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INDEPENDENT AUDITOR'S REPORT

To the ZF Finance GmbH, Friedrichshafen

Report on the audit of the annual financial statements and of the management report

Audit opinions

We have audited the annual financial statements of ZF Finance GmbH, Friedrichshafen, which comprise the balance sheet as at 31 December 2021, the statement of profit and loss, the cash flow statement and the statement of changes in equity, for the financial year from 1 January 2021 to 31 December 2021, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of ZF Finance GmbH for the financial year from 1 January 2021 to 31 December 2021.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In our opinion, the matter described below was the most significant in the context of our audit:

Recoverability of loans to affiliated companies

Reasons for designation as a key audit matter

In the annual financial statements of the company as of 31 December 2021, loans to affiliated companies amounting to EUR 3.0 billion (98% of total assets) are reported in the line item "Long-term financial assets". These relate to four loans issued to the sole shareholder ZF Friedrichshafen AG, Friedrichshafen (ZF AG), with nominal amounts of EUR 750 million, EUR 750 million, EUR 500 million and EUR 500 million with maturities ranging from September 2025 to September 2028 as well as a further loan in the amount of EUR 500 million to the sister company ZF Holdings B.V., Netherlands (ZF Holdings), which matures in May 2028. The terms and amounts of the loans correspond to the terms of the corresponding bonds, which are shown on the liabilities side under the balance sheet item "Bonds", amounting to EUR 3.0 billion. The measurement according to German commercial law of loans to affiliated companies is based on the acquisition cost or, if there are indications of impairment, on the lower fair value. Indicators for impairment of other loans exist if there are indications of a deterioration in the economic situation of ZF AG or ZF Holdings, which lead to a restriction of liquidity and the ability to repay the loans. The impairment test by the legal representatives is mainly based on the assessment of the operating business and the corporate planning of ZF AG or the ZF AG Group, which also includes ZF Holdings. Due to the assessments of the legal representatives required for the valuation of the loans as well as the material significance for the net assets and results of operations of the company, this matter was of particular importance within the scope of our audit.

Our approach to the audit

As a first step, our audit procedures included obtaining an understanding of the process steps and testing the internal controls implemented for the impairment testing of financial assets. In particular, we also assessed the information on which the assessment of the legal representatives was based. In their assessment, the legal representatives had at their disposal the corporate planning of the ZF AG Group approved by the Supervisory Board of ZF AG. The legal representatives also relied on the ZF AG Group's internal cash reporting, including the availability of unused credit lines, as well as the company rating from Standard & Poor's and Moody's, which has remained unchanged since fall 2020. In addition, we critically assessed the audited annual financial statements as of December 31, 2021, which were issued with an unqualified audit opinion, the management report for the fiscal year from January 1, 2021, to December 31, 2021, of ZF AG, as well as the annual financial statements as of December 31, 2021, and the management report for the fiscal year from January 1, 2021, to December 31, 2021, of the ZF AG Group, and checked the information used to assess impairment for consistency with the financial reports. Through the audit

procedures we performed, we were able to satisfy ourselves that the information underlying the valuation assumptions of the legal representatives is, on the whole, suitable for making the assessment on the existence of impairment indicators of the loans to affiliated companies in an appropriate manner.

Reference to related disclosures

For information on the accounting policies applied, please refer to the notes to the financial statements, which contain disclosures on financial assets in sections "I. General information on the financial statements and accounting policies" and "II. Notes to the balance sheet".

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and

appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Report on the Audit on the Electronic Rendering, of the Annual financial statements and the Management report, Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

Audit Opinion

We have performed audit work in accordance with Section 317 (3a) HGB to obtain reasonable audit as to whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file ZF_Finance_GmbH_JAuLB_ESEF-2021-12-31.xhtml (SHA256-Hashvalue: 01c56a6ff37828c8683dbd78a16f767140b092583acb03517b70e15ddf40a171) made available, and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this audit opinion and our audit opinion

on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January 2021 to 31 December 2021 contained in the "Report on the Audit of the Annual financial statements and of the Management report" above, we do not express any audit opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the Audit Opinion

We conducted our audit work on the rendering, of the annual financial statements and the management report, contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Audit Standard: Audit on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Audit Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the company are responsible for the preparation of the ESEF documents with the electronic rendering of the annual financial statements and the management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the company are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Audit Work on the ESEF Documents

Our objective is to obtain reasonable audit about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- Obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited annual financial statements and of the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 15 November 2021. We were engaged by the supervisory board on 20 December 2021. We have been the auditor of the ZF Finance GmbH, Friedrichshafen without interruption since the financial year 2020.

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

We have performed the following service, which was not disclosed in the annual financial statements or the management report, in addition to the audit of the financial statements:

- Issuance of a comfort letter in connection with the update of the debt issuance program of ZF Friedrichshafen AG and ZF Finance GmbH.

Other matter – use of the auditor's report

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Frank Wellhöfer.

Nuremberg, 31 March 2022

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

gez. Landgraf	gez. Wellhöfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

ZF Finance GmbH, Friedrichshafen
Balance Sheet as of December 31, 2021

in € k

Assets	<u>31.12.2021</u>	<u>31.12.2020</u>	Liabilities and equity	<u>31.12.2021</u>	<u>31.12.2020</u>
A. Non-current assets			A. Equity		
Financial assets			Subscribed capital	100	100
Loans to affiliated companies	3.000.000	2.000.000			
B. Current assets			B. Provisions		
I. Receivables and other assets			Other provisions	26	25
Receivables from affiliated companies	31.504	17.184	C. Liabilities		
II. Cash, Bundesbank balance, bank balances and checks			1. Bonds	3.000.000	2.000.000
			2. Trade payables	64	1.470
Bank balances	5	5	3. Liabilities to affiliated companies	656	0
	31.509	17.188	4. Other liabilities	30.663	15.593
C. Prepaid expenses	25.973	22.345		3.031.383	2.017.063
	3.057.482	2.039.534	D. Prepaid expenses	25.973	22.345
				3.057.482	2.039.534

ZF Finance GmbH, Friedrichshafen**Statement of profit or loss for the fiscal year from January 1 to December 31, 2021**

in € k

	<u>2021</u>	<u>2020</u>
1. Other operating income	1.716	2.638
2. Other operating expenses	1.739	2.664
3. Income from loans held as financial assets thereof from affiliated companies €75,543 k (prior year: €16,353 k)	75.543	16.353
4. Interest and similar expenses thereof to affiliated companies €1 k (prior year: €0 k)	76.376	16.353
5. Earnings before/after taxes on income	<u>-857</u>	<u>-27</u>
6. Income based on a profit transfer agreement	<u>857</u>	<u>27</u>
7. Net income/loss	<u><u>0</u></u>	<u><u>0</u></u>

ZF Finance GmbH, Friedrichshafen**Cash Flow Statement for the fiscal year from January 1 to December 31, 2021**

in € k

		2021	2020
	Profit or loss for the period before profit transfer	-857	-27
±	Increase/decrease in other provisions	1	25
±	Decrease/increase in inventories, trade receivables and other assets not assigned to investment or financing activities	747	-1.564
±	Increase/decrease in trade payables and other liabilities not related to investment or financing activities	-750	1.470
+	Interest expenses	76.376	16.353
-	Interest income	-75.543	-16.353
=	Cash flow from operating activities	-27	-95
-	Expenditures for investments in financial assets	-992.510	-1.976.895
+	Interest received	57.444	0
=	Cash flow from investing activities	-935.067	-1.976.895
±	Payments made by/to parent company	27	100
+	Proceeds from the issuing of bonds	992.510	1.976.895
-	Interest paid	-57.444	0
=	Cash flow from financing activities	935.093	1.976.995
	Net change in cash	0	5
+	Cash and cash equivalents at the beginning of the period	5	0
=	Cash and cash equivalents at the end of the period	5	5

