General Security Trustee in practice.

If the fixed security interests are recharacterized as floating security interests, the claims of (i) the unsecured creditors of the relevant UK Provider in respect of that part of the UK Provider's net property which is ring fenced (see explanation about ring fencing above); and (ii) certain statutorily defined preferential creditors of the UK Provider may have priority over the rights of the General Security Trustee to the proceeds of enforcement of such security. In addition, as mentioned above, the expenses of a liquidation or administration would also rank ahead of the claims of the General Security Trustee as floating charge holder.

*Limitation on enforcement*

The grant of a guarantee or security by any of the UK Providers in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that the above do not allow such an action, there is the risk that the grant of the guarantee and the subsequent security can be found to be void and the respective creditor's rights unenforceable. Some comfort may be obtained for third parties if they are dealing with the company in good faith, however the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for the company in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act 2006 provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. If the directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may vulnerable to being set aside by a court.

*Equitable share charge*

The fixed charges over shares granted by certain UK Providers are equitable charges, not legal charges. An equitable charge arises where a chargor transfers the beneficial interest in the shares to the chargee but retains legal title to the shares. Remedies in relation to equitable charges may be subject to equitable considerations or are otherwise at the discretion of the court.

*Account bank right to set-off*

With respect to the charges over cash deposits (the "**Account Charge**") granted by a UK Provider over certain of its bank accounts, the bank with which those accounts are held (the "**Account Bank**") has reserved its right at any time (whether prior to or following a crystallization event under the Account Charge) to exercise the rights of netting or set-off to which it is entitled under its cash pooling arrangements with that UK Provider. As a result, the collateral will be subject to the Account Bank's netting and set-off rights with respect to the bank accounts charged under the Account Charge.

***United States of America***

Under U.S. federal bankruptcy laws or comparable provisions of state fraudulent transfer laws, under certain circumstances:

(i) the issuance of the Subsidiary Guarantees and the grant of security in the Collateral by entities subject to or organized under the laws of the United States or certain states thereof, including the State of Connecticut and the State of Delaware (each, a "**U.S. Provider**") could be avoided,

(ii) claims in respect of such liens or obligations could be subordinated to some or all of its other debts and other liabilities,

(iii) the right of the General Security Trustee to repossess and dispose of the Collateral of a U.S. Provider upon an event of default under the indenture governing the Notes is likely to be significantly impaired if such U.S. Provider commenced U.S. bankruptcy proceedings before such repossession or disposal occurs, and

the holders of the Notes could be required to repay any amounts received in connection with such Subsidiary Guarantee or Collateral.

*Federal and state insolvency proceedings*

Certain U.S. Providers may have operations that would subject any one or more either to federal bankruptcy laws under title 11 of the United States Code (the "**U.S. Bankruptcy Code**") or any applicable state law insolvency proceedings. Proceedings under the U.S. Bankruptcy Code vary and provide a debtor with discretion in its pursuit of a liquidation or reorganization strategy. The U.S. Bankruptcy Code provides a detailed statutory framework that, among other things, contains terms or provisions relating to: (a) the administration of a bankruptcy case, including the provision of "adequate protection" to Secured Creditors, the automatic stay, terms for the use, sale or lease of property, standards for obtaining credit and the treatment of executory contracts and leases; (b) creditors and claims, including filing proofs of claim, priority and allowance of claims, rights of Secured Creditors and subordination of claims; (c) provisions relating to the creation of the bankruptcy estate, including the scope of property of the estate and turnover and avoidance actions; liquidation under chapter 7 of the U.S. Bankruptcy Code; reorganization under chapter 11 of the U.S. Bankruptcy Code; and ancillary and cross-border insolvency cases under chapter 15 of the U.S. Bankruptcy Code.

As a general matter, chapter 7 of the U.S. Bankruptcy Code provides for the orderly liquidation of the debtor's assets by a trustee. Chapter 11 of the U.S. Bankruptcy Code is available to debtors who seek to rehabilitate their businesses and work out their obligations to creditors. Unlike in chapter 7, the debtor in a chapter 11 case typically remains in control of its assets and continues to operate its business during the course of the bankruptcy case. In addition, "liquidating" chapter 11 cases are a frequently utilized alternative to chapter 7 liquidations, especially where the conversion of a pending chapter 11 case to a case under chapter 7 might prove prohibitively expensive or in an instance when a debtor expects to sell all or substantially all of its assets. Because bankruptcy proceedings tend to be fact specific and vary case by case and because U.S. bankruptcy courts are courts of equity with broad discretionary powers, a detailed summary of all of the provisions of the U.S. Bankruptcy Code that could impact the Notes, the Collateral or the Subsidiary Guarantees is not contained herein.

With respect to proceedings under any applicable state insolvency laws (*e.g.*, assignments for the benefit of creditors, receiverships or other state liquidation mechanisms), the effects and customers of these proceedings are fact-specific, vary from state to state and require an examination of both statutory and common law, the details of which also are not described herein. To the extent more information is required, potential investors in the Notes should consult an insolvency professional familiar with U.S. and the applicable state insolvency laws.

