

# ANNUAL REPORT 2014



## MOTION AND MOBILITY



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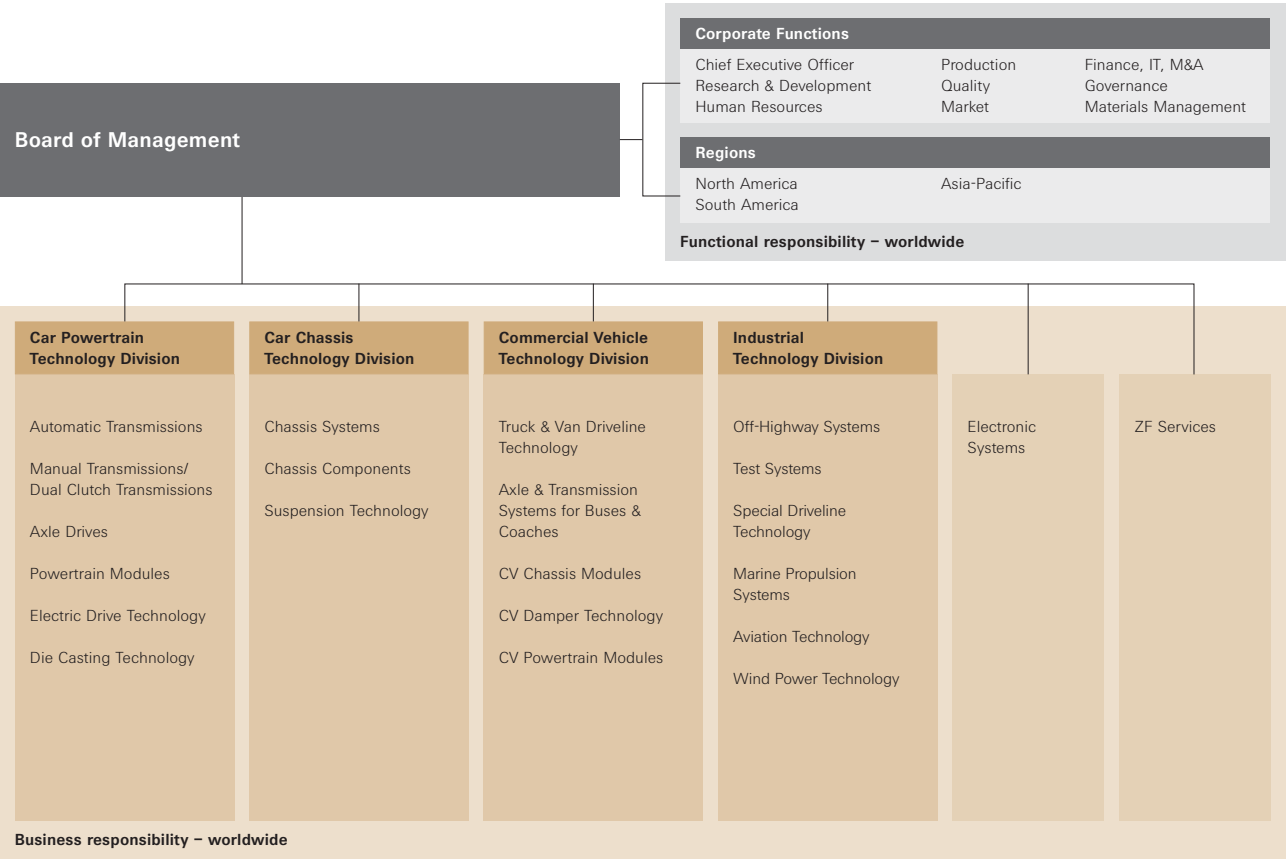
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# CORPORATE STRUCTURE