ZF Finance GmbH, Friedrichshafen**Statement of changes in equity for the fiscal year from January 1 to December 31, 2021**

in € k				
	Subscribed capital	Capital reserve	Net income /loss	Total
as at July 16, 2020	100			100
Earnings before/after taxes on income			-27	-27
Income based on a profit transfer agreement			27	27
as at December 31, 2020	100	0	0	100
as at January 1, 2021	100	0	0	100
Earnings before/after taxes on income			-857	-857
Income based on a profit transfer agreement			857	857
as at December 31, 2021	100	0	0	100

ZF Finance GmbH, Friedrichshafen Management Report for 2021

CLASSIFICATION WITHIN THE ZF GROUP

ZF Finance GmbH (hereinafter referred to as “the company”) is a wholly-owned subsidiary of ZF Friedrichshafen AG (hereinafter referred to as “ZF AG”) and is included in the latter’s Consolidated Financial Statements. The company is directly tied to ZF Friedrichshafen AG through a profit and loss transfer agreement and is included in the latter’s tax group. The company was founded in July 2020 and is headquartered in Friedrichshafen.

ZF Finance GmbH performs financing activities for the ZF Group on the capital market by issuing bonds. Currently, all bonds are issued on the Luxembourg Stock Exchange. The issue proceeds are internally transferred to ZF Friedrichshafen AG or other companies of the Group in the form of loans at identical conditions. All expenses arising in connection with financing activities are passed on within the Group.

ZF Finance GmbH is integrated in the structures of the ZF Group and is assigned to the Global Domain Functions.

Therefore, the company’s business development and ability to cover claims becoming due from the bonds issued depend primarily on the economic success of ZF AG and its Group companies.

CORPORATE MANAGEMENT

Executive management and Supervisory Board

According to the company’s purpose as a financing vehicle, it is strategically controlled by the ZF Group and its Board of Management. The operational management of ZF Finance GmbH is carried out by its executive management, which consists of two members. They conduct the business in close coordination with the responsible corporate functions.

In May 2021, a Supervisory Board consisting of three members was established. The Supervisory Board monitors the executive management’s activities and receives regular management updates concerning business performance, strategy and opportunities and risks.

The members of executive management and the Supervisory Board are listed in the Notes to the Annual Financial Statements.

Employees

ZF Finance GmbH has no own employees. Its general managers are employed by ZF Friedrichshafen AG and receive no remuneration from ZF Finance GmbH. The operational activities are carried out by employees of ZF Friedrichshafen AG or its subsidiaries upon instruction by the executive management. These activities primarily consist of carrying out financing activities in connection with issuing bonds and transferring these within the Group, the associated monitoring of risk profiles and day-to-day accounting. Here, the focus is on putting ZF Finance GmbH in a position to meet its financial obligations at all times by always ensuring the recoverability of loan receivables within the Group as well as of interest claims.

As the assessment of the recoverability of ZF Finance GmbH's loans and the servicing of debt is based on the financial stability of ZF Friedrichshafen AG (warrantor), the principles of ZF Friedrichshafen AG's internal control system (ICS) and risk management are presented and explained below. These processes and findings serve as an important basis for general managers to assess the overall economic and financial circumstances of ZF Friedrichshafen AG.

Risk management and internal control system

The risk management standardized throughout the Group is implemented as part of an integrated governance, risk and compliance (GRC) approach.

ZF's internal control system (ICS) aims to guarantee that the organization achieves its objectives in terms of relevant business activities (effectiveness/efficiency), reliable financial reporting and compliance. The internal control system standardized throughout the Group is implemented as part of an integrated governance, risk and compliance (GRC) approach. The ICS' direct reference to the ZF risk catalog enables the organization to ensure and further develop the ICS coverage in a targeted manner. Our standardized ICS method applies company-wide and has been implemented throughout the Group. It is based on the tenets of transparency, the principle of dual control and the separation of duties. Through regular analysis and reporting to ZF AG's Board of Management and Supervisory Board as part of the integrated GRC report, ZF's Global Domain Function "Risk & Control Management" helps to monitor control procedures and documentation and takes prompt corrective action if weaknesses come to light.

As part of central financial risk management, ZF monitors and controls liquidity, foreign currency, interest rate and counterparty risks as well as credit risks in order to safeguard the Group's financial stability. Guidelines and provisions regarding the individual risk types have been put in place which determine how to assess and manage the particular risk. Where required, ZF externally hedges financial risks using appropriate instruments.

In addition to the accounting-related internal controls, which apply to the correctness and completeness of the information in the Annual Financial Statements, ZF Finance GmbH's opportunity and risk management focuses on controlling for the optimum placement of financing and monitoring the maturity profile. This is carried out via Group-wide liquidity management, using appropriate tools and taking planning information into consideration. Before the issue proceeds are passed on, the beneficiary within the Group is audited to secure the return payments.

ECONOMIC AND BUSINESS REPORT

Due to its operating activities as the financing company of the ZF Group and the close integration in its strategy and processes, the major economic framework conditions of the ZF Group have a direct effect on ZF Finance GmbH. These conditions are as follows:

MARKET AND INDUSTRY ENVIRONMENT

Gradual economic recovery after historic crisis

In the second year affected by the coronavirus epidemic, economic recovery varied widely by region and sector. Regions such as North America, China and to some extent Europe achieved noticeable growth again, also because there were lower restrictions on economic activities compared to the first infection waves in 2020. In particular in trade and industry, the development was positively influenced by the fact that borders were not closed for longer periods of time and other pandemic-related restrictions were not imposed. In addition, private demand picked up again after several months of, in some cases, considerable restrictions on consumption opportunities. Government investment and support programs, as well as the continuously low interest rate levels set by the central banks in many countries, additionally supported recovery after the restrictions of the first coronavirus waves. Nevertheless, many countries have not yet been able to fully compensate for the massive slumps in 2020. Also, due to supply bottlenecks – mainly in the field of semiconductors – and massive increases in raw material prices, especially in the manufacturing sector, it was not possible to fully exploit the growth potential. For several months, this trend has been accompanied by significantly increasing inflation rates.

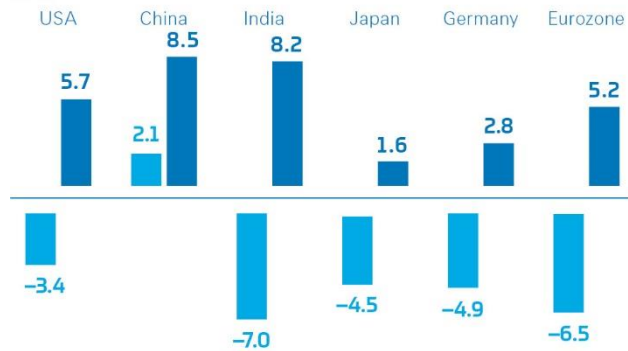
Based on initial positive trends observed at the end of 2020, robust growth rates of 5.7% in the USA, 8.5 % in China and 5.2 % in the eurozone were achieved in 2021. Meanwhile, major emerging economies such as India (8.2%) and Brazil (4.8%) also achieved strong catch-up effects, despite in part very drastic coronavirus waves. By contrast, Germany lagged somewhat behind with a comparatively weak recovery of 2.8%, while the UK, France and Italy were able to stand out with growth rates of 6% to 7%.