*Delay and risks associated in a federal bankruptcy proceeding*

If a bankruptcy proceeding were to be commenced under the U.S. Bankruptcy Code by or against any U.S. Provider, it is likely that delays will occur in enforcing the Subsidiary Guarantees or Collateral granted by the bankrupt U.S. Provider, because of specific provisions of such laws or by a court applying general principles of equity. Aspects of federal bankruptcy laws or general principles of equity that could result in the impairment of rights include, but are not limited to:

- the automatic stay;
- avoidance of preferential transfers by a trustee or debtor-in-possession;
- substantive consolidation of the assets and liabilities of multiple entities;
- limitations on collectability of unmatured interest or attorney fees;
- fraudulent transfer; and
- forced restructuring of the bonds issued by the bankrupt company, including reduction of principal amounts and interest rates and extension of maturity dates, over the holders' objections.

As an initial matter, the commencement of a bankruptcy case operates as a stay, applicable to all creditors, of most litigation against the debtor and efforts to collect prepetition claims, enforce existing liens or impose most new liens. The purpose of the stay is to provide the chapter 11 debtor time to reorganize and the chapter 7 trustee protection under which to liquidate in an orderly fashion the debtor's assets for the benefit of creditors. The automatic stay is also intended to shield a debtor from the pressures of creditor collection efforts. Among other things, the automatic stay prohibits (a) all collection efforts by creditors, (b) the enforcement of prepetition judgments against the debtor or property of the estate, (c) any act to create, perfect or enforce a lien against property of the estate and (d) the set-off of prepetition debts owing to the debtor against debts owing by the debtor. The automatic stay ordinarily does not bar suits against non-debtor guarantors or co-obligors, nor does it enjoin payment under a letter of credit issued by a bank in favor of a creditor of the applicable debtor. Applicable federal bankruptcy laws generally do not permit the payment or accrual of interest, costs and attorneys' fees for unsecured or "undersecured" claims.

*Fraudulent transfer issues*

Under the U.S. Bankruptcy Code or comparable provisions of state fraudulent transfer laws, the issuance of Subsidiary Guarantees or provisions of Collateral by any U.S. Providers could avoided if, among other things, at the time the U.S. Providers issued the Subsidiary Guarantees or provided Collateral (as the case may be), the applicable U.S. Provider (a) intended to hinder, delay or defraud any present or future creditor; or (b) received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness and, in the case of (b) either:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the U.S. Provider's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measures of insolvency for purposes of the foregoing considerations will vary depending upon the law applied in any proceeding with respect to the foregoing. Generally, however, a U.S. Provider would be considered insolvent if:

(i) the sum of its debts, including contingent liabilities, was greater than all of its assets, at a fair valuation;

(ii) the present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts, including contingent liabilities, as they become absolute and mature; or

(iii) it could not pay its debts as they become due.

However, there can be no assurance as to what standard a court may apply in making solvency determinations, and different courts may reach different conclusions with regard to these issues. In an evidentiary ruling in the *In re W.R. Grace & Co.* bankruptcy case, the U.S. Bankruptcy Court for the District of Delaware held that under the Uniform Fraudulent Transfer Act, whether a transferor is rendered insolvent by a transfer depends on the actual liabilities of the transferor, and not what the transferor knows about such liabilities at the time of the transfer. Therefore, under that court's analysis, liabilities that are unknown, or that are known to exist but whose magnitude is not fully appreciated at the time of the transfer, may be taken into account in the context of a future determination of insolvency. If the principle articulated by that court is upheld, it would make it very difficult to know whether a transferor is solvent at the time of transfer, and would increase the risk that a transfer may in the future be found to be a fraudulent transfer.

By their terms, the Subsidiary Guarantees of each U.S. Provider will limit the liability of each such guarantor to the maximum amount it can pay without the Subsidiary Guarantee being deemed a fraudulent transfer. It is not assured, however, that this limitation will protect such guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the guarantees would suffice, if necessary, to pay the notes in full when due. In a recent Florida bankruptcy case, this kind of provision was found to be ineffective to protect the guarantees.

In addition to the avoidance power that may be exercised in a U.S. bankruptcy, claims in respect of liens or obligations evidenced by the Subsidiary Guarantees or Collateral may, in certain circumstances, be subordinated under the equitable subordination provisions of the U.S. Bankruptcy Code.

*Preference issues*

Any future pledge of collateral in favor of the creditors might be avoidable by the pledgor (as debtor in possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the pledgee to receive a greater recovery than it would otherwise receive in a hypothetical Chapter 7 liquidation and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge, or, in certain circumstances, a longer period.

# Book-entry, delivery and form

## General

Notes sold to investors will initially be represented by a global note in registered form without interest coupons attached (the "**Global Note**").

Ownership of interests in the Global (the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book-Entry Interests will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair the investor's ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream (or their respective nominees), as applicable, will be considered the sole holders of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

Neither the Schaeffler Group nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

## Action by owners of book-entry interests

Euroclear and Clearstream have advised the Schaeffler Group that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and Clearstream, at the request of the holders of the Notes, reserve the right to exchange the Global Notes for definitive registered Notes in certificated form (the "**Definitive Registered Notes**"), and to distribute such Definitive Registered Notes to their participants.

## Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

(1) if Euroclear or Clearstream notifies the Schaeffler Group that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days;

(2) if the owner of a Book Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture.

