

Preface

*Dear Customers and Business Partners,
Dear Employees and Readers,*

The Consolidated ZF Group developed positively in 2007, the year under review. Sales rose by 8 % to euro 12,649 million. The workforce grew by 4 % to 57,372 employees. By offering innovative products, ZF was able to maintain its good position on the international markets and further strengthen its competitive position. Our customers' great demand for commercial vehicles and construction machinery as well as the strongly export-driven demand for passenger cars again led to sales growth which was better than average market growth in 2007. In 2007, ZF continued the successful approach of consistent customer orientation in terms of technological leadership, quality, and tapping into international markets. The high expenditures for research and development, the comprehensive investments in new and established locations, as well as opening up new markets serve to secure the company's future in the long run. ZF's actions must focus on results and added value in order to implement and finance this sustainability-oriented strategy. Also in the future, we will consistently continue on this path because it resides within the vital interest of the shareholders, customers, and employees.

Innovative products are the basis for ZF's international market success. Vehicle manufacturers depend on technologies which give them a competitive edge in international competition. ZF products offer these advantages by reducing fuel consumption and emissions, increasing economic efficiency, and at the same time offering more safety, driving dynamics, and comfort. In order to live up to the constantly increasing demands voiced by the market and politics, ZF is also going to consistently extend its technological position in the future. New products, such as the automatic 8-speed transmission for passenger cars, as well as hybrid modules and systems for passenger cars and commercial vehicles, which were presented to public in 2007, establish evidence for this – just like the high production figures for the products which are already available on the market.

International market activities were intensified in 2007. Positive results were attained by reinforcing the efforts invested in project acquisitions, in particular with new customers from the Asian region. Consequently, the sales share generated with these customers will increase significantly in the years to come. Business activities in Russia were intensified. An engineering service provider was taken over in the Czech Republic and, to a large extent, the establishment of a new production location in Slovakia was completed. It was possible to stabilize the difficult situation on the North American market. The initiatives taken with the aim of restructuring activities showed effect. In order to better meet the requirements of targeted international market processing, sales activities will be coordinated even more centrally in the future. In 2007, the measures for strengthening the ZF brand were intensified in order to specifically reinforce the competency profile of the ZF Group and to increase brand

recognition at an international scale. Communication of benefits generated by automatic passenger car transmissions, active steering systems, or electronic dampers, which often have to be ordered as optional equipment, has been enhanced. The aim is to support manufacturers' activities and inform the automobile trade, major customers, and car buyers in the long run and thus positively influence the equipment level (options) and production figures.

The quality campaign which was started in 2006 was continued. This had a positive effect both on customer satisfaction and results. The Board of Management, ZF Group, declared 2007 the Year of Information Protection. The campaign which was initiated to sensitize the employees, received the Security Award by the Federal State of Baden-Württemberg. As a result of full use of capacities in production and the high number of development projects, ZF stepped up its recruitment efforts in 2007. Fortunately, the measures have been successful, so it was possible to meet the planned demands for new staff.

I would like to thank all business partners of the ZF Group for their close cooperation based on mutual trust during the year under review. I also want to extend my gratitude to Management and the employees for their active contribution. The success we had would not have been possible without their exceptional commitment and high level of flexibility. Moreover, my thanks go to the employees' representatives because they worked hard for a fair conciliation of the company's and employees' interests, also with their constructive support in terms of flexible working hours and coping with peaks in demand.

2008 will be a challenge for ZF in many respects. The extraordinarily high investments of euro 900 million in particular and the related preparation of important production launches for new product generations will be very demanding on the employees. The international market presence will be further extended. This applies to the established regions and to new markets, such as Russia and India. The pressure on international sales and the procurement markets is further increasing. The ZF Group will take all steps required for a positive further development in this difficult environment. A high level of customer orientation, innovation capability, productivity, quality, and staff motivation are essential factors to ensure the company's long-term success.

The world economy will continue its growth in 2008, albeit not as dynamically as in the year under review. Therefore, ZF forecasts sales growth in the range of 4 % for this year.

Friedrichshafen, April 2008



Hans-Georg Härter
Chief Executive Officer