Pandemic and semiconductor bottlenecks slow long-term recovery of ZF markets

At around 77 million vehicles, the global market for passenger cars and light commercial vehicles remained around the very weak prior-year level caused by the crisis (+3% after –16% in the previous year). In many regions, the first half of the year saw a clear recovery from a very weak first half of 2020. However, starting in summer, the semiconductor bottleneck slowed down a long-term recovery and the monthly figures were often below the previous year's comparative figures. In the market for heavy commercial vehicles over six tons, global production volumes remained at the prior-year level. However, there are marked differences between the individual regions. The industrial sectors were not as volatile as the automotive markets, but also subject to major fluctuations.

G. 10 GDP growth 2020–2021

in %

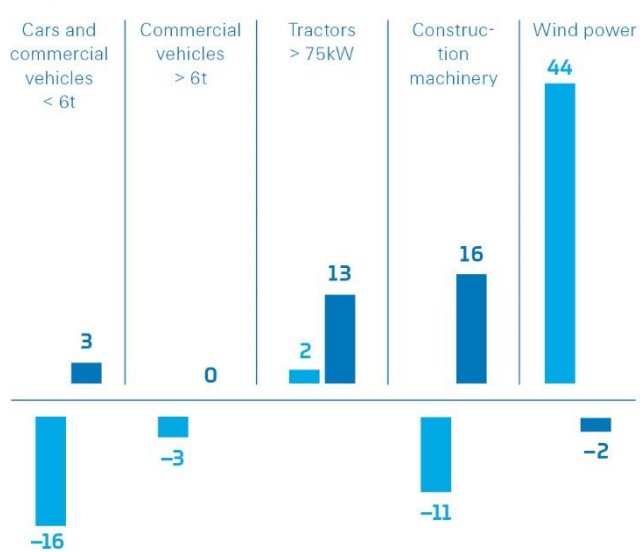


■ 2020
■ 2021

Sources: Ifo, IWF, OECD, FERl

G. 11 Development of ZF's industries 2020–2021

in %



■ 2020
■ 2021

Sources: Ifo, IWF, OECD, FERl

OVERALL DEVELOPMENT OF THE ZF GROUP

Overview of the business trend and Board of Management's overall statement on business development

2021 was characterized by the continued recovery of the markets after the pandemic-related lockdowns in 2020 and the overlap of this trend with bottlenecks in the procurement of semiconductors as well as material price increases. After a pleasing first half of the year, the volatility of the markets caused by the semiconductors and the material price increases had an impact on sales and results, mainly in the second half of the year, predominantly in the third quarter.

In 2021, the focus was on stabilizing income against the background of the semiconductor procurement bottleneck, higher material prices and increased research and development costs. In addition, the long-term restructuring program which was launched in the previous year was continued. With this program, ZF intends to further advance the transformation process towards future technologies and the digitalization of processes as well as the structural alignment of the company with the new market conditions. Another focus was placed on continuing to reduce debt as well as actively shaping the maturity profile of the ZF Group's financial liabilities.

Despite challenging market conditions in the automotive supplier industry, the ZF Group achieved the 2021 sales forecast (of between €37 and €39 billion) given at the start of the fiscal year. Especially the shortages in the supply of semiconductors led to a volatile sales development over the course of the year and slowed down sales growth in the second half of 2021. In total, sales increased by 17.5% from €32.6 billion to €38.3 billion.

The adjusted EBIT of €1.9 billion (2020: €1.0 billion) is mainly influenced by sales growth and negatively affected by the significant increase in raw material prices and freight costs. In this challenging year, ZF still consistently continued the Next Generation Mobility strategy and increased research and development expenses to €2.6 billion. These advance investments for the transformation towards electrification, software-defined vehicle and autonomous mobility also had an impact on the result in 2021. The adjusted EBIT margin of 5.0% is within the forecast range (between 4.5% and 5.5%).

The adjusted free cash flow amounted to about €1.0 billion and was therefore also within the forecast (between €0.8 and €1.2 billion).

The increase in equity based on the net profit after tax as well as positive valuation effects, which had reduced equity in recent years, led to an increase in the equity ratio by seven percentage points to 19% at the end of the fiscal year. The ZF Group rests on a solid financial foundation thanks to its long-term oriented and diversified financing, as well as cash and cash equivalents of more than €2.3 billion and an unused credit line of €3.0 billion at Group level.

Against the backdrop of a stable liquidity and financial basis as well as a positive business performance, the Board of Management is confident with regard to the future economic situation of ZF Friedrichshafen AG.

Overall statement on the business performance of ZF Finance GmbH

In order to increase the flexibility of borrowing funds on the capital market, ZF Finance GmbH, together with ZF Friedrichshafen AG, launched a Debt Issuance Program (DIP) for the first time in September 2020. Potential issuers are ZF Friedrichshafen AG or its 100% subsidiary ZF Finance GmbH. The DIP has a potential total volume of €7.5 billion. In September 2020, ZF completed an issuance under the DIP for the first time. The bonds issued are divided into two fixed-interest tranches with a volume of €750 million each and have maturity periods of five and eight years. In November 2020, another transaction followed with a fixed-rate individual tranche of €500 million and a maturity period of six and a half years.

ZF was the first automotive supplier in Germany to issue a green bond under the Debt Issuance Program (DIP) via its subsidiary ZF Finance GmbH in April 2021. It is based on ZF's Green Finance Framework. The fixed-interest green bond has a nominal volume of €500 million and a maturity period of six years. ZF Finance GmbH passed the proceeds on to the parent company ZF Friedrichshafen at the same conditions. They are used on the one hand for the development, production and sale of products for battery electric vehicles (clean transportation) and on the other hand for the development, production and sale of gearboxes for wind turbines (renewable energy). In November 2021, another transaction followed with a fixed-rate individual tranche of €500 million and a maturity period of six and a half years. This was also passed on to the co-subsiary ZF Holdings B.V., Netherlands, at identical conditions. The not covered interest expense of €832 k, resulting from a time lag when this tranche was passed on, contributed significantly to the negative earnings before tax. The bonds were issued by ZF Finance GmbH under the guarantee of ZF Friedrichshafen AG.

One important focus in 2021 was the reduction in debt and the active shaping of the maturity profile of the ZF Group's financial liabilities.

Against the backdrop of the corporate goal to be financially independent, ZF is aiming at a stable investment grade rating. As of the balance sheet date, ZF had company and bond ratings of Ba1 with a negative outlook from Moody's and BB+ from Standard and Poor's, also with a negative outlook. Compared to the previous balance sheet date, the ratings have not changed.

The fiscal year 2021 was overall positive for ZF Finance GmbH, particularly as it was characterized by the successful placement of these new issuances.