Euroclear and Clearstream have advised the Schaeffler Group that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (2), their current procedure is to request that the Schaeffler Group issues or causes to be issued Notes in definitive registered form to all owners of Book-Entry Interests and not only to the owner who made the initial request.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream or the Schaeffler Group, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend as provided in the relevant Indenture, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the relevant Paying Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

The Schaeffler Group will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

## Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Schaeffler Group understands that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than €1,000 principal amount may be redeemed in part.

## Payments on Global Notes

The Schaeffler Group will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the Principal Paying Agent. The Paying Agent will, in turn make said payments to the common depositary or its nominee for Euroclear and Clearstream. Euroclear and Clearstream will distribute such payments to participants in accordance with their respective customary procedures. The Schaeffler Group will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under *"Description of the Notes—Additional Amounts."* If any such deduction or withholding is required to be made, then, to the extent described under *"Description of the Notes—Additional Amounts"* above, the Schaeffler Group will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. The Schaeffler Group expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Schaeffler Group, the Trustee and the Paying Agents will treat the registered holders of the Global Notes (*e.g.*, Euroclear or Clearstream (or their respective nominee)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Schaeffler Groups, the Trustee and the Paying Agents or any of its agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

## Currency of payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such Notes through Euroclear or Clearstream in euro.

## Transfers

Transfers between participants in Euroclear or Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture governing the Notes.

The Global Notes will bear a legend to the effect set forth under *"Transfer Restrictions*" Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under *"Transfer restrictions.*"

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under *"Description of the Notes—Transfer and exchange*" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See *"Transfer restrictions.*"

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

## Information concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Schaeffler Group provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. Neither the Schaeffler Group nor the Initial Purchasers are responsible for those operations or procedures.

The Schaeffler Group understands as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide

various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited.

## Global clearance and settlement under the book-entry system

The Notes represented by the Global Notes are expected to be listed on the LxSE and admitted for trading on LxSE's regulated market. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Schaeffler Group, any Guarantor, the Trustee or the relevant Paying Agent will have any responsibility for the performance by Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

## Initial settlement

Initial settlement for the Notes will be made in euro. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

## Secondary market trading

The Book-Entry Interests will trade through participants of Euroclear and Clearstream and will settle in same day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

# Taxation

## Germany

The following is a general discussion of certain German tax consequences of the acquisition, holding and disposal of Notes. It does not purport to be a comprehensive description of all German tax considerations that may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the tax laws of Germany currently in force and as applied on the date of this Prospectus, which are subject to change, possibly with retroactive or retrospective effect.

Prospective purchasers of Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposal of Notes, including the effect of any state, local or church taxes, under the tax laws of Germany and any country of which they are resident or whose tax laws apply to them for other reasons.

***Tax Residents***

The section "*Tax Residents*" refers to persons who are tax residents of Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

*Withholding tax on ongoing payments and capital gains*

Ongoing payments received by an individual Holder will be subject to German withholding tax if the Notes are kept in a custodial account with a German branch of a German or non-German bank or financial services institution, a German securities trading company or a German securities trading bank (each, a "**Disbursing Agent,**" *auszahlende Stelle*). The tax rate is 25% (plus solidarity surcharge at a rate of 5.5% thereon, the total withholding being 26.375%). If the individual Holder is subject to church tax, a church tax surcharge may also be withheld.

The same treatment applies to capital gains (*i.e.*, generally the difference between the proceeds from the disposal, redemption, repayment or assignment after deduction of expenses directly related to the disposal, redemption, repayment or assignment and the cost of acquisition) derived by an individual Holder provided the Notes have been held in a custodial account with the same Disbursing Agent since the time of their acquisition. If interest claims are disposed of separately (*i.e.*, without the Notes), the proceeds from the disposition are subject to withholding tax. The same applies to proceeds from the redemption of interest claims if the Notes have been disposed of separately.

To the extent the Notes have not been kept in a custodial account with the same Disbursing Agent since the time of their acquisition or if the Notes have been transferred into the custodial account of the Disbursing Agent only after their acquisition, upon the disposal, redemption, repayment or assignment withholding tax applies at a rate of 26.375% (including solidarity surcharge plus church tax thereon, where applicable) on 30% of the disposal proceeds (plus interest accrued on the Notes ("**Accrued Interest,**" *Stückzinsen*), if any), unless the current Disbursing Agent has been notified of the actual acquisition costs of the Notes by the previous Disbursing Agent or by a statement of a bank or financial services institution within the European Economic Area or certain other countries in accordance with art. 17 para. 2(i) of the EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**") (*e.g.*, Switzerland or Andorra).

In computing any German tax to be withheld, the Disbursing Agent may generally deduct from the basis of the withholding tax negative investment income realized by the individual Holder via the Disbursing Agent (*e.g.*, losses from sale of other securities with the exception of shares). The Disbursing Agent may also deduct Accrued Interest on other securities paid separately upon the acquisition of the respective security via the Disbursing Agent. In addition, subject to certain

requirements and restrictions, the Disbursing Agent may credit foreign withholding taxes levied on investment income in a given year regarding securities held by the individual Holder in the custodial account with the Disbursing Agent.

Individual Holders may be entitled to an annual allowance (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples filing jointly) for all investment income received in a given year. Upon the individual Holder filing an exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent, the Disbursing Agent will take the allowance into account when computing the amount of tax to be withheld. No withholding tax will be deducted if the Holder has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the competent local tax office.

