



# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF  
JUNE 30, 2020



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Financial Statements  
as of June 30, 2020

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## ZF ACCELERATES TRANSFORMATION, ADJUSTS CAPACITIES TO NEW MARKET SITUATION AND INVESTS IN FUTURE FIELDS

- > Early and effective cost reduction measures secure liquidity of company
- > Group structures and capacities will be aligned in the long term to global decline in vehicle production and technology shifts
- > Successful acquisition of WABCO – integration on schedule
- > Positive adjusted EBIT expected for the current year

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2020

in € million	Notes	2020 unaudited	2019 <sup>1)</sup> unaudited
Sales	①	13,509	18,366
Cost of sales	②	11,775	15,578
<b>Gross profit on sales</b>		<b>1,734</b>	<b>2,788</b>
Research and development costs		1,063	1,129
Selling expenses		550	636
General administrative expenses		646	665
Other income		320	261
Other expenses		342	260
Result from associates	③	4	16
Other net result from participations	③	-97	5
<b>EBIT</b>		<b>-640</b>	<b>380</b>
Financial income	④	484	112
Financial expenses	⑤	805	271
<b>Net profit or loss before tax</b>		<b>-961</b>	<b>221</b>
Income taxes		-50	57
<b>Net profit or loss after tax</b>		<b>-911</b>	<b>164</b>
thereof shareholders of ZF Friedrichshafen AG		-942	141
thereof non-controlling interests		31	23

1) Adjustments to the previous year (see further explanations in the Notes to the Interim Consolidated Financial Statements, Change in accounting policies).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2020

in € million	Notes	2020 unaudited	2019 <sup>1)</sup> unaudited
<b>Net profit or loss after tax</b>		<b>-911</b>	<b>164</b>
<b>Line items that will be reclassified in the consolidated statement of profit or loss</b>			
Foreign currency translation differences			
Losses arising during the year (2019: gains)		-252	64
Mark-to-market of cash flow hedges			
Gains arising during the year (2019: losses)		82	-30
Reclassification adjustments for gains/losses included in profit or loss		15	9
Amounts reclassified to acquisition costs through comprehensive income		-271	3
Income taxes		24	-4
		<b>-402</b>	<b>42</b>
<b>Line items that will not be reclassified in the consolidated statement of profit or loss</b>			
Mark-to-market of securities			
Actuarial gains from pension obligations (2019: losses)		20	-739
Income taxes		-12	223
		<b>93</b>	<b>-528</b>
<b>Other comprehensive income after tax</b>	<b>12</b>	<b>-309</b>	<b>-486</b>
<b>Total comprehensive income</b>		<b>-1,220</b>	<b>-322</b>
thereof shareholders of ZF Friedrichshafen AG		-1,245	-347
thereof non-controlling interests		25	25

1) Adjustments to the previous year (see further explanations in the Notes to the Interim Consolidated Financial Statements, Change in accounting policies).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ZF FRIEDRICHSHAFEN AG AS OF JUNE 30, 2020

Assets in € million	Notes	June 30, 2020 unaudited	Dec. 31, 2019	Liabilities and equity in € million	Notes	June 30, 2020 unaudited	Dec. 31, 2019
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents		1,593	2,302	Financial liabilities	9	2,072	1,259
Financial assets	6	400	2,824	Trade payables	10	3,899	5,417
Trade receivables	7	4,531	5,041	Contract liabilities		1,095	1,039
Contract assets		111	113	Other liabilities		1,693	1,409
Other assets		619	558	Income tax provisions		444	334
Income tax receivables		42	30	Other provisions		769	696
Inventories		4,287	3,948			<b>9,972</b>	<b>10,154</b>
		<b>11,583</b>	<b>14,816</b>	<b>Non-current liabilities</b>			
<b>Non-current assets</b>				Financial liabilities	9	12,063	8,430
Financial assets		1,041	901	Trade payables		43	45
Associates		423	461	Contract liabilities		400	406
Contract assets		260	215	Other liabilities		125	110
Other assets		192	156	Income tax liabilities		126	0
Intangible assets		13,643	6,841	Provisions for pensions	11	6,229	5,348
Property, plant and equipment		7,868	7,669	Other provisions		613	339
Deferred taxes		1,712	1,291	Deferred taxes		1,286	412
		<b>25,139</b>	<b>17,534</b>			<b>20,885</b>	<b>15,090</b>
				<b>Equity</b>			
				Subscribed capital		500	500
				Capital reserve		386	386
				Retained earnings		4,623	5,935
				<b>Equity attributable to shareholders of ZF Friedrichshafen AG</b>		<b>5,509</b>	<b>6,821</b>
				Non-controlling interests		356	285
					12	<b>5,865</b>	<b>7,106</b>
		<b>36,722</b>	<b>32,350</b>			<b>36,722</b>	<b>32,350</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2020