Results of operations, financial position and net assets

Results of operations

As it is purely a financing company, ZF Finance GmbH does not generate any sales or any staff-related expenses. The results of operations are characterized by interest expenses from the issuing of bonds on the Luxembourg Stock Exchange (€76,375 k; previous year: €16,353 k) as well as the corresponding interest income from affiliated companies that is generated as part of the transfer to ZF Friedrichshafen AG or ZF Holdings B.V. (€75,543 k; previous year: €16,353 k).

The significant increase in interest income and expenses is due to the time of issue in the previous year. The bonds were issued in September 2020 (€1.5 billion) and November 2020 (€500 million), thus significantly shortening the interest-bearing period in the previous year. At 2.75% – 3.75%, the interest rate of the tranches issued in the previous year is above the interest rate of the tranches issued in 2021 (2.00% – 2.25%).

The transaction costs resulting from the issue of further bonds and other operating expenses in the amount of €1,716 k were passed on within the Group as agreed, resulting in a nearly balanced relationship between other operating expenses and income.

The fiscal year 2021 was closed with a balanced net result for the year as expected. Loss after tax in the amount of €857 k (previous year: €27 k) is borne by ZF AG as part of the loss assumption agreement.

Capital structure and financing

ZF Finance GmbH's equity, which consists exclusively of the subscribed capital, amounts to €100 k (previous year: €100 k).

Due to the two further bonds issued in the amount of €500 million each, the liabilities from bonds issued increased from €2 billion to €3 billion. Less the discounts of €7,490 k, the cash inflow amounted to €992,510 k.

In accordance with the increased issue volume, the outstanding liabilities from accrued interest as of the balance sheet date also increased by €15,070 k to €30,663 k.

The negative cash flow from operating activities amounting to €27 k results from costs not passed on which are borne by ZF AG as part of the profit and loss transfer agreement. In accordance with ZF Finance GmbH's concept, the cash flow from investing activities and the cash flow from financing activities nearly balance each other out. The cash inflow generated by issuing bonds of €992,510 k as part of financing activities was passed on in the same amount to companies of the Group, which resulted in a cash outflow from investment activities. The same applies to the cash flow from interest payments amounting to €57,444 k, where outflows from payments to creditors are covered by inflows of interest received from companies of the Group.

In the year under review, the company was able to meet its payment obligations at any time.

Net assets

Compared to the previous year, ZF Finance GmbH's total assets increased by €1,018 million to €3,057 million. The loans granted to ZF Friedrichshafen AG (€500 million) and ZF Holdings B.V. (€500 million) contributed €1,000 million in total.

Cash in the form of balances at financial institutions amounts €5 k, unchanged from the previous year.

OPPORTUNITIES AND RISKS

OPPORTUNITY AND RISK MANAGEMENT

ZF Finance GmbH is limited to the role of financing the ZF Group by issuing bonds on the Luxembourg Stock Exchange, supported by ZF Friedrichshafen AG's guarantee as the parent company of the Group. Thus, the major and direct risk for ZF Finance GmbH is the bad debt of the issue proceeds passed on to ZF AG and ZF Holdings B.V. in the form of loans at identical conditions.

The following section presents the opportunity and risk management system of the ZF Group, as well as its main opportunities and risks. As mentioned above, the following principles form the basic foundation for executive management's risks assessment of the loans granted.

Opportunity and risk management system of the ZF Group

ZF defines risks as any internally and externally occurring event or development that may result in a negative deviation from the business plan, whereas opportunities may result in a positive target deviation.

The ZF risk management system covers the whole Group and involves all operational reporting units and corporate functions via established processes and contact points in order to utilize the strength of the ZF Group matrix organization. The objective of the risk management system is to identify, analyze and evaluate risks and opportunities early on and to take measures to manage risks and seize the opportunities associated with them.

Group Risk Management coordinates the risk management process at Group level, provides the structures, methods and processes in its governance and assurance function and ensures the implementation of the ERM Directive. The ERM Directive is aimed at all employees and calls upon them to proactively participate in identifying and handling risks.

The Board of Management of ZF AG bears overall responsibility for the risk management system. It informs the Audit Committee and the Supervisory Board on a regular basis, promptly – at least every three months – and comprehensively about the opportunities and risks of the ZF Group and the respective control measures initiated and planned. The risk report is part of the integrated GRC report, which is prepared three times a year by the GRC core functions and presented to the Board of Management and the Audit Committee.

At Group level, the Risk Committee, chaired by the board member responsible for Finance, IT and M&A, is tasked, among other things, with regularly reviewing and evaluating ZF's risk situation on a cross-divisional and cross-functional basis, as well as ad hoc, if required. Continuous further development and improvement of risk management governance is also part of the Risk Committee's tasks.

The effectiveness of the risk management system is checked regularly. Within the scope of its control obligation, the Supervisory Board addresses the effectiveness of the risk management system established by the Board of Management at least every six months. Among other things, Corporate Audit is responsible for regularly checking and evaluating the implementation of the

ERM Directive and the efficiency of the risk management system. Within the context of the audit of the annual or consolidated financial statements, the auditor appointed by the Supervisory Board also assesses whether the Board of Management has set up suitable measures for the establishment of a monitoring system in order to detect early on whether there is any development that may threaten the existence of the company. Insights from these regular audits are integrated into the continuous further development of the risk management system. An aggregation of the overall risk landscape ensures that ZF's risk position does not exceed its risk-bearing capacity.

G. 18 ZF Group risk management



Risk management process

At least every three months and ad hoc, if required, the corporate functions and operational reporting units identify, assess and report operational risks. All risks are assigned to risk categories in the ZF risk catalog to enable all types of risks along the value chain to be recognized. Once a year, strategic risks that have a long-term impact on ZF are assessed. Significant risks for the Group are identified by means of thresholds defined by the Board of Management with regard to probability of occurrence and potential extent of damage. Within the scope of Enterprise Risk Management, opportunities are included if they have a direct material link to a risk.

Risks and their impacts are chiefly assessed using quantitative criteria differentiated according to their gross risk value (before risk treatment) and net risk value (after risk treatment). The possibility of a qualitative risk assessment using the GRC consequence matrix also takes account of and manages non-quantifiable or difficult-to-quantify risks in the risk landscape.

Based on the risk assessment, ZF strives to reduce or completely avert risks by means of appropriate countermeasures and to seize associated opportunities. For each individual risk classified as major, the responsible risk managers initiate measures. These are also documented

and tracked in the Group's reporting. Interdependencies between risks and aggregation effects are taken into account. The Board of Management and the Risk Committee continuously monitor ZF's opportunity and risk situation. Group Risk Management is tasked with continuously tracking the development of all identified major risks and the status of the risk treatment measures initiated. The aforementioned activities ensure that risks and opportunities are continuously analyzed throughout the Group. In this way, ZF aims to increase risk awareness inside its organization and establish the framework for further developing its corporate risk culture.

KEY RISKS COMMENTARY

Based on the current assessment, the risks classed as significant to the future development of the ZF Group are listed below. The reporting here generally covers a whole year. Risks that are subject to regular reporting essentially arise in the areas of quality, supply chain and sales. Risks that arise out of transactions relevant under taxation law and other legislation are also reported.

Industry environment risks

As a global player, ZF faces location- and country-specific risks arising, among other things, from overall economic developments.