German withholding tax will not apply to gains from the disposal, redemption, repayment or assignment of Notes held by a corporation as Holder while ongoing payments, such as interest payments, are subject to withholding tax (irrespective of any deductions of foreign tax and capital losses incurred). The same may apply where the Notes form part of a trade or business, subject to further requirements being met.

*Taxation of current income and capital gains*

The personal income tax liability of an individual Holder deriving income from capital investments under the Notes is, in principle, settled by the tax withheld. To the extent withholding tax has not been levied, such as in the case of Notes kept in custody abroad or if no Disbursing Agent is involved in the payment process, the individual Holder must report his or her income and capital gains derived from the Notes on his or her tax return and then will also be taxed at a rate of 25% (plus solidarity surcharge and church tax thereon, where applicable). Inter alia, if the withholding tax on a disposal, redemption, repayment or assignment has been calculated from 30% of the disposal proceeds (rather than from the actual gain), an individual Holder may also apply for an assessment on the basis of his or her actual acquisition costs. Further, an individual Holder may request that all investment income of a given year is taxed at his or her lower individual tax rate based upon an assessment to tax with any amounts over withheld being refunded. In each case, the deduction of expenses (other than transaction costs) on an itemized basis is not permitted.

Losses incurred with respect to the Notes can only be off-set against investment income of the individual Holder realized in the same or the following years.

Where Notes form part of a trade or business the withholding tax, if any, will not settle the personal or corporate income tax liability. In this case, also interest (accrued) must be taken into account as income. The respective Holder will have to report income and related (business) expenses on the tax return and the balance will be taxed at the Holder's applicable tax rate. Withholding tax levied, if any, will be credited against the personal or corporate income tax of the Holder. Where Notes form part of a German trade or business, the current income and gains from the disposal, redemption, repayment or assignment of the Notes may also be subject to German trade tax.

***Non-Tax Residents***

Interest, including Accrued Interest, and capital gains are generally not subject to German taxation, unless (i) the Notes form part of the business property of a permanent establishment, including a permanent representative, or a fixed base maintained in Germany by the Holder or (ii) the income otherwise constitutes German-source income. In cases (i) and (ii) a tax regime similar to that explained above under "*Tax Residents*" applies.

Non-tax residents of Germany are, in general, exempt from German withholding tax on interest and the solidarity surcharge thereon. However, where the interest is subject to German taxation as set forth in the preceding paragraph and the Notes are held in a custodial account with a Disbursing Agent, withholding tax may be levied under certain circumstances. The withholding tax may be refunded based on an assessment to tax or under an applicable tax treaty.

***Inheritance and Gift Tax***

In general, no inheritance or gift taxes with respect to any Notes will arise under the laws of Germany, if, in the case of inheritance tax, neither the deceased nor the beneficiary, or, in the case of gift tax, neither the donor nor the donee, is a tax resident of Germany and such Note is not attributable to a German trade or business for which a permanent establishment is maintained, or a permanent representative has been appointed, in Germany. Exceptions from this rule apply especially to certain German expatriates.

***Other Taxes***

No stamp, issue or registration taxes or similar duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax is not levied in Germany.

## Grand Duchy of Luxembourg

*The following summary relating to Luxembourg withholding tax is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.*

*Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature refers to Luxembourg tax law and/or concepts only.*

***Withholding Tax***

*Non-resident Holders*

Under Luxembourg general tax laws currently in force and subject to the laws of June 21, 2005, as amended (the "**Laws**"), there is no withholding tax on payments of principal, premium or interest made to non-resident Holders, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident Holders.

Under the Laws implementing the Council Directive 2003/48/EC of June 3, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU member states (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is resident of, or established in, an EU member state (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws will be subject to a withholding tax at a rate of 35%.

*Resident Holders*

Under Luxembourg general tax laws currently in force and subject to the law of December 23, 2005, as amended (the "**Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Holders, nor on accrued but unpaid interest in respect

of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident Holders.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

## The Netherlands

***General***

*The following summary outlines the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Netherlands tax considerations in relation thereto. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.*

This summary is based on Netherlands tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands tax consequences for:

(i) Holders holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in the Issuer and Holders of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5% or more of the total issued capital of the Issuer or of 5% or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;

(ii) individual holders for whom the income or capital gains derived from the Notes are attributable to employment activities, the income from which is taxable in the Netherlands;

(iii) investment institutions (*fiscale beleggingsinstellingen*);

(iv) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are exempt from Netherlands corporate income tax; and

(v) persons to whom the Notes and the income from the Notes are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Netherlands income tax Act 2001 (*Wet inkomstenbelasting 2001*) and the Netherlands gift and inheritance tax Act (*Successiewet 1956*).

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom of the Netherlands.

***Withholding tax***

All payments made by the Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

*Corporate and individual income tax*

*Residents of the Netherlands*

If a holder is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which the Notes are attributable, income derived from the Notes and gains realized upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (at up to a maximum rate of 25%).