in € million	Notes	2020 unaudited	2019 <sup>1)</sup> unaudited
Net profit or loss before income tax		-961	221
Depreciation/Reversal of impairments for intangible assets and property, plant and equipment		978	1,013
Net result from participations and net financial result		414	138
Results from the disposal of intangible assets and property, plant and equipment		-1	-2
Income taxes paid		-29	-92
Changes in non-current provisions made through profit or loss		57	52
Decrease (2019: increase) in inventories		16	-134
Decrease (2019: increase) in trade receivables		783	-368
Increase in other assets		-25	-334
Decrease in trade payables		-1,668	-292
Increase in other liabilities		40	113
<b>Cash flow from operating activities</b>		<b>-396</b>	<b>315</b>
Expenditures for investments in			
intangible assets		-17	-20
property, plant and equipment		-438	-587
associates and other participations		-3	-8
financial receivables		-64	-26
Proceeds from the disposal of			
intangible assets		1	1
property, plant and equipment		12	19
associates and other participations		37	0
financial receivables		26	3
securities		2,462	0
Cash inflow from the sale of consolidated companies	15	125	0

in € million	Notes	2020 unaudited	2019 <sup>1)</sup> unaudited
Cash outflow from the acquisition of consolidated companies	14	-5,659	-24
Dividends received		6	9
Interest received		7	9
<b>Cash flow from investing activities</b>		<b>-3,505</b>	<b>-624</b>
Dividends paid to ZF Friedrichshafen AG shareholders		-4	-162
Dividends paid to holders of non-controlling interests		-37	-33
Proceeds from capital increases through holders of non-controlling interests		0	7
Repayments of borrowings		-1,362	-2,820
Proceeds from borrowings		4,690	3,413
Interest paid and transaction costs		-151	-170
<b>Cash flow from financing activities</b>		<b>3,136</b>	<b>235</b>
<b>Net change in cash</b>		<b>-765</b>	<b>-74</b>
Cash position at the beginning of the fiscal year		2,402	922
Effects of exchange rate changes on cash		-44	8
<b>Cash as of the closing date</b>	13	<b>1,593</b>	<b>856</b>

1) Adjustments to the previous year (see further explanations in the Notes to the Interim Consolidated Financial Statements, Change in accounting policies).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2020

in € million	Subscribed capital	Capital reserve	Retained earnings					Equity attributable to shareholders of ZF Friedrichshafen AG	Non-controlling interests	Group equity
			Other retained earnings	Foreign currency translation differences	Mark-to-market of securities	Mark-to-market of cash flow hedges	Actuarial gains and losses			
<b>Jan. 1, 2019</b>	<b>500</b>	<b>386</b>	<b>7,647</b>	<b>-334</b>	<b>-50</b>	<b>-20</b>	<b>-1,115</b>	<b>7,014</b>	<b>293</b>	<b>7,307</b>
Change in accounting policies			-30					-30	-1	-31
<b>Jan. 1, 2019 (adjusted)</b>	<b>500</b>	<b>386</b>	<b>7,617</b>	<b>-334</b>	<b>-50</b>	<b>-20</b>	<b>-1,115</b>	<b>6,984</b>	<b>292</b>	<b>7,276</b>
Net profit or loss after tax			141					141	23	164
Other comprehensive income after tax				62	-12	-22	-516	-488	2	-486
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>141</b>	<b>62</b>	<b>-12</b>	<b>-22</b>	<b>-516</b>	<b>-347</b>	<b>25</b>	<b>-322</b>
Changes in basis of consolidation								0	3	3
Dividends paid			-162					-162	-33	-195
Capital increase in exchange for company shares								0	7	7
Other changes			4					4		4
<b>June 30, 2019 (unaudited)</b>	<b>500</b>	<b>386</b>	<b>7,600</b>	<b>-272</b>	<b>-62</b>	<b>-42</b>	<b>-1,631</b>	<b>6,479</b>	<b>294</b>	<b>6,773</b>
<b>Jan. 1, 2020</b>	<b>500</b>	<b>386</b>	<b>7,752</b>	<b>-187</b>	<b>0</b>	<b>132</b>	<b>-1,762</b>	<b>6,821</b>	<b>285</b>	<b>7,106</b>
Net profit or loss after tax			-942					-942	31	-911
Other comprehensive income after tax				-246	67	-150	26	-303	-6	-309
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>-942</b>	<b>-246</b>	<b>67</b>	<b>-150</b>	<b>26</b>	<b>-1,245</b>	<b>25</b>	<b>-1,220</b>
Changes in basis of consolidation								0	83	83
Dividends paid			-63					-63	-37	-100
Other changes			-4					-4		-4
<b>June 30, 2020 (unaudited)</b>	<b>500</b>	<b>386</b>	<b>6,743</b>	<b>-433</b>	<b>67</b>	<b>-18</b>	<b>-1,736</b>	<b>5,509</b>	<b>356</b>	<b>5,865</b>

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ZF FRIEDRICHSHAFEN AG AS OF JUNE 30, 2020

## FUNDAMENTAL PRINCIPLES

### Corporate structure

ZF Friedrichshafen AG (ZF) is a corporation, of which 93.8% is owned by the Zeppelin Foundation and 6.2% by the Dr. Jürgen and Irmgard Ulderup Foundation. The company is headquartered in 88046 Friedrichshafen, Germany, Löwentaler Straße 20.

