



Policy Statement on Respect for Human Rights



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Foreword

Dear Colleagues,

In times of transformation, we as a globally active company shoulder particular social responsibility. It is our task to identify environmental and human rights risks in connection with our business activities along the entire value chain and to reduce them.

Sustainability is an integral part of our Group strategy and spans a wide range of topics related to the environment, society and responsible corporate governance.

In the field of the environment and climate protection, the focus is on measures to achieve our climate targets and the development of circular business models, products and processes. With regard to social responsibility, the safety of our employees, the promotion of fair working conditions and the rights of all people along our value chain represent our top priority. In terms of responsible corporate governance, we focus on the question of how we can create lasting values for our society and our business alike.

Our actions are based on international standards and frameworks that focus on the rights holders and help us to systematically comply with our due diligence. The United Nations 2030 Agenda should be mentioned in particular. The 17 Sustainable Development Goals (SDGs) are a global plan to promote sustainable peace and prosperity and to protect our planet. With regard to human rights, we are guided primarily by the United Nations Guiding Principles on Business and Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work (ILO Core Labour Standards) and the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD Guidelines).

This Mission Statement is the result of comprehensive dialogues with internal as well as external stakeholders, supported by ZF's Board of Management and the employee representative body. It reaffirms our joint commitment to society and the environment. Furthermore, the Statement illustrates the strategic approach and provides an insight into the responsibilities and processes we use in order to foster the protection and promotion of human rights in all our business activities.

The implementation of these principles and thus also the responsibility for their continuous further development lies with each and every one of us. Only by working together can we master the transformation towards a sustainable company and thus a sustainable society.

Thank you very much for your support.

From left to right:: Dr. Holger Klein, Dr. Lea Corzilius, Dr. Martin Fischer, Michael Frick,
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01

Commitment to Respect Human Rights and the Environment



I. Commitment to Respect Human Rights and the Environment

Respecting human rights and protecting the environment are key priorities for ZF. We put people at the center of our actions and feel responsible as a company for our employees as well as for the people who work with and for us along the value chain. The health, safety and well-being of all our employees and our efforts to protect the environment are crucially important, and we have made them an integral part of the way we operate based on nationally and internationally recognized standards.

Mutual respect, trust, transparency and fairness – in our own business area and in cooperation with our business partners – are fundamental principles of our organizational culture. This includes a clear commitment to the following internationally recognized human rights standards:

- The Universal Declaration of Human Rights
- The United Nations Guiding Principles on Business and Human Rights
- The Ten Principles of the United Nations Global Compact
- The International Covenant on Civil and Political Rights
- The International Covenant on Economic, Social and Cultural Rights
- The International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work
- The OECD Guidelines for Multinational Enterprises

We believe that sustainable business practices are only successful if they involve the entire value chain. As a result, we expect not only all our employees but also our business partners to comply with applicable laws and regulations as well as internationally recognized human rights and environmental standards.



02

Our Human Rights Responsibility

II. Our Human Rights Responsibility

In our process of risk analysis, which we carry out on an annual and on ad-hoc basis, we examine the potential and actual negative effects of our own and our business partners' business activities on human rights and the environment. To ensure a proactive approach, we focus on areas with particularly significant risks in our human rights due diligence processes. We exert our influence in both upstream and downstream stages of the value chain and expect current and future business partners to take appropriate action with regard to the following risks while requiring their own business partners to comply with standards that apply industry-wide:

Prohibition of child labor

At ZF, we strictly object to any form of child labor in accordance with the relevant ILO conventions and actively work on eliminating it. Our internal and external guidelines and provisions are always based on the ILO core labor standards¹. It is our duty to take targeted action to ensure children's health and safety. We therefore check, for example, whether applicants meet the required minimum age for employment and which activities individuals under the age of 18 are permitted to carry out.

Prohibition of forced labor

We take a zero-tolerance approach towards any form of forced or compulsory labor or other forms of modern slavery and human trafficking. In accordance with ILO core labor standards², we reject the use of forced or illegal labor in all areas of our business operations and within our value chain. All employment contracts, whether with ZF itself or with business partners commissioned by us, must always be based on the principle of consent. It must be possible to terminate each employment relationship with a reasonable notice period provided for by law.

Freedom of association, right to collective bargaining and right to strike

We respect the right of our employees to form associations, conduct collective bargaining on working conditions and exercise their right to strike in accordance with applicable national and international law³. The company and the employees' representatives undertake to always work together in a trustful and constructive manner. Belonging or not belonging to a trade union or employee representative body does not lead to any preference or disadvantage within our company⁴.