If an individual holder is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes (including an individual holder who has opted to be taxed as a resident of the Netherlands), income derived from the Notes and gains realized upon the redemption, settlement or disposal of the Notes are taxable at the progressive rates (at up to a maximum rate of 52%) under the Netherlands income tax act 2001 (*Wet inkomstenbelasting 2001*), if:

(i) the holder is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the holder has, other than as an entrepreneur or a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Notes are attributable; or

(ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the holder of the Notes, taxable income with regard to the Notes must be determined on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realized. This deemed return on income from savings and investments is fixed at a rate of 4% of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year (January 1), insofar as the individual's yield basis exceeds a certain threshold. The individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Notes less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Notes will be included as an asset in the individual's yield basis. The 4% deemed return on income from savings and investments is taxed at a rate of 30%.

*Non-residents of the Netherlands*

If a holder is not a resident nor is deemed to be a resident of the Netherlands for Netherlands tax purposes (nor, in case of an individual, has opted to be taxed as a resident of the Netherlands), such holder is not liable to Netherlands income tax in respect of income derived from the Notes and gains realized upon the settlement, redemption or disposal of the Notes, unless:

(i) the holder is not an individual and such holder (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

This income is subject to Netherlands corporate income tax at up to a maximum rate of 25%.

(ii) the holder is an individual and such holder (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or

permanent representative the Notes are attributable, or (2) realizes income or gains with respect to the Notes that qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*) in the Netherlands, which activities include the performance of activities in the Netherlands with respect to the Notes which exceed regular, active portfolio management (*normaal, actief vermogensbeheer*), or (3) is (other than by way of securities) entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (1) and (2) is subject to individual income tax at up to a maximum rate of 52%. Income derived from a share in the profits as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under "Residents of the Netherlands"). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual's Netherlands yield basis.

*Gift and inheritance tax*

*Residents of the Netherlands*

Generally, gift and inheritance tax will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on behalf of, or on the death of, a holder that is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled and is subject to Netherlands gift and inheritance tax if the donor is, or is deemed to be a resident of the Netherlands at that time.

A holder of Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax if he or she has been resident in the Netherlands and dies or makes a gift within ten years after leaving the Netherlands. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift tax if he or she has been resident in the Netherlands and makes a gift within a twelve months period after leaving the Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

*Non-residents of the Netherlands*

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or as a result of, the death of a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax, unless in the case of a gift of the Notes by, or on behalf of, a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of the Netherlands. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled.

*Value added tax*

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

*Other taxes and duties*

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

## EU Savings Directive

Under the EU Savings Directive, (2003/48/EC), member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The EU Savings Directive also provides that no such withholding tax should be levied where the beneficial owner of the payment authorizes an exchange of information and/or where the beneficial owner presents a certificate, as described in the EU Savings Directive, from the tax authority of the EU member state in which the beneficial owner is a resident. A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

By legislative regulations dated January 26, 2004 the German Federal Government enacted provisions implementing the EU Savings Directive into German law. These provisions apply from July 1, 2005.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

# Subscription, offer and sale

## Offer of the Notes

The offering consists of (i) a public offering of the International Offering Notes to retail and institutional investors in Germany and Luxembourg and private placements to institutional investors in certain jurisdictions outside Germany and Luxembourg (the "**International Offering**") and (ii) an offering of the Employee Offering Notes to employees of the Schaeffler Group in Germany with an existing German employment contract and a permanent residence in Germany (subject to certain exceptions, such as contract workers, expatriots, impatriots and cross-border workers) (the "**Eligible Employees**") (the "**Employee Offering**").

### *International Offering*

*Offer Period, determination of Pricing Details and determination of the aggregate principal amount of Notes*

The International Offering Notes will be offered by the Issuer and the Initial Purchasers in the International Offering during an offer period which will commence on June 28, 2012 and which will be open until June 29, 2012 (the "**International Offering Offer Period**"), subject to a shortening or extension of the International Offering Offer Period. The International Offering Notes will be issued on or about July 4, 2012 (the "**Issue Date**").

The Issue Price, the aggregate principal amount of International Offering Notes to be issued, the interest rate and the yield of the issue (together, the "**Pricing Details**") will be determined and published as described in "*—Method of determination and publication of the Pricing Details*" below on or about June 29, 2012 (the "**Pricing Date**").

Should the Issuer and the Initial Purchasers determine any shortening or extension of the International Offering Offer Period, which could be the result of changing market conditions, such changes will be published in the same manner as the notice concerning the Pricing Details.

The allotment of International Offering Notes to investors will be decided after consultation between the Issuer, the Parent Guarantor and the Initial Purchasers. The ultimate decision rests with the Issuer and the Parent Guarantor.

*Payment for and delivery of the International Offering Notes*

Delivery and payment of International Offering Notes will be made on or about July 4, 2012 via book-entry through the Clearing System (see "*General information—Clearing System*") and their depository banks against payment of the Issue Price.

### *Employee Offering*

The Employee Offering Notes will be offered by the Parent Guarantor in the Employee Offering to the Eligible Employees during the period (the "**Employee Offering Offer Period**") commencing on July 3, 2012 and ending on July 13, 2012, 12:00 noon CET. Completed purchase orders from Eligible Employees in the form to be provided by the Parent Guarantor or the Settlement Agent for the Employee Offering must be received by the Settlement Agent for the Employee Offering by no later than 12:00 noon CET on July 13, 2012. Details of the securities deposit account to which Employee Offering Notes must be provided to the Settlement Agent for the Employee Offering either in the purchase order or in any event no later than by July 20, 2012.