ZF is a globally leading technology company and supplies mobility systems for passenger cars, commercial vehicles and industrial technology. ZF is set up along the lines of a matrix organization which links the Group-wide competencies of the central functions with the global business responsibility of the divisions and business units. The business units are assigned to the following divisions: Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, Industrial Technology, E-Mobility, Aftermarket, Electronics and ADAS, Passive Safety Systems, and Active Safety Systems. After the successful acquisition of WABCO Holdings Inc. (WABCO), the acquired business units were assigned to the newly founded Commercial Vehicle Control Systems Division. Further explanations on the corporate structure can be found in the Group management report for the fiscal year 2019.

### General

The interim consolidated financial statements of ZF Friedrichshafen AG as of June 30, 2020, were prepared as a condensed interim financial report in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. They include the following components:

- Consolidated statement of profit or loss from January 1 to June 30, 2020
- Consolidated statement of comprehensive income from January 1 to June 30, 2020
- Consolidated statement of financial position as of June 30, 2020
- Consolidated statement of cash flows from January 1 to June 30, 2020
- Consolidated statement of changes in equity from January 1 to June 30, 2020
- Notes to the condensed interim consolidated financial statements

The condensed interim consolidated financial statements do not include all the pieces of information and disclosures that are required for the consolidated financial statements at the end of a fiscal year and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2019.

Since control over WABCO Holdings Inc. was obtained as of May 29, 2020, and WABCO has been included for the first time in the interim consolidated financial statements, the Group's net assets, financial position and results of operations are only partly comparable to the previous year.

The Group's currency is the euro. Unless otherwise stated, all amounts are reported in millions of euros (€ million).

The interim consolidated financial statements were not subject to any audit or review.

### Adoption of IFRS

As a company that is not publicly traded, ZF Friedrichshafen AG has chosen the option to draw up its consolidated financial statements on the basis of IFRS pursuant to Sec. 315e para. 3 HGB (German Commercial Code).

ZF has observed all standards and interpretations adopted by the International Accounting Standards Board (IASB), London (UK), and by the EU that are mandatory as of January 1, 2020.



Standard/ Interpretation	Title	Applicable pursuant to IFRS as of	Endorsement by EU	Impact
IFRS 3	Amendments to IFRS 3 "Definition of a Business"	Jan. 1, 2020	Yes	None
IAS 1/IAS 8	Amendments to IAS 1 and IAS 8 "Definition of Material"	Jan. 1, 2020	Yes	None
IFRS 9/IAS 39/IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	Jan. 1, 2020	Yes	None
	Amendments to References to the Conceptual Framework	Jan. 1, 2020	Yes	None

The ZF Group did not apply early any new or amended standards and interpretations whose application is not yet mandatory even though they have been published. Except for the change in accounting mentioned in the section "Change in accounting policies," all other standards applied for the first time in fiscal year 2020 did not result in any effects on ZF Group accounting.

The accounting of WABCO was previously based on the U.S. GAAP principles. As a result of the first-time inclusion of WABCO into the interim consolidated financial statements of ZF, the WABCO accounting was adjusted temporarily to conform with IFRS principles.

### Basis of consolidation

In addition to ZF Friedrichshafen AG, 42 German and 309 international subsidiaries controlled by ZF Friedrichshafen AG are included in the interim consolidated financial statements.

The following table shows the composition of the consolidated ZF Group (without ZF Friedrichshafen AG):

	Jan. 1, 2020	First-time consoli- dations	Legal changes	Deconsoli- dations	June 30, 2020
Subsidiaries	270	85	-2	-2	351
of which German	34	8	0	0	42
of which international	236	77	-2	-2	309
Joint ventures	6	2	0	0	8
Associates	13	3	0	-1	15

With the takeover of WABCO, 80 subsidiaries and three associates were acquired. These companies were included in the interim consolidated financial statements for the first time as of June 30, 2020. Furthermore, the basis of consolidation increased by six companies due to acquisitions or newly founded companies. Five companies were deconsolidated in the first half of 2020 as a result of merger, sale or liquidation.

### Company acquisitions

On March 28, 2019, ZF Friedrichshafen AG signed a binding agreement regarding the purchase of all outstanding shares of WABCO Holdings Inc. listed on the New York Stock Exchange for a cash purchase price of \$136.50 per share. The Board of Management and the Supervisory Board of ZF as well as the Board of Directors of WABCO agreed to the planned acquisition. On June 27, 2019, 68.44% of the WABCO shareholders agreed to the transaction. The transaction was subject to a number of general closing conditions, e.g., approval by the responsible authorities. After the clearances under antitrust law were available, the acquisition of WABCO was completed on May 29, 2020.