## Organization





# FACTS & FIGURES <sup>1)</sup>

		2013	2014	2014/2013
<b>Sales</b>	€ million	<b>16,837</b>	<b>18,415</b>	<b>+9 %</b>
Germany	€ million	5,607	5,792	+3 %
Europe (without Germany)	€ million	4,220	4,524	+7 %
Rest of world	€ million	7,010	8,099	+16 %
<b>Employees (end of the year) <sup>2)</sup></b>		<b>68,236</b>	<b>71,402</b>	<b>+5 %</b>
<b>Capital expenditure</b>	€ million	<b>954</b>	<b>1,005</b>	<b>+5 %</b>
<b>Depreciation in % of capital expenditure</b>	%	<b>75</b>	<b>75</b>	<b>-</b>
<b>Operating profit or loss</b>	€ million	<b>756</b>	<b>897</b>	<b>+19 %</b>
<b>EBITDA</b>	€ million	<b>1,703</b>	<b>2,044</b>	<b>+20 %</b>
<b>EBIT</b>	€ million	<b>807</b>	<b>1,098</b>	<b>+36 %</b>
EBIT return	%	4.8	6.0	+25 %
<b>Net profit or loss after tax</b>	€ million	<b>462</b>	<b>672</b>	<b>+45 %</b>
<b>Free cash flow <sup>3)</sup></b>	€ million	<b>288</b>	<b>696</b>	<b>+142 %</b>
<b>Net financial position <sup>4)</sup></b>	€ million	<b>1,022</b>	<b>1,400</b>	<b>+37 %</b>
<b>Subscribed capital</b>	€ million	<b>500</b>	<b>500</b>	<b>-</b>
<b>Dividend</b>	€ million	<b>30</b>	<b>50</b>	<b>+67 %</b>

<sup>1)</sup> The consolidated ZF Group comprises all domestic and foreign participations in which ZF holds at least 50 % interest, provided they are included in the basis of consolidation.

<sup>2)</sup> Direct and indirect employees without temporary workers, apprentices, and holiday workers, without employees of the Rubber & Plastics business unit and without AIBC employees.

<sup>3)</sup> Cash flow from operating activities less cash flow from investing activities.

<sup>4)</sup> Cash, including securities less liabilities to banks and liabilities from finance leases.

**100**  
YEARS  
MOTION  
AND  
MOBILITY

**€ 18.4 billion sales**

**71,402 employees**

**113 production  
companies**

**650 service partners**

Status: December 2014





# PREFACE

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

*The ZF Group once again performed well in 2014. Group sales increased by 9% to € 18,415 million. The number of employees worldwide rose by 5% and stood at 71,402 employees at year-end. As a result of the sale of the Rubber & Plastics business unit and the disposal of the South African subsidiary AIBC, 3,514 and 877 employees respectively are no longer included.*

*As in the past few years, the market regions experienced different business trends in 2014. While the Regions of North America and Asia-Pacific grew strongly, the European markets posted slight growth. By contrast, the markets in the Region of South America contracted sharply. The main growth driver for ZF was the business with automatic passenger car transmissions and axle systems. The market success of the range of 8-speed automatic transmissions in particular is very pleasing. The markets for commercial vehicle products and off-road machinery proved more challenging.*

*At € 1,005 million, the ZF Group made significant investments in property, plant, and equipment, primarily in the extension of production and development capacities as at the Engineering Center in Shanghai (China). We have set up new joint ventures in China, with Beijing Automotive Industry Corporation (BAIC) in the chassis segment and with YTO in the agricultural machinery segment. The sale of the Rubber & Plastics business unit to the Chinese company Zhuzhou Times New Material Technology Co., Ltd. is now complete. ZF will continue to work together closely with Boge Elastmetall GmbH. In January 2015, we successfully concluded the sale of the shares in the ZF Lenksysteme GmbH joint venture to the joint venture partner Robert Bosch GmbH.*

*The acquisition of the U.S. company TRW Automotive Holdings Corp., which was initiated in the year under review, is of historic significance for the ZF Group. It not only represents the largest acquisition in the company's history, but will, after the expected approval by the antitrust authorities, also safeguard ZF's long-term future as a technology company in many respects. The acquisition is thus an important component in the consistent implementation of the "ZF 2025" corporate strategy. Over the next few years, it is to substantially help us achieve our objectives – balanced global market penetration, the expansion of technology and cost leadership, and profitable diversification – within a shorter time frame. Thus, we are already responding appropriately to the megatrends of the future. The product portfolio of ZF comprising efficient driveline and chassis technologies is being sensibly supplemented to include future technologies in active and passive safety, electronics and sensors, as well as state-of-the-art driver assistance systems. ZF's attractiveness as an employer will increase worldwide thanks to the technological, geographic, and cultural bandwidth.*

