



ZF Increases Profitability in the First Half of 2016

- **Sales increased to €17.8 billion**
- **Adjusted EBIT margin rises to 6.3 percent**

Friedrichshafen. ZF Friedrichshafen AG has continued its good business development in the first half of 2016. In the first six months of 2016, sales increased to €17.8 billion and the adjusted operating profit (EBIT) rose to €1.1 billion, while net debt was reduced to €7.2 billion. The business figures can be compared with the prior-year period only to a limited extent as the first half of 2015 was essentially characterized by extraordinary items: the acquisition of the U.S. automotive supplier TRW and the sale of the 50 percent share in ZF Lenksysteme.

“Our adjusted EBIT margin rose significantly in the first six months thanks to our improved operating performance and realized synergies within the framework of the ZF TRW integration,” commented ZF’s Chief Financial Officer Dr. Konstantin Sauer on the business figures.

ZF’s sales amounted to €17.8 billion in the first half of the year. This corresponds to an organic growth of five percent when comparing the current figures with the combined pro forma sales of ZF and ZF TRW for the period from January 1 to June 30, 2015. In addition, growth was slightly hampered by exchange rate fluctuations. Adjusted by currency effects and other acquisitions and sales, it amounted to two percent.

Wind power strong, automotive business grows in North America and Europe

In the first half of 2016, ZF’s automotive sales especially grew in North America and Europe. Adjusted for currency and M&A effects, the company achieved slight organic sales growth in the Asia-Pacific region. In the Commercial Vehicle Technology Division, solid growth in Europe was offset by weak markets in Russia and South America. The overall significant rise in sales in



the Industrial Technology Division is, on the one hand, attributable to the acquisition of the large industrial drives and gearboxes business of Bosch Rexroth and, on the other hand, to high growth rates in the wind power business. In contrast, business in the construction machinery industry declined. Around seven percent of ZF's sales came from the Industrial Technology Division.

Electromobility with growth perspectives

The sales of the E-Mobility Division, newly founded in January, were reported for the first time and amounted to €407 million. ZF combined all of its electromobility activities for the automotive industry in this division. According to recent estimates, the market for hybrid or all-electric vehicles is forecast to grow by a factor of seven to ten by 2025. "We will benefit from this growth and shape the market. Our unique systems competence regarding the integration of chassis, driveline and electronics is the perfect prerequisite," says Dr. Stefan Sommer, Chief Executive Officer of ZF.

Operating profit significantly improved

The operating profit (EBIT), adjusted by the extraordinary item in relation to the TRW purchase price allocation, amounted to €1.1 billion in the first half of 2016. In the same period in 2015, the EBIT was significantly influenced by the sale of ZF Lenksysteme and a portion of the TRW purchase price allocation. Adjusted by these extraordinary items, ZF was able to increase its EBIT margin by 1.8 basis points to 6.3 percent. The major reasons for this were an improved operating performance in the entire product portfolio as well as synergies with ZF TRW. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) also rose to €1.9 billion, corresponding to an EBITDA margin of 10.7 percent.

Liabilities further reduced

The operating free cash flow adjusted by effects from company acquisitions and sales came to €401 million in the first half of 2016, €229 million above the previous year's level. This and the existing liquidity led to a further reduction of liabilities from the



TRW acquisition by a gross amount of almost €500 million. In the first half of the year, net financial liabilities declined by €175 million to €7.2 billion. The sale of the Engineered Fasteners & Components Business Unit resulted in proceeds of around \$450 million. It was sold in the second half of the year (on July 1, 2016) and is thus not yet represented in these figures.

Rating improved and loans renegotiated

In April, the credit rating agency Standard & Poor's upgraded ZF's credit rating by one notch to BB+. In June, Moody's also upgraded ZF's rating by one notch to Ba1 with positive outlook. "The improved credit rating by the rating agencies confirms that we are on the right track. Our aim is, and will remain, to achieve an investment grade rating," says Chief Financial Officer Sauer. As a result of the improved ratings, the systematic debt repayment and the favorable market environment, ZF was able to refinance its previous syndicated loan at better terms and with adjusted maturity periods. This led to a significant expansion of the contractually committed credit lines to a total of €3.5 billion which has further increased ZF's liquidity reserve.

Annual forecast for 2016

In spite of fluctuating exchange rates, ZF expects the business development for the overall year 2016 to be stable and forecasts sales of around €35 billion, an adjusted EBIT margin of approximately six percent and an adjusted EBITDA margin of more than ten percent.

"We achieved a significantly improved margin in the first half of the year and we want to maintain this momentum during the overall fiscal year despite challenging conditions," says ZF's CEO Sommer. "At the same time, we must increase the competitiveness, especially of the German locations, by increasing flexibility and adjusting cost structures."



Caption:

Future technology of ZF: electrification of drivelines at the ZF location in Schweinfurt

Photo: ZF

A conference call will be held for the media today, Thursday, August 4, 2016, at 2.30 p.m. (CEST). ZF CEO Dr. Stefan Sommer will comment on the current company development. CFO Dr. Konstantin Sauer will present the half-year results which can be found under www.zf.com/ir/. Please dial in a couple of minutes prior to the conference call:

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ZF is a global leader in driveline and chassis technology as well as active and passive safety technology. The company acquired TRW Automotive on May 15, 2015, which was then integrated within the organization as the Active & Passive Safety Technology Division. The combined company reported sales of €29.2 billion in 2015 and now has a global workforce of around 135,000 with approximately 230 locations in some 40 countries. ZF annually invests approximately five percent of its sales in Research & Development (€1.4 billion in 2015) ensuring continued success through the design and engineering of innovative technologies. ZF is one of the largest automotive suppliers worldwide.

For further press information and photos please visit: www.zf.com