WABCO is a leading global supplier of brake control systems, technologies and services for the improvement of the safety, efficiency and connectivity of trucks, buses and trailers. With its acquisition, ZF is strengthening its position as an integrated systems supplier of commercial vehicle technology and is expanding its portfolio by the commercial vehicle control systems segment. The purchase price of €6,098 million was paid in cash. The goodwill recognized based on the preliminary purchase price allocation amounts to €3,831 million and is not tax-deductible. The excess remaining after capital consolidation results in particular from the strengthening of ZF activities in the area of commercial vehicle technology as well as synergy effects. WABCO was integrated into ZF's structure as the independent Commercial Vehicle Control Systems Division.

On June 1, 2020, R.H. Sheppard Co., Inc. was sold to Bendix Commercial Vehicle Systems LLC for €137 million due to antitrust requirements.

The acquired assets and liabilities of WABCO and its subsidiaries have been recognized at the date of acquisition with the following fair values, which are based on a preliminary purchase price allocation:

<b>in € million</b>	
Cash and cash equivalents	439
Financial assets	328
Trade receivables	417
Contract assets	2
Other assets	123
Inventories	444
Associates	7
Intangible assets	3,179
Property, plant and equipment	621
Assets held for sale and disposal groups	154
Financial liabilities	-998
Trade payables	-223
Contract liabilities	-43
Other liabilities	-138
Income tax liabilities	-128
Income tax provisions	-56
Other provisions	-418
Provisions for pensions	-723
Liabilities of disposal groups	-29
Deferred taxes (balanced)	-607
<b>Acquired total net assets</b>	<b>2,351</b>
Minority interests	84
Purchase price	6,098
<b>Excess remaining after capital consolidation</b>	<b>3,831</b>

Receivables at a fair value of €542 million were acquired in the context of the business combination. This amount includes trade receivables of €417 million, other assets of €123 million as well as contract assets of €2 million. The gross amount of the receivables was €554 million, of which €12 million are expected to be non-recoverable. Contingent liabilities for indirect taxes are recognized in other provisions. Since the acquisition date, WABCO has contributed sales of €189 million, an amount of €-45 million to net profit after tax and €56 million to other comprehensive income. If the acquisition had been effected as of January 1, 2020, the Group's sales would have amounted to €14,443 million and the Group's net profit after tax would have amounted to €-987 million.

The purchase price allocation has not been completed since there are no final valuations of assets available. Adjustments may occur, above all, in relation to the valuation of customer relations, technologies, property, plant and equipment and the associated deferred taxes.

### Company acquisitions in the prior-year period

In connection with a share deal, ZF acquired 60% of the shares of 2getthere Holding B.V., Utrecht, Netherlands, as well as its two subsidiaries effective March 19, 2019. The company offers completely automated transport systems. With the acquisition, ZF is expanding its business in the area of driverless transport systems.

The finalization of the purchase price allocation did not result in any essential changes for the period from January 1 to March 18, 2020.

### Consolidation principles and foreign currency translation

The consolidation methods and the methods for foreign currency translation have not changed compared to the consolidated financial statements as of December 31, 2019.

The exchange rates used for foreign currency translation with a significant influence on the consolidated financial statements changed as follows in relation to one euro:

	Closing rate		Average rate	
	June 30, 2020	Dec. 31, 2019	Jan. – June 2020	Jan. – June 2019
U.S. dollar	1.1198	1.1234	1.1015	1.1301
British pound	0.9124	0.8508	0.8735	0.8733
Chinese renminbi	7.9219	7.8205	7.7447	7.6668
Brazilian real	6.1118	4.5157	5.3593	4.3405
Mexican peso	25.9470	21.2202	23.6734	21.6584

## Accounting policies

The condensed interim consolidated financial statements were prepared on the basis of the accounting policies applied for the preparation of the consolidated financial statements as of December 31, 2019, with the following exceptions:

Income taxes are recognized in the interim consolidated financial statements on the basis of the income tax rate expected for the full year.

ZF has voluntarily adopted the new hedge accounting rules according to IFRS 9 as of January 1, 2020, before they become effective. The changeover of the existing cash flow hedges used for hedging currency risks from the IAS 39 rules to the IFRS 9 rules is made by reversal and redesignation. This did not lead to material effects. The other hedging relationships were continued unchanged.

## Change in accounting policies

### Provisions for pensions

In 2004, ZF Group companies in Germany granted their employees a benefit plan that, in addition to typical long-service awards, comprises a post-employment element in the form of a pension component. Upon reaching the specified service anniversary this pension benefit is calculated according to a fixed formula and contributed into the company pension scheme by the employer. The accounting policy of this grant was changed in the fiscal year 2019 and is explained in the notes to the consolidated financial statements 2019. The prior-year reference values were adjusted accordingly for the interim consolidated financial statements as of June 30, 2020.