¹ ILO Conventions No. 138 and No. 182

² ILO Convention No. 29, No. 105 and Protocol of 2014 to the Forced Labor Convention

³ ILO Conventions No. 87 and No. 98

⁴ ILO Convention No. 135

Equal treatment and protection from discrimination

We actively promote equal rights for our employees and firmly reject any form of discrimination⁵. It is vital to us that we treat all our employees fairly and refrain from making any distinction based on characteristics such as gender, origin, nationality, religion, political or trade union activity, sexual identity, physical or mental disability, or age. For us, diversity and inclusion are a central part of our business strategy, promoting recognition and appreciation of diversity and individuality.

Right to health and occupational safety

ZF attaches great importance to ensuring occupational safety and health. A Group-wide management system ensures that at a minimum, national and international occupational health and safety regulations are implemented in all areas of operations and at all locations. ZF pursues a preventive approach to continuously improve working conditions and employees' awareness of behaviors that promote safety and health.

In this context, ZF follows recognized certification processes to systematically enhance occupational safety and health.

Working hours

The working time guidelines at ZF take into account both the requirements of the company and the needs of our employees. From our perspective, the way we arrange and schedule working hours is an important factor in being attractive as an employer. Being able to reconcile work with family life is a key part of the company's personnel policy. In this regard, we adhere to the ILO core labor standards and follow the respective national provisions on working, vacation, break and rest times. This also includes compensation for overtime worked, whether by time off in lieu or by appropriate payment.

Right to fair remuneration

We offer our employees competitive and performance-based remuneration that is supplemented by additional benefits. The principle of equal pay for work of equal value applies. If applicable, we comply with locally required and legally enforced minimums within the respective industry when determining remuneration. Remuneration and expenses are paid on time, in full and in recognized currencies and can only be withheld with a sufficient legal basis and an appropriate justification within the terms applicable to the payroll.

Education and training

ZF promotes its employees' education and further training in order to ensure competitive levels of quality and performance. Employees are supported through their professional careers with an extensive range of education and training initiatives. The aim is to continuously improve employees' skills, both to enhance their employability and to deliver on the principle of lifelong learning.

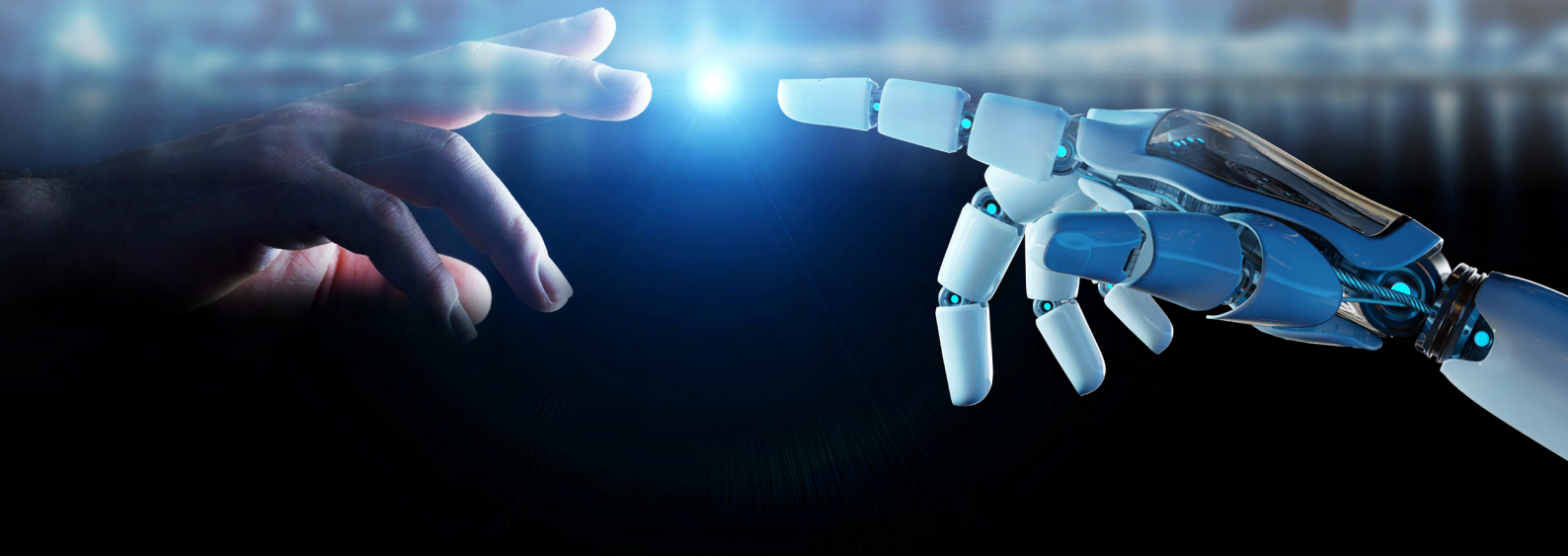
Protection of local communities and indigenous peoples