The further spread and consequences of the Covid-19 pandemic continue to pose a major risk to the global economy. Due to new virus variants, there is still considerable uncertainty about the future occurrence of infections.

Diplomatic tensions and protectionist tendencies between individual countries, such as the aggravation of trade relations between the USA and China, can lead to volatile financial markets as well as unfavorable global market developments. ZF is closely monitoring the situation in Ukraine. A cross-functional and cross-divisional Task Force has been established and is evaluating risks and defining measures to ensure compliance with applicable regulations. In this context, ZF also monitors the further development of inflation rates and energy and material prices in the eurozone in order to react with measures in good time.

Tariffs on vehicle and parts imports from global markets may significantly affect ZF's value chains as well as those of its customers and suppliers, which could be detrimental to sales, profitability and financing conditions. Moreover, fiercer competition may also adversely affect sales development and sales prices, especially in the key sales markets in Europe, the USA, India and China. ZF is also seeing continued protectionist measures in individual countries trying to protect and/or improve their competitiveness on the global markets, such as the introduction and expansion of firm market access barriers, industrial policies and additional certification processes.

With regard to the economy as a whole, ZF continued to observe a stable low-interest rate environment in 2021 despite massive borrowing from governments and companies due to the pandemic. The ongoing expansive monetary policy results in positive financing conditions. ZF is observing that the recovery of the technology sector from the global recession is faster in China than in Europe or the Americas.

In addition to activities in the traditional markets, ZF wants to proactively position itself in growth markets. Structural deficits and economic downturns in the relevant countries – especially Argentina, Brazil, Russia and India – may lead to declining sales and payment defaults.

Sales risks

Global economic conditions and developments decisively determine the demand for ZF's products and services. As a global supplier, especially for the automotive and industrial sectors, ZF is furthermore subject to cyclical demand fluctuations. Therefore, there is a general possibility for all ZF's business units and divisions that markets or market conditions may develop more favorably or unfavorably and thus lead to positive or negative deviations from operational planning.

Moreover, by means of structural changes, ZF continues to adapt capacities worldwide to adjust to weaker demand and to anticipate the ever faster transformation to electric mobility.

Quality risks

ZF takes responsibility for its products and thus for their impact on society, its business partners and the environment. For ZF, defective products can lead to a sales decline, customer withdrawals and loss of market acceptance, especially in light of the fact that many of its products are important components that contribute to the overall safety, durability and performance of its customers' final products. Through a Product Compliance Management System, ZF ensures that products entering the market meet all legal and contractual requirements.

Procurement risks

To produce its products, ZF needs significant quantities of raw materials and energy. Although ZF's general procurement policy envisages procuring raw materials from a variety of different suppliers in different regions, it cannot always avoid the dependency on individual suppliers and consequently on their financial stability. Delays in delivery and cancellations (e.g. due to force majeure, the current Covid-19 pandemic, capacity bottlenecks with forwarding agents, financial problems and even insolvency of subcontractors), the consequences of strikes or insufficient quality can lead to production interruptions, negative effects on production capacities and an underutilization of production locations. This could in turn cause delays in the delivery of products to ZF's customers.

In addition to continuing work under pandemic conditions, the fiscal year 2021 was characterized by effects such as the semiconductor shortage and interrupted supply chains, as well as price increases for raw materials and logistics services. ZF has therefore partly re-adjusted its supply chains and shortened them by increasingly involving local suppliers. In the fourth quarter, there was also a worldwide increase in energy prices.

ZF responds to these special challenges by continuously monitoring the procurement situation and staying in close contact with its customers. A suitable bottleneck control system is intended to minimize or ideally prevent negative impacts, such as ZF or customer production downtimes.

Political developments in countries where the ZF Group operates can pose potential risks to ZF in the form of additional or increasing customs duties and thus costs for products and parts. Unless ZF compensates for this by improving productivity and establishing synergies, demand for ZF products may decline for price reasons.

ZF's Supplier Risk Management systematically works to avoid interruptions in deliveries due to financial instability or market introduction, quality and logistics problems at suppliers and to reduce ZF's procurement risk position to a minimum by identifying supply alternatives. Moreover, continuous market investigation, regular review of key suppliers and targeted analyses enable ZF to respond adequately and early to unfavorable developments on the raw materials and energy markets. The expected commercial risks were evaluated with regard to customer, market and

legal aspects, taking into account the required assumptions and estimates, and were recognized accordingly in the planning.

Research and development risks

The automotive industry in particular and, with it, the business with OEM customers are currently subject to market trends and technical developments to which ZF must react. This entails operational and strategic development and technology risks for ZF. The ability to anticipate technological trends and to respond early to customer needs by developing innovative solutions promptly is crucial for business.

The research and development risks ZF faces include stricter emission regulations combined with increasing environmental awareness on the customer side, the resulting uncertainty about the speed of decline of the traditional combustion engine as well as associated unknown legal implications. ZF is currently achieving a significant share of its sales with products based on the combustion engine driveline. Advancing electrification in the field of passenger car and commercial vehicle drives as well as other technological changes could jeopardize ZF's market position if it is not successful in expanding its expertise and developments in these new technology fields.

Cyber and information technology risks

ZF's comprehensive cyber security strategy aims at protecting people, business and personal information and data as well as its physical and intangible assets in cyberspace. The progressing digitalization of processes and products as well as the increasing technical interconnection of machines, products, systems, services and partners lead to risks in the area of information processing and technology.

Legal and other risks

Due to the complexity of the ZF Group's business model with economic activities on all continents, it is exposed to the risk of legal disputes in areas such as product liability, competition law, environmental protection and taxation as a matter of principle.

If company participations do not develop in accordance with the underlying business plan, the ZF Group could be forced to make balance sheet depreciations, which in turn have a negative effect on its earnings and equity.

Financial risks

The ZF Group's financial risks are of particular importance to ZF Finance GmbH, and are as follows:

As part of central financial risk management, ZF monitors and controls liquidity, foreign currency, interest rate and counterparty risks as well as credit risks in order to safeguard the Group's financial stability. Guidelines and provisions regarding the individual risk types have been put in place which determine how to assess and manage the particular risk. Where required, ZF hedges financial risks using appropriate instruments. Wherever possible and expedient, ZF uses derivative financial instruments to manage interest and currency risks in particular, also in existing underlying or planned transactions. Hedge accounting is used if the prerequisites for it are met. As globalization grows, currency risks have increased in the long run. In order to manage these risks better, ZF further developed and harmonized its strategy for safeguarding them. Since 2020, currency risks have been controlled and hedged at ZF with a standardized model to hedge underlying transactions in foreign currencies and a uniform system landscape.

Through active cash and cost management, ZF was able to limit the financial impact of the pandemic and stabilize its liquidity. A revolving loan of €3.0 billion is still fully available to the ZF Group as a liquidity reserve. Central cash pooling with sufficient cash and committed credit lines with matching maturities guarantee the necessary financial flexibility.

Risks are associated with the syndicated loan agreement of ZF Friedrichshafen AG, the financing in connection with the completed acquisition of WABCO and the loan agreement with the European Investment Bank. These agreements comprise not only obligations but also financial covenants which have to be complied with at all times. A breach of these financial covenants would mean that, in the event of a respective claim, the creditor could demand immediate repayment of the loan or terminate the credit line. Thanks to the measures implemented to secure liquidity and adapt the financial covenant, ZF Friedrichshafen AG was always, even during the pandemic, able to comply with the financial covenant, also as of the balance sheet date. From a current perspective, ZF has no reason to believe that these obligations will be breached in future.