## Material events until June 30, 2020

After an economically difficult year in 2019, the spread of the COVID-19 pandemic has severely affected the automotive industry as well as the industrial technology market. Thus, ZF faced an exceptionally challenging first half of 2020. To be able to react appropriately to lockdowns, lower demand, interrupted supply chains caused by our suppliers' production downtimes, for example, and restrictions in goods transport in the markets affected by the virus, ZF formed several Group-wide task forces. With these, it was possible to immediately and comprehensively assess the impact, develop scenarios and implement actions in response. Based on the identification and assessment of the financial effects of the COVID-19 pandemic on ZF, extensive financial, HR, logistics, R&D, purchasing and production-related measures were defined and implemented. As a result, it was possible to limit the impact of COVID-19 on ZF's earnings and secure the liquidity of the ZF Group. In this context, government grants of €120 million were received and recognized in the consolidated statement of profit or loss as reduction of personnel expenses under function costs.

## NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The consolidated statement of profit or loss has been drawn up in accordance with the cost of sales method.

### 1 Sales

Especially due to the COVID-19 pandemic, sales decreased by 26% compared to the previous year.

In the following, sales based on contracts with customers are broken down into sales categories and geographical regions:

in € million	Jan. – June 2020	Jan. – June 2019
Volume production business sales	11,607	16,010
Aftermarket and service sales	1,362	1,634
Other sales	540	722
	<b>13,509</b>	<b>18,366</b>

  

in € million	Jan. – June 2020	Jan. – June 2019
Germany	2,663	3,581
Western Europe	2,474	3,545
Eastern Europe	1,043	1,506
North America	3,461	5,363
South America	292	532
Asia-Pacific	3,439	3,600
Africa	137	239
	<b>13,509</b>	<b>18,366</b>

### 2 Cost of sales

in € million	Jan. – June 2020	Jan. – June 2019
Cost of materials	8,354	11,371
Personnel expenses	2,047	2,509
Depreciation, amortization and impairment	705	776
Other	669	922
	<b>11,775</b>	<b>15,578</b>

Compared to the previous year, cost of sales also declined due to the COVID-19 pandemic.

### 3 Net result from participations

in € million	Jan. – June 2020	Jan. – June 2019
Result from at-equity valuation	-12	16
Result from disposal of associates	16	0
<b>Result from associates</b>	<b>4</b>	<b>16</b>
Write-ups on participations	1	0
Write-downs of participations	-98	0
Income from participations	0	5
<b>Other net result from participations</b>	<b>-97</b>	<b>5</b>
<b>Net result from participations</b>	<b>-93</b>	<b>21</b>

**4 Financial income**

in € million	Jan. – June 2020	Jan. – June 2019
Interest from current financial investments	5	3
Interest from non-current financial investments	5	2
Other interest	5	4
Return on plan assets	0	14
<b>Interest income</b>	<b>15</b>	<b>23</b>
Foreign exchange gains	347	61
Income from derivative financial instruments	105	28
Income from securities	17	0
<b>Other financial income</b>	<b>469</b>	<b>89</b>
<b>Financial income</b>	<b>484</b>	<b>112</b>

**5 Financial expenses**

in € million	Jan. – June 2020	Jan. – June 2019
Interest on financial liabilities	124	90
Interest on lease liabilities	12	12
Other interest	6	8
Interest cost on pension provisions	18	35
Unwinding the discount on other non-current items	15	0
<b>Interest expenses</b>	<b>175</b>	<b>145</b>
Foreign exchange losses	430	60
Expenses from derivative financial instruments	105	35
Expenses from securities	28	0
Write-downs of financial receivables	51	18
Transaction costs and incidental expenses	16	13
<b>Other financial expenses</b>	<b>630</b>	<b>126</b>
<b>Financial expenses</b>	<b>805</b>	<b>271</b>

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

If not explained in the following, the changes in the consolidated statement of financial position primarily relate to the first-time inclusion of WABCO in the Group's interim consolidated financial statements.

### 6 Financial assets

The fact that financial assets are lower than in the previous year is due to the disposal of securities to finance the WABCO acquisition.

### 7 Trade receivables

The decrease in trade receivables is primarily related to the lower business volume due to the COVID-19 pandemic.

### 8 Impairment tests

The impact of the COVID-19 pandemic on the overall economic growth and on sales and procurement markets relevant to ZF provided indicators for a possible need for impairment and, according to IAS 36, required event-based impairment tests as of June 30, 2020, for non-financial assets, particularly goodwill. As of the effective date, the impairment tests are subject to judgments and estimation uncertainties which – apart from the expected future cash flows and discount rates – primarily relate to estimates regarding the further course of the COVID-19 pandemic.

The company planning adopted by the Board of Management in the past fiscal year was updated at the end of the period under review for the Active Safety Systems, Passive Safety Systems, Electronics and ADAS divisions. This update was to represent the economic risks resulting from the COVID-19 pandemic, particularly regarding possible impacts on the automotive industry as well as global economic growth.