The Pricing Details for the Employee Offering Notes will be identical with the Pricing Details for the International Offering Notes and will be determined on the Pricing Date and published as described in "*—Method of determination and publication of the Pricing Details*" below. The aggregate principal amount of Employee Offering Notes to be issued will be determined after the Employee Offering Offer Period based on the purchase orders received from Eligible Employees. Upon determination, the aggregate principal amount of Employee Offering Notes

to be issued will be set out in a notice which will be filed with the CSSF and published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and the website of the Company (*www.schaeffler.com*)* on or after the end of the Employee Offering Offer Period and prior to the Employee Offering Settlement Date.

The Employee Offering Notes will be issued on or about July 20, 2012. The Employee Offering Notes and the International Offering Notes will constitute a single class of debt securities under the Indenture, will be fully fungible for trading purposes and will have the same ISIN number.

*Payment for and delivery of the Employee Offering Notes*

The purchase price of the Employee Offering Notes (equal to the Issue Price) will be deducted from the respective Eligible Employees' debit accounts specified in the purchase order form on or about July 16, 2012. Employee Offering Notes allocated to Eligible Employees are expected to be delivered to the respective Eligible Employees' securities deposit accounts specified in the purchase order via book-entry through the Clearing System (see *"General information—Clearing System"*) (i) if the deposit account is notified to the Settlement Agent for the Employee Offering on or prior to July 13, 2012, on or about July 20, 2012 or (ii) if the deposit account is notified to the Settlement Agent after July 13, 2012 (and in any event no later than July 20, 2012), approximately one week after such notification is received by the Settlement Agent for the Employee Offering.

## Subscription of the Notes

Deutsche Bank AG, London Branch, Barclays Bank PLC, Bayerische Landesbank and Citigroup Global Markets Limited (the **"Initial Purchasers"**) will, pursuant to a subscription agreement (the **"Subscription Agreement"**) dated June 28, 2012, agree to subscribe or procure subscribers for the International Offering Notes under a best efforts arrangement. The Initial Purchasers will be entitled, under certain circumstances, to terminate the agreement reached with the Issuer and the Guarantors. In such event, no Notes will be delivered to investors. Furthermore, the Issuer and the Guarantors will agree to indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Notes.

Deutsche Bank AG, London Branch will act as settlement agent (the **"Settlement Agent"**) for the Employee Offering. With respect to the Employee Offering, Deutsche Bank AG, London Branch will act solely as settlement agent, and none of the Initial Purchasers will purchase as principal or underwrite any Employee Offering Notes.

## Method of determination of the Pricing Details

The Issue Price, the interest rate and the yield of the issue will be determined by the Issuer and the Initial Purchasers on the basis of the price indications received by the Initial Purchasers from the investors by the time of pricing.

The Issue Price for, and the interest rate of, the Notes will be fixed on the basis of the yield prevailing on Schaeffler Finance B.V.'s outstanding €800,000,000 7.75% senior secured notes due 2017 at the time of pricing, plus a discount or a premium to be fixed on the basis of the orders received and confirmed by the Initial Purchasers.

The resulting yield will be used to determine the Issue Price and the rate of interest (which is expected to be a percentage figure which can be evenly divided by 1/8 of a full percent and which will be correspondingly higher if a higher Issue Price is determined and which will be correspondingly lower if a lower Issue Price is determined). The Issue Price of the Notes will not exceed 120% of the principal amount thereof. The minimum interest rate will be 5.50% and the minimum yield will be 5.50%.

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* The website does not constitute part of this Prospectus.

Upon determination, the Pricing Details will be set out in a notice (the "**Pricing Notice**") which will be filed with the CSSF and published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and the website of the Company (*www.schaeffler.com*)* on or after the Pricing Date and prior to the Issue Date.

## Charges and costs relating to the offer

The Issuer will not charge any costs, expenses or taxes directly to any investor. Investors must inform themselves about any costs, expenses or taxes in connection with the Notes which are generally applicable in their respective country of residence, including any charges their own depository banks charge them for purchasing or holding securities.

The expenses of the issue of the Notes and the commissions in connection with the offering of the Notes will be up to 2.7% of the aggregate principal amount of the Notes (assuming the issuance of €300 million in aggregate principal amount of International Offering Notes).

## Conditions and details of the offer

Subscription rights for the Notes will not be issued. Therefore, there are no procedures for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

The Notes will be offered to retail investors, including Eligible Employees, and institutional investors in compliance with applicable public offer restrictions. The Notes may be offered to the public in Luxembourg and in Germany following the effectiveness of the notification of the Prospectus by the CSSF to the BaFin according to article 18 of the Prospectus Directive.

Each investor will receive a confirmation of the results of the offer in relation to its respective allotment of the Notes. There is no minimum or maximum amount of Notes to be purchased. Investors may place offers to purchase Notes in any amount.

The Issuer and/or the Initial Purchasers are entitled to curtail subscription applications or to reject individual subscriptions.

## Selling restrictions

### *General*

Neither the Issuer nor the Initial Purchasers have made any representation that any action will be taken in any jurisdiction by, the Issuer or the Initial Purchasers that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required.