In order to reduce counterparty risks in the realm of finance, ZF only transacts with banks that have first-class financial stability and within centrally stipulated limits. The credit rating of suppliers and customers is continually checked in order to initiate measures to safeguard the supply chain or receivables where necessary. There are risks to recognize impairments on financial assets, particularly in connection with ZF's investments in equity stakes in the area of future technologies as well as their financing.

KEY OPPORTUNITIES COMMENTARY

Industry environment opportunities

Systematically seizing opportunities is an essential part of ZF's sustainable growth policy. In the partly disruptive industries in which ZF operates as a globally active company, ZF continuously sees new opportunities that it directly takes into account for its plans and forecasts, provided they have a sufficient probability of occurrence. Using market investigation and environmental analyses in a systematical way and maintaining close contact with customers, ZF is continuously working on identifying opportunities and leeway with the potential to improve its products' design, production efficiency, market performance and cost structure. Innovation is the main driver in this process, which is why ZF also maintained its research and development expenditure at a high level in the past two weaker fiscal years.

Thanks to the Group's global market presence, ZF is able to pick up early on growth impulses in the markets that are recovering and to participate in their dynamic development through increased market cultivation. The Paris Climate Agreement has a noticeable accelerating effect on the transformation of the automotive industry towards electrification. Automation and safety-relevant product solutions are also gaining in importance.

ZF's business model and the strategy derived from it are leading to a raft of opportunities based on the highly diversified product groups and customer industries in the different regions.

Company-specific opportunities

With the Next Generation Mobility strategy, ZF AG's Board of Management has defined the Group's long-term orientation and formulated its goals. Legislators around the world are continuously tightening climate protection requirements for companies. The ZF Group's competitiveness will be closely linked to CO₂ emissions. Accordingly, the action plan to achieve carbon neutrality was further refined and embedded in the corporate strategy. By 2030, ZF intends to achieve important milestones on the road to the climate target – climate neutrality by 2040. To this end, ZF not only focuses on its own plants and products, but takes the entire supply chain into account. This includes increasing the energy efficiency of plants as well as promoting the transformation to green energy, offering sustainable products with a small carbon footprint and simultaneously reducing emissions in the supply chain.

Through the realignment, ZF AG's Board of Management sees the company well prepared for the further tightening of regulations on fuel consumption and emission standards for motor vehicles. These stricter regulations will result in a higher demand for energy-efficient and low-emission drive solutions. Vehicle manufacturers are increasingly required to reduce fleet consumption through their mix of vehicles and drive systems. These factors are reinforcing the trend toward further vehicle electrification. With its extensive portfolio, in particular of systems and components for hybrid and electric drives, ZF is already providing solutions that enable customers to comply with such changes to the legal framework. Hybrid drives and electric drives in particular have become important drive alternatives sooner than expected. This has positive effects on ZF as a systems supplier in the passenger car and commercial vehicle sectors. The Board of Management is continuously examining possible inorganic growth through acquisitions and participations in order to supplement ZF's organic growth.

ZF's sustainable actions are an important component of its financing strategy in cooperation with its banks and investors. The sustainability strategy has a direct effect on the valuation of the

company by ESG rating agencies. Furthermore, sustainability criteria for financing and sustainable project financing can improve credit terms and broaden the investor base.

In addition, ZF's customers have also set ambitious sustainability goals, based on their own CO₂ emissions, but also dependent on those of their suppliers. If ZF can prove that the company is working successfully on its carbon footprint, this can lead to a competitive advantage which can be decisive for the future awarding of contracts.

Despite the continuing Covid-19 pandemic, the ZF Group's order situation continued to develop fairly well in 2021. ZF was able to win a number of important contracts in the areas of electric mobility, advanced driver assistance systems and the relevant connected sensors and actuators. Order intake for bus transmissions and electric bus drives as well as in the aftermarket is also developing positively. ZF's Wind Power Business Unit is also benefiting from strong market growth. There are further interesting developments especially in view of the increasing global interest in hydrogen energy and fuel cell technology.

By merging the divisions Commercial Vehicle Control Systems and Commercial Vehicle Technology, ZF secures its position as a technology provider in the commercial vehicle sector with the Commercial Vehicle Solutions Division. From the beginning of 2022, the new division will be able to offer a comprehensive product and system portfolio from a single source to serve truck, bus and trailer manufacturers as well as fleet operators on all continents.

In order to implement the Next Generation Mobility corporate strategy, the Group-wide ZF Way initiative was launched, which aims at all areas of the company and every employee. The initiative establishes working principles such as "Agile" and "Anticipation," providing ZF with a fast response time and flexible adaptability to rapidly changing market requirements.

In addition, ZF has identified opportunities in research and development and in digitalization and information technology. The Next Generation Mobility strategy aims at providing clean, safe, comfortable and affordable mobility for everyone and everywhere to fit people's current and future lifestyles, bringing ZF closer to the customer and opening up additional sales opportunities. Progressing digitalization and the internet of things (IoT) enable the ZF Group to increase the connectivity between its mobility and industrial applications and to enhance its services to allow vehicles to see, think and act independently in the future.

OVERALL STATEMENT ON THE OPPORTUNITY AND RISK SITUATION OF THE ZF GROUP

The ZF Group works to counter the above risks using a risk management system that is embedded in an integrated governance, risk and compliance (GRC) approach. It includes the global organization through a decentralized approach and equally covers divisions, cross-sectional functions and regions. The decentralized risk management approach stipulates that risks are managed where they occur to ensure that those who have the best overview and know-how with regard to the respective risk category take action. The risk management system is integrated in the operational and strategic business activities. The risk management method is subject to a continuous improvement process. The Report on Opportunities represents a consolidated observation of significant opportunities in the period under review. Wherever cost-effective and within the Group's sphere of influence, it attempts to develop these.

Based on currently available information as well as the individual risks illustrated in the financial statements and set out in this report, ZF AG's Board of Management can identify no additional market-related opportunities and risks which could substantially influence the ZF Group's results of operations, net assets and financial position in fiscal year 2022. The Group's financial situation is stable; the need for financial means is covered by existing liquidity and available credit lines.

Given the market position and the precautions taken, the Board of Management of the ZF Group is confident in its ability to control these risks and meet the resulting challenges. When analyzing the overall picture of significant risks and opportunities, no risks can be identified which could jeopardize the company's continued existence, either alone or in combination with other risks.

FORECAST REPORT

The future development of ZF Finance GmbH as the financing company of the ZF Group is subject to the same framework conditions and expectations as the development of the ZF Group as a whole. Accordingly, the assessment of future development is based on the ZF Group's forecasts, which are summarized in the following section.

ZF Group industry environment trends

Economic recovery expected to continue, but short of momentum

After the first catch-up effects in 2021, the situation remains volatile. It is probable that some governments will continue to provide fiscal support for the economy, with opportunities for favorable refinancing, and the economy will be boosted to some extent by continued high and partly pent-up demand. Existing supply bottlenecks, combined with high raw material prices and rising logistics costs and the resulting higher price levels, dampen growth expectations for 2022. Global economic growth is expected to be slightly above 4%.