For the other divisions, the company planning adopted by the Board of Management in 2019 was reduced by 100% and 50% regarding the expected cash flow in 2020 and the EBIT when determining perpetuity.

Assumptions that were also taken for purchase price allocation were used as a basis for the impairment test of the Commercial Vehicle Control Systems Division.

In each division, the value in use of goodwill was determined for the purpose of the impairment tests. For this purpose, the discount rates and cash flows from the continued use of the units subject to the test were adapted in comparison to the impairment test as of December 31, 2019, which was not event-based. The relevant discount rates for discounting the future cash flows are between 10% and 11% before taxes (Dec. 31, 2019: 10%). It is assumed that growth will remain unchanged at 1.0%.

The event-based goodwill impairment tests led to no need for impairment.

### 9 Financial liabilities

The increase in current financial liabilities primarily results from the utilization of a credit line concluded with ZF's core banks in the first half of the year (bridge financing) of €1,350 million. The period of the new loan will last until April 2021. ZF unilaterally has the right to extend the loan up to April 2022. The scheduled repayment of a bonded loan tranche of €410 million as well as a U.S. dollar bond of \$549 million reduced the current financial liabilities.

Non-current financial liabilities mainly increased due to the utilization of loans that were agreed for the acquisition of WABCO. The loans amount to €2,500 million in total and have terms of three to five years.

ZF's essential bank loans include a financial covenant that ZF is obliged to comply with. It is defined as the ratio of net debt to adjusted consolidated EBITDA. This financial key figure is tested each quarter. As a result of the current negative impact on results due to COVID-19, ZF has agreed with the lenders to temporarily increase the upper limit of indebtedness from 4.00 to 5.50 until March 31, 2021. During this period, ZF guarantees the banks a minimum liquidity (incl. guaranteed and unutilized credit lines) of €1,500 million.

### 10 Trade payables

Mainly due to the reduced business volume relating to the COVID-19 pandemic, trade payables are lower than in the previous year.

## 11 Provisions for pensions

In addition to the first-time consolidation of WABCO, lower fair values of plan assets in Germany led to an increased line item.

The following discount rates were applied as of June 30, 2020:

in % June 30, 2020	D	USA	GB
Discount rate	1.2	2.8	1.6
Dec. 31, 2019			
Discount rate	1.2	3.2	2.0

## 12 Equity

### Dividends

In the fiscal year, a dividend of €63 million (€0.13 per share) for 2019 is paid to the shareholders of ZF Friedrichshafen AG.

### Deferred taxes on equity items not affecting profit or loss

in € million June 30, 2020	Before income tax	Income taxes	After tax
Foreign currency translation differences	-252	0	-252
Mark-to-market of securities	85	-18	67
Mark-to-market of cash flow hedges	-174	24	-150
Actuarial gains and losses	20	6	26
<b>Other comprehensive income</b>	<b>-321</b>	<b>12</b>	<b>-309</b>
June 30, 2019			
Foreign currency translation differences	64	0	64
Mark-to-market of securities	-12	0	-12
Mark-to-market of cash flow hedges	-18	-4	-22
Actuarial gains and losses	-739	223	-516
<b>Other comprehensive income</b>	<b>-705</b>	<b>219</b>	<b>-486</b>

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### 13 General

The consolidated statement of cash flows shows how the cash position of the consolidated ZF Group changed during the fiscal year due to the inflow and outflow of funds. A distinction is drawn between cash flows from operating, investing and financing activities.

The cash position presented in the consolidated statement of cash flows covers all cash and cash equivalents reported in the consolidated statement of financial position, i.e., cash on hand and cash at banks, available at any time for use by the consolidated ZF Group. In addition, the cash position comprises highly liquid financial investments that have a maturity of less than three months and that are subject to small fluctuations in value.

Cash is comprised as follows:

in € million	June 30, 2020	Dec. 31, 2019
Cash and cash equivalents	1,593	2,302
Securities	0	100
	1,593	2,402

The cash flows from investing and financing activities are determined on the basis of payments. The cash flow from operating activities, on the other hand, is indirectly derived from the net profit or loss before income tax.

Dividends and interest received are assigned to the cash flow from investing activities. Interest and transaction costs paid for borrowings, including lease liabilities, are included in cash flow from financing activities. To this end, the net profit or loss before income tax in the cash flow from operating activities is adjusted by the net result from participations and the financial result.

As part of the indirect calculation, the changes in financial line items taken into account in conjunction with the operating activities are adjusted for effects from the translation of foreign currencies and changes in the basis of consolidation. Changes in the respective financial line items can therefore not be reconciled to the corresponding values on the basis of the published consolidated statement of financial position.

### 14 Acquisitions of shares in consolidated companies

The assets and liabilities of consolidated companies assumed on the date of acquisition are composed as follows:

in € million	2020	2019
Current assets	1,770	8
thereof cash and cash equivalents	439	0
Non-current assets	4,262	21
Current liabilities	809	9
Non-current liabilities	2,955	7

The purchase price of €6,098 million for the acquisition was paid in cash in the fiscal year 2020.