At ZF, we take the local impact of our operations into account and respect the rights of local communities and indigenous peoples who may be affected by our business activities or those of our business partners. In our business operations, we consider risks such as air, water and soil pollution, deforestation, improper handling of hazardous waste or groundwater abstraction in water-stressed regions. Likewise, we strongly oppose the destruction of cultural and sacred sites as well as unlawful eviction from and denial of access to lands, forests and waters.

Protection of human rights when using security forces

We do not tolerate unlawful behavior of security forces towards employees or third parties. We contractually oblige providers of security services we use to respect all internationally recognized human rights. By providing appropriate guidelines and measures we ensure that our service providers receive advice and, if necessary, training.

⁵ ILO Conventions No. 100, No. 111 and No. 190

**Use of high-risk raw materials**

We take a risk-based approach to minimize negative impacts on human rights and the environment related to our use of raw materials. The company is aware that procuring and processing certain raw materials used in our products poses risks to people and the environment, so these materials require special attention. With that in mind, we act in accordance with national and international rules and guidelines.⁶

Protection of personal data

It is hugely important to us that we protect the privacy rights of all our employees, customers, and business partners with regard to personal data. This also applies to the personal data of all third parties we come into contact with. Our focus is on complying with the applicable data protection laws and on handling personal data ethically and responsibly within the context of our business processes.

Use of artificial intelligence

At ZF, we set high standards when it comes to the use of artificial intelligence (AI). We ensure that people are the central point of focus and that both the opportunities and the risks are taken into account. Our principles include ethical and legal considerations in the development and use of AI with a view to shaping digital transformation in a responsible manner. With regard to AI, attributes such as transparency, data protection, security and reliability must be guaranteed.

Human rights and the environment

At ZF, we actively promote environmental protection and are aware of the possible impacts of our products, manufacturing and procurement processes on the environment and people. For this reason, we ensure that we take a responsible approach towards human rights and the environment in our own business and in our relationships with business partners.

Through our Group Environmental and Energy Management Directive, we are committed to sustainable action across every area of our business. Our focus is on using resources responsibly and materials efficiently. We are actively at work to prevent negative environmental impacts.

⁶ Minamata Convention on Mercury, October 10, 2013;
Basel Convention for the Control of Transboundary Movements of Hazardous Wastes, March 22, 1989;
Stockholm Convention on Persistent Organic Pollutants, May 23, 2001



03

Approach to Implementing Human Rights and Environmental Due Diligence

III. Approach to Implementing Human Rights and Environmental Due Diligence

The five core elements of our human rights due diligence (HRDD) process ensure that we recognize negative impacts of business activities on human rights at an early stage through forward-looking opportunity and risk management.

The ZF Human Rights Strategy is refined on an ongoing basis stemming from these findings and risk factors. Our integrated Governance, Risk and Compliance (GRC) approach covers all divisions, functions and regions. This ensures the management, implementation and effectiveness of the action we take to protect human rights.