While central banks continued to provide sufficient capital to the economy through low key interest rates during the first phase of the pandemic, it remains to be seen to what extent this trend will continue in view of the high inflation rates. Increases in key interest rates, especially in the USA, might slow down economic recovery in 2022. However, inflation rates are expected to decline in the medium term as demand and supply return to their long-term trends. The prediction for 2022 is positive growth of 3% to 4% in the industrialized countries. This applies to both the eurozone and the USA, both of which are expected to grow on this scale. Similar growth, with a slightly more positive trend, is also expected for China. During the pandemic, the economy there experienced

only a slight crisis-related setback. Emerging economies such as Brazil, Turkey and Mexico are expected to make a disproportionately low contribution to global catch-up effects with growth rates ranging from 2% to 3% and India with up to 9%. The condition for this is that the respective vaccination rates get closer to those of industrialized countries and no further drastic restrictions on economic activity will be necessary. Other factors that will primarily influence the medium-term global economic development include the handling of the structural challenge that productivity continues to grow only slowly, the substantial increase in national debt during the coronavirus crisis and the financing of necessary near-term investments in climate protection. On the positive side, in terms of the overall economy, there are increasing digitalization and significant growth prospects, especially in sectors that contribute to the transition of the economy to climate neutrality.

Subdued upward trend in industry sectors, continued impact of Covid-19 and semiconductor bottlenecks

Especially the first half of 2022 will continue to be impacted by the still ongoing pandemic as well as the delivery bottlenecks for important components for vehicle production. High raw material prices as well as energy and logistics costs also lead to a subdued mood in the important ZF industries.

A possible normalization over the course of the year should allow for an increase in the production of passenger cars and light commercial vehicles. The worldwide production of these vehicles was at around 94 million units in 2017 and 2018, and dropped to 75 million during the crisis. An upswing towards 84 million is becoming apparent, provided that the supply chains stabilize. Europe and North America might achieve double-digit growth rates. After the positive trend in the previous year, China is likely to be moving sideways. Due to regulations, trade conflicts, customs duties, the economic situation and competing technologies (gas, diesel, batteries, hybrid, e-fuels, fuel cells), end customers also have remaining uncertainties leading, in many regions, to consumer restraints that in turn slow down market recovery.

The commercial vehicle industry is facing a somewhat weaker year: Global production is expected to slow down. China contributes significantly to this weak development since regulation measures led to a pull-forward effect in 2020. The expected growth in Europe, North America and India can only partially compensate for this.

Moderate growth rates are expected for the industrial markets. The agricultural machinery industry expects a recovery of approx. 3% worldwide. The construction machinery industry sees a similar upward trend with regional differences. While China is likely to experience a slight decline, Europe and North America are expected to recover. South America could even see a double-digit percentage increase. The wind energy market, on the other hand, shows a rather weak trend. Again, another slight decline in the additional gigawatt output brought to the market compared to the previous year is expected here. In North America, a decline of more than one third is expected after the pull-forward effects in 2020. In the other regions, however, there are signs of slight growth.

Development of ZF Finance GmbH

As the financing company of the ZF Group, the future development of ZF Finance GmbH is informed by the economic development of the Group, its investment activities and the maturities of existing bonds. In addition, the issuing of further bonds under the DIP depends on the development of the financial markets, particularly given the current geopolitical and overall

economic situation and the associated risk of worsening interest terms. The planned issuing of further bonds on the same scale as the previous year is subject to this reservation.

Due to the bonds issued during the course of the year 2021 and the corresponding loans within the Group, interest expenses and the associated interest income will increase in fiscal year 2022. An additional increase in interest expenses and income depends on the continued access to capital markets and the associated interest terms.

Due to the existing profit and loss transfer agreement, the fiscal year 2022 is also expected to generate a balanced net result for the year.

Effects on the forecast with regard to the uncertainties caused by the Covid-19 pandemic, the continued delivery bottlenecks and the further rising inflation cannot be ruled out for the ZF Group as a whole. In addition, the company's expectations are dampened by the current conflict between Russia and Ukraine. The transformation in the automotive industry has continued to accelerate. In addition to the Covid-19 pandemic, this was mainly driven by the developments towards a sustainable economy with significantly reduced CO₂ emissions. At the same time, the general conditions will remain challenging in 2022. Against this backdrop, ZF is pushing investments in future-oriented technologies. The organizational and corporate structures will be further adapted to market developments in order to sustainably improve the quality of the Group's results.

The financing requirements derived from this will have a significant influence on the business development of ZF Finance GmbH in 2022.

Friedrichshafen, March 31, 2022

ZF Finance GmbH

Herbert Uwe Hertnagel
General Manager

Ulrich Brändle
General Manager

ZF Finance GmbH, Friedrichshafen

Notes to the Financial Statements for the Fiscal Year from January 1 to December 31, 2021

I. General Information on the Annual Financial Statements and Accounting Policies

General information

ZF Finance GmbH was established by a notarized agreement dated July 14, 2020, for the purpose of raising funds and of financing ZF Friedrichshafen AG, Friedrichshafen, and its affiliated companies. The entry into the Commercial Register was effected on July 16, 2020.

The Annual Financial Statements of ZF Finance GmbH are prepared in accordance with the accounting principles established by the Commercial Code (HGB) applicable to large corporations in accordance with Section 264 of the German Commercial Code (HGB) and the provisions of the German Limited Liability Companies Act (GmbHG). Figures are given in € k.

Since issuing bonds on the regulated market of the Luxembourg Stock Exchange, the company is considered as a large corporation in accordance with Section 264d in conjunction with Section 267 (3) of the German Commercial Code (HGB).

The statement of profit or loss is structured in accordance with the nature of expense method.

The registered office of ZF Finance GmbH is Friedrichshafen. The company is registered under number HRB 740352 in the Commercial Register of the municipal court of Ulm.

On September 7, 2020, the company, together with ZF Friedrichshafen AG, launched a bond program with a total volume of €7.5 billion.

Within the context of this bond program, the company issued the following two tranches during the fiscal year:

1. On May 6, 2021, the company issued an unsecured bond with a nominal amount of €500 million, an interest rate of 2.00% and a maturity period until May 6, 2027 on the regulated market of the Luxembourg Stock Exchange.
2. On November 3, 2021, the company issued a further unsecured bond with a nominal amount of €500 million, an interest rate of 2.25% and a maturity period until May 3, 2028, on the regulated market of the Luxembourg Stock Exchange.

The funds from the issue proceeds were passed on by way of loans to ZF Friedrichshafen AG and ZF Holdings B.V., The Netherlands, respectively. The loans reflect the conditions of the underlying bonds.

On September 14, 2020, the company entered into a profit and loss transfer agreement with its parent company ZF Friedrichshafen AG. The agreement became effective upon entry into the Commercial Register on November 10, 2020.

Based on an agency agreement, ZF Friedrichshafen AG and ZF Holdings B.V. reimburse ZF Finance GmbH for all costs incurred in connection with issuing bonds.

Accounting policies

The following accounting policies were applied in the preparation of the Annual Financial Statements.

Loans are recognized at nominal value or if there is an expected permanent impairment at the lower fair value. If the reasons that lead to the impairment are no longer applicable, the impairment loss is reversed.

Receivables and other assets are recognized at nominal value and – to the extent that there is a recognizable risk of non-payment – are reduced by an adequate amount through specific allowances.