### 15 Proceeds from the sale of consolidated companies

The divestments in assets and liabilities from the share deals relate to the following:

in € million	2020
Current assets	53
thereof cash and cash equivalents	12
Non-current assets	113
Current liabilities	7
Non-current liabilities	22

The preliminary sales price in the amount of €137 million was paid in full.



## OTHER DISCLOSURES

### 16 Litigation

ZF continues to be in close contact with the National Highway Traffic Safety Administration (NHTSA) in the USA in relation to the latter's investigation regarding certain vehicles that are equipped with ZF airbag control units and of which a few were subject to a recall by Toyota and to recalls by FCA and HKMC some time ago. Based on the currently available investigation results, ZF does not believe itself to have culpably caused the recalls and is defending itself against lawsuits pending in the USA and Canada.

In 2014, the Brazilian antitrust authority, Conselho Administrativo de Defesa Economica (CADE), searched the premises of one of our Brazilian subsidiaries to investigate the suspected violation of antitrust provisions in connection with the sale of specific vehicle components. ZF is cooperating in this procedure.

In a proceeding regarding emission and consumption topics, ZF received a notice from the public prosecutor's office in Stuttgart on June 10, 2020, requesting ZF to pay a fine of €42.5 million. This fine includes a punishment of €2.5 million and skimming of excess profits of €40 million.

In general, claims for damages may be asserted even in connection with completed proceedings. Neither ZF nor any of its Group companies are involved in current or foreseeable court or arbitration proceedings which, based on facts known today, have had in the past or could have a significant impact on the economic situation of the consolidated ZF Group.

### 17 Financial instruments

#### Carrying amounts of the financial instruments by category

The following table shows the recognized financial assets and liabilities by measurement category:

in € million	June 30, 2020	Dec. 31, 2019
<b>Assets</b>		
At amortized cost	6,168	7,460
At fair value through other comprehensive income		
Debt instruments	153	86
Equity instruments	150	2
At fair value through profit or loss	369	2,745
Derivative financial instruments (hedge accounting) <sup>1)</sup>	12	148
	<b>6,852</b>	<b>10,441</b>
<b>Liabilities</b>		
At amortized cost	17,041	14,348
At fair value through profit or loss	210	17
Lease liabilities <sup>1)</sup>	780	761
Derivative financial instruments (hedge accounting) <sup>1)</sup>	46	25
	<b>18,077</b>	<b>15,151</b>

1) No measurement category in accordance with IFRS 9

#### Fair values

The fair values of the financial assets and liabilities are presented below. Provided that financial assets and liabilities are recognized at amortized cost, the fair value is compared to the carrying amount.

The following table shows the carrying amounts and the fair values of the financial assets and liabilities recognized at amortized cost. Due to short maturities, the carrying amounts of the current financial instruments recognized at cost approximate the fair values.

in € million	June 30, 2020		Dec. 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
At amortized cost				
Cash and cash equivalents	1,593	1,593	2,302	2,302
Financial receivables	197	197	203	203
Trade receivables	4,378	4,378	4,955	4,955
	<b>6,168</b>	<b>6,168</b>	<b>7,460</b>	<b>7,460</b>
<b>Liabilities</b>				
At amortized cost				
Bonds	5,312	5,179	5,771	6,079
Bonded loans	3,146	3,160	2,456	2,485
Liabilities to banks	4,483	4,499	646	654
Other financial liabilities	158	158	13	13
Trade payables	3,942	3,942	5,462	5,462
Lease liabilities <sup>1)</sup>	780	–	761	–
	<b>17,821</b>	<b>16,938</b>	<b>15,109</b>	<b>14,693</b>

1) No measurement category in accordance with IFRS 9

The following table shows the financial instruments recognized at fair value:

in € million	June 30, 2020	Dec. 31, 2019
<b>Assets</b>		
At fair value through other comprehensive income		
Securities	148	0
Investments in participations	2	2
Trade receivables	153	86
At fair value through profit or loss		
Securities	80	2,576
Investments in participations	65	159
Derivative financial instruments	224	10
Derivative financial instruments (hedge accounting) <sup>1)</sup>	12	148
	<b>684</b>	<b>2,981</b>
<b>Liabilities</b>		
At fair value through profit or loss		
Derivative financial instruments	210	17
Derivative financial instruments (hedge accounting) <sup>1)</sup>	46	25
	<b>256</b>	<b>42</b>

1) Keine Bewertungskategorie nach IFRS 9

In the following, the financial instruments recognized at fair value are allocated to the three levels of the fair value hierarchy based on the input parameters used for measurement. The classification as well as the need to perform reclassifications is reviewed on the reporting date. Level 1 covers those financial instruments for which prices for identical assets and liabilities quoted on active markets are available. Allocation to level 2 occurs if input parameters are used for the measurement of financial instruments that are directly (e.g., prices) or indirectly (e.g., derived from prices) observable on the market. Financial instruments whose valuation is based on information that is not observable on the market are reported in level 3.