*It is crucially important to ZF to safeguard its financial independence over the long term. In addition to retaining our profitability, investments like the acquisition of TRW also help achieve this objective. Taking out the required financial means will burden the Group on the short to medium term. However, we have set up the financing on a solid, diversified structure which has received a great deal of interest from banks and investors. The profitability of the two companies is to enable fast reduction of the leverage.*

*The upcoming integration of TRW Automotive Holdings Corp. into the ZF Group constitutes a major challenge for the next few years. It will take place in the form of cooperation in partnership. TRW will be managed as the fifth division within the ZF Group. TRW management and employees will contribute extensive market, technology and process know-how to the ZF Group, which we value greatly. Both companies can and should learn a great deal from each other. Until 2017, we will work intensively on important integration topics in order to reinforce our market position and leverage synergies.*

*ZF's success is based on a wealth of factors. I would like to take this opportunity to thank first and foremost our customers, suppliers, and business partners for placing their trust in cooperation with our company. ZF's success is inconceivable without its committed, qualified employees. I would like to thank them for their outstanding commitment and willingness to embrace change. I would like to thank all employee representatives for their constructive cooperation in shaping a successful, joint future for ZF. My particular thanks also go to the shareholders representatives and the Supervisory Board members who have worked intensively on important corporate issues and actively participated in important decision-making processes in favor of safeguarding ZF's future.*

*In the industries relevant to ZF, we expect to see more positive development in 2015 than in the year under review. The economic prospects are slightly better not just for passenger cars and commercial vehicles, but also for off-road machinery. For this reason, we expect a sales growth in the single-digit percentage range again for 2015. Investments will remain on the same level as in the year under review. In our opinion, the result will improve slightly in the wake of the assumed positive market development. The medium-term return target for the Group remains unchanged at 6% of sales.*

*The ZF Group was founded 100 years ago and has since developed into one of the major global technology companies. This anniversary is an opportunity for us to look back together with our partners and employees on our successful, eventful history, while laying the foundation for a successful future. With the implementation of our "ZF 2025" strategy for the future and the upcoming integration of TRW, we will also work successfully on this task in the anniversary year.*

*Friedrichshafen, March 2015*



*Dr. Stefan Sommer  
Chief Executive Officer*

# BOARD OF MANAGEMENT

4



## **Rolf Lutz**

born in Tübingen,  
Baden-Württemberg,  
in 1952

Corporate Quality,  
Commercial Vehicle  
Technology,  
South America

## **Dr. Konstantin Sauer**

born in Heilbronn,  
Baden-Württemberg,  
in 1959

Corporate Finance,  
IT, M&A

## **Jürgen Holeksa**

born in Dinslaken,  
North Rhine-Westphalia,  
in 1965

Corporate Human Resources,  
Corporate Governance,  
Service Companies,  
Asia-Pacific





**Michael Hankel**

born in Bad Wildungen,  
Hesse,  
in 1957

Corporate Production,  
Car Powertrain Technology,  
Car Chassis Technology,  
Electronic Systems

**Dr. Stefan Sommer**

Chief Executive Officer  
born in Münster,  
North Rhine-Westphalia,  
in 1963

Corporate Market,  
Corporate Research and  
Development, ZF Services

**Wilhelm Rehm**

born in Heidenheim  
a. d. Brenz,  
Baden-Württemberg,  
in 1958

Corporate Materials  
Management,  
Industrial Technology

**Dr. Franz Kleiner<sup>1)</sup>**

(as of January 1, 2015)  
born in Wangen im Allgäu,  
Baden-Württemberg,  
in 1959

North America

<sup>1)</sup> Not on the picture

# REPORT OF THE SUPERVISORY BOARD

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*In 2014, the company's economic performance was positive again. For the ZF Group and the Supervisory Board, the past year was greatly impacted by the activities with regard to the intended acquisition of the U.S. company TRW Automotive Holdings Corp., as well as the challenges resulting for all parties involved.*

*In the year under review, the Supervisory Board carried out the duties and responsibilities assigned to it by law, by-laws, and code of procedure comprehensively and with the greatest of care for the fiscal year 2014. As reported below, we have monitored the activities of the Board of Management and were involved in all decisions of fundamental importance. During 2014, the Supervisory Board met for four regular meetings during which the Board of Management reported on the company's situation and all essential, current, and strategically important issues. In addition, the Supervisory Board met for three extraordinary meetings which were held, in part and with the approval of all attendees, as conference calls, and addressed essential and urgent matters.*