### *United States*

The Notes have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Notes may be offered and sold (i) as part of the distribution of the Notes at any time and (ii) otherwise until 40 days after the date the Notes were first offered to persons other than distributors in reliance upon Regulation S under the US Securities Act or the date of closing of the offering of the Notes, whichever is later, only in accordance with Rule 903 of Regulation S under the US Securities Act. At or prior to confirmation of sale of Notes, the Initial Purchasers will send to each distributor, dealer or

person receiving a selling concession, fee or other remuneration that purchases Notes from it during the restricted period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the date the Notes were first offered to persons other than distributors in reliance upon Regulation S under the Securities Act or the date of closing of the offering of the Notes, whichever is later, as determined and certified by the Initial Purchasers, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them in Regulation S under the Securities Act."

Terms used in the preceding paragraphs have the meaning given to them by Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act.

***Public offer selling restriction under the Prospectus Directive***

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Initial Purchasers will represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than in Germany and Luxembourg from the time the Prospectus has been approved by the competent authority in Luxembourg and published and notified to the relevant competent authorities in accordance with the Prospectus Directive and provided that the Issuer has consented in writing to the use of the Prospectus for any such offers, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

***United Kingdom***

The Initial Purchasers will represent and agree that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

***Switzerland***

Each of the Initial Purchasers will represent and agree that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public (as such term is construed and interpreted according to applicable laws) in Switzerland.

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

# Transfer restrictions

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes, the investor will be deemed to have made the following acknowledgements, representations to and agreements with the Schaeffler Group and the Initial Purchasers:

(1) The investor acknowledges that:

   (a) the Notes have not been registered under the US Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the US Securities Act or any other securities laws; and

   (b) unless so registered, the Notes may not be offered, sold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) The investor represents that it is not an affiliate (as defined in Rule 144 under the US Securities Act) of the Schaeffler Group, that it is not acting on behalf of the Schaeffler Group and that the investor is not a U.S. person (as defined in Regulation S under the US Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) The investor acknowledges that neither the Schaeffler Group nor the Initial Purchasers nor any person representing the Schaeffler Group or the Initial Purchasers have made any representation to the investor with respect to the Schaeffler Group or the offering of the Notes, other than the information contained in this Prospectus. Accordingly, the investor acknowledges that no representation or warranty is made by the Initial Purchasers or any person representing the Initial Purchasers as to the accuracy or completeness of such materials. The investor represents that it is relying only on this Prospectus in making its investment decision with respect to the Notes.

(4) The investor represents that it is purchasing the Notes for its own account, or for one or more investor accounts for which the investor is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the US Securities Act or any state securities laws, subject to any requirement of law that the disposition of the investor's property or the property of that investor account or accounts be at all times within the investor's or such account's control and subject to the investor's or such account's ability to resell the Notes pursuant to any available exemption from registration under the US Securities Act. The investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

   (a) to the Schaeffler Group, the Guarantors or any of the Company's subsidiaries;

   (b) under a registration statement that has been declared effective under the US Securities Act;

   (c) through offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S under the US Securities Act;

   (d) under any other available exemption from the registration requirements of the US Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or

such account's control and to compliance with any applicable state securities laws and any applicable local laws and regulations.

(5) The investor also acknowledges that:

(a) the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the date that the Notes or any predecessor of the Notes are first offered to persons other than distributors (as defined in Rule 902 of Regulation S) in reliance on Regulation S under the US Securities Act (the "**Resale Restriction Period**"), and will not apply after the applicable Resale Restriction Period ends;

(b) the Schaeffler Group and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (c) and (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Schaeffler Group and the Trustee; and

(c) each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE THAT IS 40 DAYS AFTER JULY 20, 2012, ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THE HOLDER AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY SIMILAR TO THE EFFECT OF THIS LEGEND. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

(6) The investor agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on the transfer of such Notes.

(7) The investor acknowledges until 40 days following the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act unless the dealer makes the offer or sale in compliance with an exemption from registration under the US Securities Act.

(8) The investor acknowledges that the Trustee will not be required to accept for registration or transfer any Notes acquired by it except upon presentation of evidence satisfactory to the Schaeffler Group and the Trustee that the restrictions set forth therein have been complied with.

(9) The investor acknowledges that the Schaeffler Group, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. The investor agrees that if any of the acknowledgments, representations or agreements it is deemed to have made by its purchase of Notes are no longer accurate, the investor will promptly notify the Schaeffler Group and the Initial Purchasers. If the investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

(10) The investor understands that no action has been taken in any jurisdiction outside Luxembourg and Germany (including the United States) by the Schaeffler Group or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Prospectus or any other material relating to the Schaeffler Group or the Notes in any jurisdiction where action for such purpose is required.

# General information

## Listing and admission to trading

Application has been made to the LxSE for the Notes to be listed on the Official List and to be admitted to trading on the LxSE's regulated market.

## Notices to Holders

For so long as the Notes are listed on the LxSE, all notices to the Holders regarding the Notes shall be published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and/or on the website of the LxSE (*www.bourse.lu*).

## Use of proceeds

The Issuer intends to use the net proceeds to refinance its existing indebtedness.

## Yield

The yield of the Notes is [ • ]% p.a. (rounded upwards to two decimal places). Such yield is calculated on the basis of the ICMA (International Capital Markets Association) method and the issue price of [ • ]% of the principal amount of the Notes and does not take into account any transaction costs or other surcharges.

## Resolution regarding the issue of the Notes

On or before the Closing Date, the Issuer and each of the Guarantors have obtained all necessary consents, approvals, authorizations or other orders for the issue of Notes and other documents to be entered into by the Issuer in connection with the issue of the Notes in Luxembourg.