in € million	June 30, 2020			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Securities	218	0	10	228
Investments in participations	5	0	62	67
Trade receivables	0	153	0	153
Derivative financial instruments	0	236	0	236
	<b>223</b>	<b>389</b>	<b>72</b>	<b>684</b>
<b>Liabilities</b>				
Derivative financial instruments	0	256	0	256

in € million	Dec. 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Securities	795	1,641	140	2,576
Investments in participations	2	0	159	161
Trade receivables	0	86	0	86
Derivative financial instruments	0	79	79	158
	<b>797</b>	<b>1,806</b>	<b>378</b>	<b>2,981</b>
<b>Liabilities</b>				
Derivative financial instruments	0	42	0	42

For level 1 securities, the fair value is recognized directly as the quoted price on an always active market. An active market is either the stock exchange of the respective country or a comparable trading platform offering the liquidity and transparency of the underlying asset. Level 2 includes classes whose prices can be derived or modeled from parameters that can be observed on the market. This includes in particular observable interest rates, exchange rates or comparable instruments. Level 3 securities are equity instruments that are not traded

at a stock exchange and for which there is no sufficient information on how to measure their fair values. The acquisition costs are therefore used to appropriately estimate the fair value.

Investments in participations included in level 1 and traded on an active market are recognized at share prices of the stock exchange of the respective country. The level 3 investments in participations concern investments in companies that are not listed on the stock exchange. In case of these investments recognized at fair value through profit or loss, there is either not enough information available or only a vast range of possible values can be determined for the fair value by using a multiplier method. The acquisition costs are therefore used to appropriately estimate the fair value. In case of changes in the environment of the participations or in case of proof due to external transactions, the estimate is adjusted accordingly. A significant change regarding the future results and multipliers used for the multiplier method would affect the fair value of these investments in participations in the amount of €-12 million to €+46 million.

The trade receivables measured at fair value are allocated to level 2 since measurement can be derived from parameters observable on the market.

The level 2 derivative financial instruments concern non-tradable derivatives. Fair values are determined on the basis of fixed prices quoted on approved stock exchanges discounted for the remaining term (foreign currency exchange rates, interest rates and raw material price indexes).

With respect to hedging a material portion of the purchase price of the WABCO transaction (hedged item) in the amount of approximately \$7 billion against currency fluctuations, ZF concluded a transaction-related forward contract in the fiscal year 2019. As the forward contract is bound to the execution of the underlying transaction, this contract was classified as level 3. The fair value of this forward contract was determined based on the two components of a premium paid only in case of execution of the underlying transaction and the market value of the forward contract. The value of the premium was ascertained on the basis of the forward price observable on the market at the time of conclusion and the tender price agreed on with the contracting party at the time of maturity of the hedged items. The market value of the forward contract was determined in line with market standards from parameters observable on the market. The transaction-related forward contract was utilized upon conclusion of the WABCO transaction.

The following table illustrates the development of financial instruments assigned to level 3 of the fair value hierarchy:

<b>Securities in € million</b>	<b>2020</b>	2019
As of Jan. 1	140	0
Changes in the basis of consolidation	10	0
Purchases	0	140
Sales	-140	0
<b>As of June 30/Dec. 31</b>	<b>10</b>	<b>140</b>

<b>Investments in participations in € million</b>	<b>2020</b>	2019
As of Jan. 1	159	46
Fair value changes recognized through profit or loss	-98	0
Purchases	1	15
Reclassifications from level 2 to level 3	0	98
<b>As of June 30/Dec. 31</b>	<b>62</b>	<b>159</b>

The losses recognized through profit or loss are contained in other net results from participations.

<b>Derivative financial instruments (assets) in € million</b>	<b>2020</b>	2019
As of Jan. 1	79	0
Fair value changes recognized through profit or loss	3	-24
Fair value changes recognized through other comprehensive income	165	103
Liquidation of derivative positions	-247	0
<b>As of June 30</b>	<b>0</b>	<b>79</b>

The fair value changes recognized through other comprehensive income in relation to derivative financial instruments are included in the item "Mark-to-market of cash flow hedges." The

fair value changes recognized through profit or loss in relation to derivative financial instruments are reported in other financial income and other financial expenses, as appropriate.

## 18 Relationship to related parties or companies

The relationships between fully consolidated companies of the Group and related parties substantially concern joint ventures, associates and other participations. In the period under review, there were no reportable related party transactions other than the general business relationships.

Friedrichshafen, July 27, 2020

ZF Friedrichshafen AG

The Board of Management



Wolf-Henning Scheider  
(CEO)



Dr. Konstantin Sauer



Sabine Jaskula



Michael Hankel



Wilhelm Rehm



Dr. Martin Fischer



Dr. Holger Klein

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