*At the respective meetings, the Supervisory Board discussed the details of the "ZF 2025" strategy drawn up by the Board of Management. Core elements include, among other things, the further balanced global market penetration, product innovations, and the focus on strategically and financially appealing new business. In particular during the second half of the year, most of the discussion time was taken up by the topic of TRW, which can already be understood as a result of implementing the strategy.*

*During a two-day special meeting on July 30 and 31, 2014, the Supervisory Board had the Board of Management report comprehensively on the project, its background, the strategic orientation, and the intended financing. After intensive consultations and discussions, the Supervisory Board found the assessment conducted by the Board of Management and the finance plan to be reasonable and well-founded. The industrial logic of the acquisition is convincing and offers new and interesting, but equally important, long-term perspectives for ZF. The Supervisory Board approved the intended transaction, the planned financing, and the conclusion of all acquisition-related contracts based on this structured decision-making process, with which it has met its obligation of due diligence.*

*At the subsequent meetings, the Board of Management's initial considerations on the later integration of TRW were discussed. The Supervisory Board welcomed the idea of applying a robust concept with an integration team and involving all corporate functions and divisions. Intensive and transparent communication of the procedures taking a "best of both" approach of both company philosophies is considered decisive.*

*In conjunction with this, the structure of the new Board of Management concept was presented during the meeting in December, which includes an initial proposal to expand the number of Board members from six to seven. For this reason, the Supervisory Board appointed Dr. Franz Kleiner as member of the Board of Management responsible for the Region of North America, effective January 1, 2015. Furthermore, Peter Lake, until now a member of TRW's top management, was appointed member of the Board of Management responsible for Corporate Market, subject to the condition precedent of the TRW closing and to take effect October 1, 2015. At the same time, these appointments sent an important and positive message to the workforce at TRW.*

*Additional important topics addressed during the Supervisory Board meetings included the decision to sell ZF's 50 % shareholding in ZF Lenksysteme GmbH as well as status reports on the sale of the Rubber & Plastics business unit, which was completed effective September 1, 2014. Moreover, the extraordinary items of the start-up of the U.S. plant in Gray Court, South Carolina (USA), reported by the Board of Management as well as the negative impact of the Ukraine crisis on ZF's business, and the continued weak market in South America were also discussed in the Board.*

*At its meetings, the Executive Committee of the Supervisory Board addressed, in particular, the strategic focus of the ZF Group, personnel issues of the Board of Management and Division Management, promoting young talents, succession planning, and the overall HR strategy. During the meeting on April 3, 2014, the appointed auditor reported to the Audit Committee in detail on the results of the annual financial statements and the consolidated financial statements and discussed these as well as ZF's financial challenges with the Board of Management. At the other two meetings, the Board dealt with the compliance organization, the risk management system, the internal audit system, and operational planning. The chairpersons of both committees, Prof. Dr. Behr and Dr. Haase, reported on the essential issues and activities in their committees at the subsequent Supervisory Board meetings.*

*The Supervisory Board approved the guiding principles of the strategic planning presented by the Board of Management which focus on long-term development and securing the future of ZF and its locations. The operational planning with main topics including critical business units, cost orientation, and investment strategy was also discussed. These strategies indicate a balanced opportunity-risk profile where the focus is not on growth but rather on profitability and cash flow with the goal of rapid debt relief.*

*The Supervisory Board underwent the following changes in 2014: Effective June 30, 2014, Helmut Petri left the Board for reasons of age after nine years, six of which he was member of the Personnel and Executive Committee. Prof. Dr. Dr. Claudia Eckert was elected by the shareholders as his successor. The long-term Vice Chairman of the Supervisory Board Johann Kirchgässner retired and also left the Board on July 6, 2014 after 22 years, nine of which he was member of the Personnel and Executive Committee. For the remaining tenure of the Supervisory Board, Achim Dietrich-Stephan was appointed to the Board as employee representative. The position of Vice Chairman of the Supervisory Board was assumed by Frank Iwer during the meeting held on July 9, 2014. The Supervisory Board expressed its thanks and appreciation to both departing members for their many years of commitment, dedication, and trusting cooperation.*