Bank balances are recognized at nominal values.

Differences between the issue amount and the settlement amount of liabilities are recognized in **prepaid expenses** and released over the residual term of the liability.

The **subscribed capital** is recognized at nominal value.

Other provisions take into account all uncertain liabilities and imminent losses from pending transactions. They are measured at the expected settlement amount as per business judgment, taking into account future cost trends. Provisions with a residual term of more than one year are discounted at the interest rate appropriate to the residual term in accordance with the German Regulation on the Discounting of Provisions.

Liabilities are recognized at their expected settlement amounts.

The differences between the nominal value of the loans and the payment amount are recognized under **deferred income**. The reversal takes place over the residual term of the loans.

Due to its integration in the tax group of ZF Friedrichshafen AG, ZF Finance GmbH does not recognize any deferred taxes.

II. Notes to the Balance Sheet

1) Financial investments

Loans to affiliated companies exist in form of loans to the shareholder (€2.5 billion) and its affiliated companies (€500 million). These loans have the same terms and conditions as the issued bonds. The maturity period of the loans is more than one year.

Loans have developed as follows:

	Loans to affiliated companies
	€ k
Cost	
2021-01-01	2,000,000
Additions	1,000,000
Disposals	0
2021-12-31	3,000,000
Accumulated depreciation	
2021-01-01 - 2021-12-31	0
Carrying amount as of Dec. 31, 2021	3,000,000

Loans developed as follows in the previous year:

	Loans to affiliated companies
	€ k
Cost	
2020-01-01	0
Additions	2,000,000
Disposals	0
2020-12-31	2,000,000
Accumulated depreciation	
2021-01-01 - 2020-12-31	0
Carrying amount as of Dec. 31, 2020	2,000,000

2) Receivables and other assets

Receivables from affiliated companies are mainly interest receivables, receivables from the agency agreement with ZF Holdings B.V. and receivables from loss transfer agreement in the amount of €857 k (previous year: €27 k). The receivables exclusively concern the shareholder (€29,713 k) and its affiliated companies (€1,791 k) and have a residual term of less than one year.

3) Prepaid expenses

The prepaid expenses reflect the difference between the higher settlement amount of the bonds (nominal value) and the proceeds received. The differences are amortized using the straight-line method over the maturity period of the bonds. The prepaid expenses amount to €25,973 k (previous year: €22,345 k).

4) Subscribed capital

The subscribed capital of ZF Finance GmbH amounts to €100 k (100,000 shares with a nominal value of €1.00 each). The shares are held by ZF Friedrichshafen AG as the sole shareholder.

5) Other provisions

Other provisions relate to liabilities from outstanding invoices.

6) Liabilities

	Total	Thereof with a residual term of		
	€ k	up to 1 year € k	1 to 5 years € k	more than 5 years € k
1. Bonds	3,000,000	0	750,000	2,250,000
2. Trade payables	64	64	0	0
3. Liabilities to affiliated companies	656	656	0	0
4. Other liabilities	30,663	30,663	0	0
Total	3,031,383	31,383	750,000	2,250,000

Previous year:

	Total	Thereof with a residual term of		
	€ k	up to 1 year € k	1 to 5 years € k	more than 5 years € k
1. Bonds	2,000,000	0	750,000	1,250,000
2. Trade payables	1,470	1,470	0	0
3. Liabilities to affiliated companies	0	0	0	0
4. Other liabilities	15,593	15,593	0	0
Total	2,017,063	17,063	750,000	1,250,000

All bonds issued by ZF Finance GmbH are collateralized by a negative covenant and an unconditional and irrevocable guarantee from ZF Friedrichshafen AG.

Trade payables relate to issue costs incurred in connection with the issued bonds, which are reimbursed by ZF Holdings B.V. on the basis of the existing agreement for reimbursement of costs, as well as the auditor's fee.

Liabilities to affiliated companies relate to the in-house bank liability towards ZF Friedrichshafen AG.

Other liabilities relate to deferred interest on bonds issued.

7) Deferred income

The deferred income reflects the difference between the higher settlement amount of the loans (nominal value) and the amounts paid. The differences are amortized using the straight-line method over the maturity period of the loans. The deferred income amounts to €25,973 k (previous year: €22,345 k).

III. Notes to the Statement of Profit or Loss

Other operating income / expenses

Other operating expenses mainly result from purchased services related to the issue of bonds during the fiscal year. Other operating income results from the corresponding recharges of costs to the shareholder and its affiliated companies.

Net financial result

	Total	Thereof from affiliated companies
	€ k	€ k
Income from loans		
Income from loans held as financial assets	75,543	75,543
Total	75,543	75,543
Interest and similar expenses		
Interest expenses	76,376	1
Total	76,376	1

Previous year:

	Total	Thereof from affiliated companies
	€ k	€ k
Income from loans		
Income from loans from financial assets	16,353	16,353
Total	16,353	16,353
Interest and similar expenses		
Interest expenses	16,353	0
Total	16,353	0

Interest and similar expenses result from the interest on bonds as well as the pro-rata reversal of the corresponding prepaid expenses.

The income from loans held as financial assets is the result of loans, corresponding to the bonds, to the shareholder and its affiliated companies, as well as the reversal of the deferred income.

IV. Notes to the Cash Flow Statement

Major movements in the Cash Flow Statement result from the issuing of bonds (€1,000,000 k; previous year: €2,000,000 k) less any premium/discount (€7,490 k; previous year: €23,105 k) and the granting of loans (€1,000,000 k; previous year: €2,000,000 k) less any premium/discount (€7,490 k; previous year: €23,105 k). Cash comprises the balance of cash and cash equivalents reported on the balance sheet in the form of balances at financial institutions.

V. Other Information

No contingent liabilities, off-balance sheet transactions and other financial obligations exist as of the balance sheet date.

In the fiscal year, there were no transactions with related companies and persons that were not carried out at arm's length.

The total fee of the auditor relating to the fiscal year amounts to:

	€ k
Annual financial statement audit services	50
Other attestation services	75
Tax advisory services	0
Other services	0
	<u>125</u>

ZF Finance GmbH did not employ staff during the fiscal year.

Executive Directors: Herbert Uwe Hertnagel, Bankkaufmann (banker)
Ulrich Brändle, Dipl. Finanzwirt (graduate in Finance)

The executive directors do not receive any remuneration from the company for their services rendered in the fiscal year.

Supervisory Board: Ingrid Strassburger, Dipl. Betriebswirtin (graduate in Business Administration) (Chairwoman)
Ingo Hartmann, Dipl. Betriebswirt (graduate in Business Administration) (Vice Chairman)
Maximilian Schrepfer, Master of Science

The members of the Supervisory Board do not receive any remuneration from the company for their services rendered in the fiscal year.

After the balance sheet date, no events of particular importance with a significant financial impact occurred.

The Annual Financial Statements of ZF Finance GmbH are included in the Consolidated Financial Statements of ZF Friedrichshafen AG, Friedrichshafen. ZF Friedrichshafen AG is the parent company that prepares the Consolidated Financial Statements and the Group Management Report for the largest and concurrently smallest group of companies. It is published in the German Federal Gazette at www.bundesanzeiger.de.

Friedrichshafen, March 31, 2022

Executive Directors

Herbert Uwe Hertnagel

Ulrich Brändle