Modern Slavery Act Transparency Statement (fiscal year 2018)

Preamble
The Section 54 of the United Kingdom Modern Slavery Act (effective since 2015) requires certain globally operating corporations to disclose their efforts to address Modern Slavery in their supply chains. This statement intends to provide respective transparency for stakeholders regarding ZF’s value chain and business practices.

The ZF Group, its Business and Supply Chain
ZF Friedrichshafen AG is a non-listed corporation in accordance with German law. Shareholders are the Zeppelin Foundation and the Dr. Jürgen and Irmgard Ulderup Foundation. ZF Friedrichshafen AG and ZF Group are led by the Board of Management, which manages the company, and by the Supervisory Board, which monitors the Board of Management. For the most part, the activities of the Board of Management are strategic in nature and comprise responsibility for the corporate functions, the divisions and the regions.

As a global leader in the automotive industry, ZF provides driveline and chassis technology as well as active and passive safety technology. The portfolio comprises systems, units and components for passenger cars and the commercial vehicle industry. Activities also include market segments such as construction and agricultural machinery, wind power, marine propulsion, aviation technology, rail drives, special drives and test systems for industry, as well as transmissions for industrial applications. Additionally, ZF offers a wide range of services like the spare parts business for driveline and chassis technology or maintenance and repair services.

With 230 locations in 40 countries worldwide, a major part of value creation lies in the supply of components. For the procurement of production materials, ZF maintains a global network consisting of approximately 7000 suppliers, ranging from small family businesses to large groups. Suppliers are mostly contractors who procure the raw materials or basic components for the products ordered, manufacture the products and, in some cases, also design products. The purchasing volume for production materials totaled €20.1 billion in 2018 and includes directed-buy volumes. The value of non-production materials amounted to some €6.1 billion.

Policies in relation to Modern Slavery and Human Trafficking
In July 2018, with approval of the Board of Management, Corporate Compliance implemented a new ZF Code of Conduct (CoC). As ZF regards corporate responsibility as fundamentally important,
the CoC also addresses human rights and clearly states the rejection of human trafficking and the abolition of slavery.

With the ZF Business Partner Principles (BPP), ZF requires all suppliers and service providers to make a commitment to respect national and international laws and regulations at their locations worldwide. All new and existing suppliers are under an obligation to endorse the Business Partner Principles (BPP).

The BPP represent values that ZF recognizes, supports and communicates to partners. As guidelines, they specify fundamental sustainability requirements for cooperation with our business partners. They address topics such as human rights, labor standards, occupational safety and health protection, environmental protection, responsible raw materials procurement, business ethics and compliance.

A standardized process for the request and confirmation of our BPP includes a tool to track the information about the current BPP status of each supplier. Acceptance of BPP is taken into consideration in supplier award decisions and in the approval process for new suppliers. ZF reserves the right to scrutinize business relationships and take appropriate action if deviations or violations were identified.

External service providers in Germany must sign a declaration of compliance to the collective agreements guaranteeing fair wages, normal working hours and a rejection of unregistered labor and tax evasion. This declaration also applies to subcontractors engaged by ZF and includes the provision that ZF may check compliance at any time.

**Due Diligence Processes in relation to Slavery and Human Trafficking**

During the approval process, ZF requires potential new suppliers to submit a self-assessment on sustainability, based on ZF’s business partner principles. ZF uses an adapted version of the Self-Assessment Questionnaire on CSR and Sustainability developed by the European Automotive Working Group on Supply Chain Sustainability. The advantage of using a standardized Self-Assessment Questionnaire for all participants (OEM and Tier 1) is to avoid duplication and to improve efficiency for the suppliers.

In 2018, all new suppliers underwent sustainability self-assessments. No indications of infringements against principles of environmental protection, human rights, labor practices, forced labor, child labor or freedom of association were identified.

Inquiries about supplier contact data are being managed using an supplier portal. The annual update of the master data is handled by a service provider via managed service. The tool is mandatory for all strategic and accepted suppliers.
To meet the requirements of the Dodd Frank Act, Sec. 1502 for a supply chain free of minerals used to finance conflicts, ZF requests all relevant production material suppliers to disclose the origin of their resources. The scope of conflict minerals includes gold, coltan, cassiterite, wolframite and its derivatives such as tantalum, tin or tungsten from the Democratic Republic of the Congo (DRC) and adjacent countries.

ZF uses a web-based solution for the reporting and identification of conflict minerals. The results of the inquiry indicate that some of the reviewed supply chains potentially include products that finance conflicts in DRC regions. At all suppliers who indicated potential high-risk smelters in their supply chain, ZF conducts a follow-up and requests these suppliers to eliminate critical smelters from their supply chain. ZF also requests an assurance from new suppliers that they do not source from the identified smelters. As these minerals are necessary for several functions and purpose of some of our products, ZF is fully committed to further cleaning its supply chain.

Risk assessment and management
ZF has implemented an internal risk analysis process for compliance risks. The objective of this process is to identify, assess and counteract compliance-related risks as early and effectively as possible.

Effective action taken to address modern slavery
Any suspected serious misconduct of policies, regulations or laws may be reported anonymously via ZF Trustline, an electronic notification system that employees and third parties can use. In 2018, there were no instances of human trafficking or modern slavery reported or identified and therefore no corrective action plans necessary.

Training on modern slavery and trafficking
In 2018, an online course delivering all Code of Conduct topics was rolled-out. While it was made available to all employees, for approximately 17,000 employees and the Board of Management this course was mandatory. The course was deployed in English, German, Latin American Spanish, Simplified Chinese and Brazilian Portuguese.

Friedrichshafen, 2019-03-25
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