## Clearing system

The Notes have been accepted for clearance through Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and Clearstream Banking, *société anonyme,* 42 Avenue JF Kennedy L-1855 Luxembourg.

| | |
|---|---|
| The Notes have the following securities code: | |
| ISIN: | DE000A1G6WT8. |

## Interest of natural and legal persons involved

The Initial Purchasers are entitled to customary fees, partly depending on the success of the issuance of the Notes. Furthermore, the auditors of the Issuer and legal advisors are entitled to customary fees. The Initial Purchasers and their respective affiliates have from time to time performed, and in the future may perform, various financial advisory, commercial banking (including as lenders under the New Senior Facilities Agreement) and investment banking services for the Issuer and its affiliates, for which they have received and/or will receive fees and expenses. The Company will use the net proceeds from the issuance of the Notes to repay in part outstanding amounts under the New Senior Facilities Agreement. Accordingly, as lenders under the New Senior Facilities Agreement, the Initial Purchasers or their respective affiliates may receive a portion of the proceeds from the issuance of the Notes. Besides the disclosed interests above, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

## Litigation

Neither the Issuer nor any other member of the Schaeffler Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or has in such period had a significant effect on the financial position or profitability of the Issuer or the Schaeffler Group other than in the proceedings described under *"Description of the Schaeffler Group—Environment, insurance and legal—Litigation and administrative proceedings."*

## Third-party information

Any information sourced from a third party contained in this Prospectus has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## Documents on display

For so long as any Notes remain outstanding, physical copies of the following documents may be obtained free of charge upon request during normal business hours from the offices of the Issuer and the Luxembourg Paying Agent as set out at the end of this Prospectus:

(i) this Prospectus;

(ii) memorandum and articles of association of the Issuer;

(iii) memorandum and articles of the Parent Guarantor;

(iv) memorandum and articles of each of the Subsidiary Guarantors;

(v) the unaudited condensed consolidated financial statements of Schaeffler AG, including the notes to such financial statements, for the three months ended March 31, 2012;

(vi) the audited consolidated financial statements of Schaeffler AG, including the notes to such financial statements and the auditor's report thereon, for the financial years ended December 31, 2010 and December 31, 2011;

(vii) the audited annual financial statements of the Issuer, including the notes to such financial statements and the auditor's report thereon, for the financial year ended December 31, 2011;

(viii) the Indenture governing the Notes;

(ix) the New Senior Facilities Agreement; and

(x) the Security Pooling and Intercreditor Agreement.

# Glossary of technical terms

| | |
|---|---|
| CVT | Continuously variable automatic transmission. |
| Camshaft Phasing | Allows for a form of variable valve control system. |
| Cold forming technology | The strengthening of a metal by plastic deformation. |
| Deep drawing | A sheet metal forming process in which a sheet metal blank is radially drawn into a forming die by the mechanical action of a punch. |
| Dry double clutch system | Describes the type of clutch linings of the double clutch. It is a LuK innovation and the key to the most efficient transmissions to date. |
| Dual mass flywheels | The dual mass flywheel provides effective vibration damping in the drivetrain. |
| Electromechanical actuators | Can be used instead of hydraulic systems. They originate in aviation and are now used in steering systems and chassis applications. |
| Electric mobility | Refers to the possibility to use drive vehicles that use one or more electric motors or traction motors for propulsion. |
| Forging | Shaping of metal using localized compressive forces. |
| ISO 14001 | Specifies the actual requirements for an environmental management system. It applies to those environmental aspects which the organization has control and over which it can be expected to have an influence. |
| Linear guidance systems | Systems used in linear technology to minimize friction during translation of one or more moveable assemblies of a machine and to keep the direction of movement of a linear raceway. |
| Mechatronic | Multidisciplinary field of engineering. |
| Spindles | Main rotating part of a machine tool. |
| Tribology | The science and engineering of interacting surfaces in relative motion. |
| Valve-lash adjustment | Valve lash is the mechanical clearance in the valve train between camshaft and valve in an internal combustion engine. Valve lash adjustment is necessary maintenance for engines without hydraulic valve lifters. |
| Valve train | Mechanism for transferring the cam stroke to the lifting valves in a combustion engine. |
| Wheel bearing spur gear teeth | Design variant of a wheel bearing where the wheel bearing and the axle journal are connected to each other axially instead of radially. |

# Documents incorporated by reference

The pages specified below of the following documents which have previously been published or are published simultaneously with this Prospectus and which have been filed with the CSSF are incorporated by reference into this Prospectus: (i) the Interim Financial Report of Schaeffler AG as of and for the three months ended March 31, 2012, (ii) the annual report of Schaeffler AG for the year ended December 31, 2011, (iii) the annual report of Schaeffler AG for the year ended December 31, 2010, (iv) the audited annual financial statements of the Issuer as of and for the year ended December 31, 2011. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only, and does not form part of this Prospectus.

**Interim Financial Report of Schaeffler AG as of and for the three months ended March 31, 2012**



**Annual report of Schaeffler AG for the year ended December 31, 2011**



**Annual report of Schaeffler AG for the year ended December 31, 2010**



**Audited annual financial statements of the Issuer as of and for the year ended December 31, 2011**



Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer and the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

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