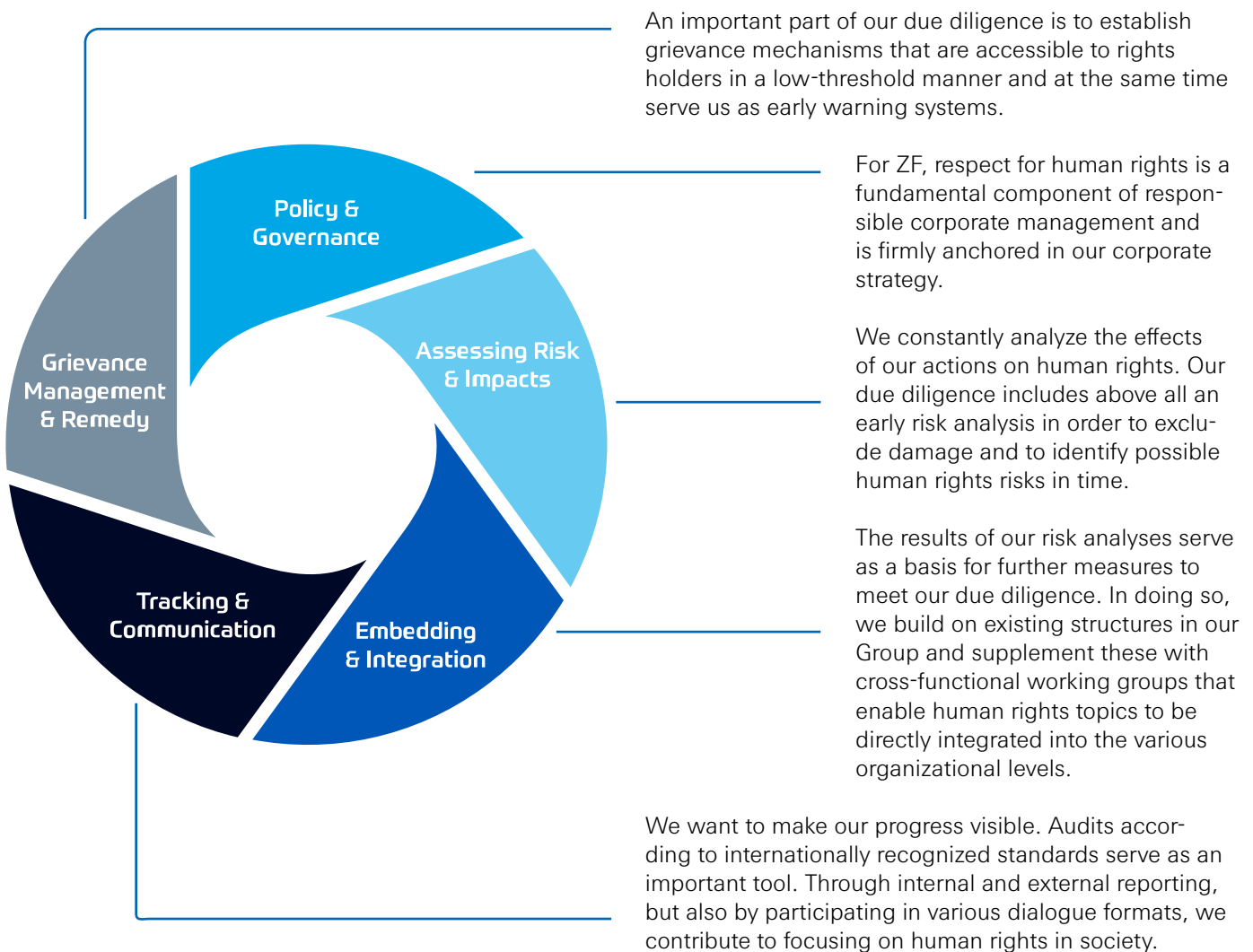


Figure: Core elements of our human rights due diligence approach

Scope

This Policy Statement on Respect for Human Rights applies to all employees of ZF Friedrichshafen AG, including all affiliated companies over which ZF has influence⁷. It also extends to all employees and business partners along our entire value chain. Respect for human rights is an integral part of ZF's organizational culture and shared values. Employees and management worldwide are required to comply with this Policy Statement and to ensure that their professional activities are in line with the principles set out here as well as with the principles of the **ZF Code of Conduct**.

Responsibility along the supply chain

Globally consistent procurement standards and specifications for our suppliers are key to maintaining the high quality and delivery reliability of our products. All new and existing suppliers are required to comply with the **ZF Business Partner Code of Conduct** and in turn with the core values that are vital to ZF. As the highest decision-making body within the procurement function at ZF, the Sourcing Decision Board (SDB) ensures that environmental, social, quality-related, technical, logistical, and financial requirements are properly balanced when selecting a supplier. When there are conflicting targets, these are resolved by the SDB.

Risk analysis

Human Rights Management is part of our Enterprise Risk Management (ERM) system, which is standardized Group-wide. As part of this strategy, we regularly update the risk situation to reflect our activities' effects on human rights. We deal with inherent process risks that affect human rights as part of our internal control system (ICS).

At ZF, we examine human rights and environment-related risks resulting from our business processes on a regular and ad-hoc basis. Triggers for an ad-hoc risk analysis can be changes in our business activities or other reliable indications of potential risks. When preparing the risk analysis, we consider both our own business area and our supply chain. To this end, we use digital risk databases, methods of analysis, business partner information and feedback from selected stakeholders from industry initiatives and multi-stakeholder dialogues to identify risks at the national, commodity group and business-specific levels. We take into account findings from measures taken as well as from handling complaint procedures as part of our ICS's ongoing review and optimization process. In taking these steps, we hope to effectively and demonstrably ensure that human rights are protected.

Preventive and remedial measures

Our goal is to prevent or minimize potential and real adverse impacts on human rights. When determining our priorities and appropriate measures, we are guided by the criteria of appropriateness in particular. Where our influence is limited, we enter into collaborative relationships with other parties. These include, for example, industry and multi-stakeholder initiatives. ZF's approach is that overall progress towards the protection of human rights is possible, in particular through increasing awareness industry-wide and working collaboratively.

The measures we take in our own business area include appropriately aligning our management and procurement practices as well as raising awareness and providing training among relevant staff and business partners. We use formalized ICS controls to prevent human rights violations in the processes along our value chain.

At ZF, to counteract risks within our supply chain we contractually require our direct suppliers to comply with the human rights and environmental requirements set out in our **ZF Business Partner Code of Conduct** and to promptly initiate appropriate remedial actions in the event of violations. Depending on the risk assessment, we carry out additional questioning and checks up to on-site audits.

⁷ German Supply Chain Due Diligence Act (LkSG) §2 (6); see also "controlling influence", German Commercial Code (HGB) §290

Interaction with stakeholders

Striving for sustainability requires a holistic approach. ZF firmly believes that cooperation is the key to successful, sustainable development. As a result, we promote knowledge sharing and collaboration with different stakeholders. These include our employees, customers and suppliers, company owners, investors, authorities, trade unions, associations, initiatives, civil society and political actors as well as media, business partners and residents living close to the company's business locations. In various forms of dialogue human rights risks are identified and the effectiveness of our measures to prevent and correct adverse human rights impacts is assessed. Dialogue is to be enhanced with local stakeholders and those potentially affected where we identify a particularly high risk of potential human rights violations.

Complaint mechanisms

ZF has set up an electronic notification system in various languages: the **ZF Trustline**. This is available to all employees, business partners and other parties involved if they wish to report suspected misconduct with regard to rules, regulations or laws. Notifications can be made anonymously. In 2020, a separate category was created for reporting on human rights matters.

In addition, it is possible to directly contact management, the Compliance Organization or to email humanrights@zf.com.

If we receive something concrete indicating possible human rights violations, we will carefully follow up on the information. In confirmed cases, we will endeavor to provide adequate compensation to alleviate the extent of the violations.

Transparency and reporting

For us, transparency is an essential component of human rights due diligence. ZF reports on the latest developments and specific targets in the context of our human rights due diligence obligations within the annual report. We also report on this in our annual communication on progress to the United Nations Global Compact, whose Ten Principles we promote as signatories, as well as in additional reports in accordance with relevant national legislation. These reports and further information on the subject of human rights can be viewed on the ZF website and are updated on an ongoing basis.

Responsibility

The Board of Management has overarching responsibility over respecting human rights in our own business area as well as along our value chain. Clear Group-wide responsibilities are assigned as part of a four-level model at ZF:

- The executing expert departments and divisions and all our employees are on the first level in their day-to-day work. Respect for human rights and reporting potential human rights violations is the responsibility of all our employees around the world. The divisions and expert departments responsible for day-to-day operations are tasked with identifying and analyzing risks at an early stage, then minimizing them by implementing appropriate control measures. Procurement, human resources and EHS are areas of our business in which ensuring human rights and environmental due diligence is particularly relevant.
- At the second level, human rights are integrated into our Governance, Risk and Compliance (GRC) approach. The Corporate Sustainability team assumes the leading role in consulting and strategic development. It also provides support in optimizing existing processes in other expert departments. In addition, the Supply Chain Sustainability team within Materials Management is responsible for strategically developing and implementing human rights due diligence obligations within the supply chain. Overall coordination and decision-making are conducted in cross-functional committees, such as the Human Rights Working Group, the Sustainability Council and the Sustainability Steering Board. This ensures that environmental and human rights risks are monitored and managed in all divisions, expert departments, and regions within the Group.
- At the third level, the ZF Human Rights Officer performs the duties laid out in §4 (3) of the German Supply Chain Due Diligence Act (LkSG). The Human Rights Officer monitors the appropriateness and effectiveness of risk management at the first and second levels and implements risk-based control measures. These are reported to the Head of Sustainability & EHS on a quarterly basis and directly to the Member of the Board of Management responsible for Human Resources, Legal and Compliance on an annual basis.
- The fourth oversight level consists of the Corporate Audit team, which acts as an independent and objective inspector.

IV. Outlook

Our commitment to human rights and environmental protection goes above and beyond legal requirements. We understand human rights due diligence as a continuous effort to reappraise and develop our business processes and practices. In this context, we review the effectiveness of the measures we take on an ongoing basis and will regularly update this Policy Statement.



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