*The annual financial statements of ZF Friedrichshafen AG compiled by the Board of Management in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements compiled in accordance with § 315a HGB on the basis of the International Financial Reporting Standards (IFRS), dated December 31, 2014, as well as the associated management reports, were each audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart (Germany), the auditing firm elected by the annual general meeting and commissioned by the Supervisory Board. The company issued its unqualified audit opinion respectively.*

*The Supervisory Board is convinced of the independence of the appointed auditor and of those responsible for handling the financial statements. During the consultations regarding the annual and consolidated financial statements, the responsible auditor reported extensively on the key audit results and was available to provide the Supervisory Board with additional information. The Supervisory Board dealt intensively with the information presented, the additional explanations from the Chairman of the Audit Committee, and the documentation submitted by the Board of Management. Based on its own review, the Supervisory Board approved the audit results without objection on March 9, 2015. The Supervisory Board therefore accepted the recommendation of the Audit Committee, based on its own review, and the result of the audit by the auditor. The annual financial statements of ZF Friedrichshafen AG were approved, the consolidated financial statements were adopted, and the recommendation of the Board of Management for the use of the net profit for the year was accepted. Lastly, the preliminary resolutions for the annual shareholders' meeting were prepared.*

*The Supervisory Board would like to thank the Board of Management, all employees, and the employee representatives for their outstanding achievements with which they faced major challenges and for their contributions to the success of the company in the last year.*

*Friedrichshafen, March 9, 2015*



*On behalf of the Supervisory Board  
Prof. Dr. Giorgio Behr  
Chairman*



# MANAGEMENT BODIES

## Supervisory Board

**Prof. Dr. Giorgio Behr**, Buchberg, Switzerland,  
**Chairman**,  
CEO and President of the BBC Group,  
Villmergen, Switzerland

**Johann Kirchgässner<sup>1)</sup>** (until July 6, 2014),  
Friedrichshafen,  
**Deputy Chairman**,  
Chairman of the Group Works Council of  
ZF Friedrichshafen AG, Friedrichshafen

**Frank Iwer<sup>1)</sup>**, Stuttgart,  
**Deputy Chairman**,  
Trade Union Secretary of IG Metall  
District Management Baden-Württemberg

**Jörg Ammon<sup>1)</sup>**, Salem,  
Head of Gears and Shafts Production at  
ZF Friedrichshafen AG, Friedrichshafen

**Ernst Baumann**, Münsing,  
former Member of the Management Board of  
BMW AG, Munich

**Matthias Beuerlein<sup>1)</sup>** (as of January 30, 2015),  
Volkach,  
Team Leader of Non-Production Materials  
Purchasing,  
Schweinfurt location of ZF Friedrichshafen AG,  
Friedrichshafen

**Andreas Brand**, Friedrichshafen,  
First Mayor of the City of Friedrichshafen

**Jürgen Bunge<sup>1)</sup>**, Lemförde,  
Chairman of the Lemförde Location Works  
Council of ZF Friedrichshafen AG,  
Friedrichshafen

**Achim Dietrich-Stephan<sup>1)</sup>** (as of July 6, 2014),  
Kressbronn,  
Chairman of the Group Works Council of  
ZF Friedrichshafen AG, Friedrichshafen

**Prof. Dr. Dr. Claudia Eckert** (as of July 9, 2014),  
Munich,  
Chair for IT Security, Technische Universität  
München, Munich

**Dr. Margarete Haase**, Cologne,  
Member of the Management Board of  
DEUTZ AG, Cologne

**Hans-Georg Härter**, Salzweg,  
former CEO of ZF Friedrichshafen AG,  
Friedrichshafen

**Peter Kippes<sup>1)</sup>**, Schweinfurt,  
First Representative of IG Metall  
Administration Center Schweinfurt

**Dr. Joachim Meinecke**, Freiburg,  
Lawyer

**Oliver Moll<sup>1)</sup>**, Schweinfurt,  
Chairman of the Schweinfurt Location Works  
Council of ZF Friedrichshafen AG,  
Friedrichshafen

**Martin Ocker<sup>1)</sup>** (until January 30, 2015),  
Schwäbisch Gmünd,  
Member of the Works Council of  
ZF Lenksysteme GmbH,  
Schwäbisch Gmünd

**Jürgen Otto**, Coburg,  
CEO of Brose GmbH, Coburg

**Dr.-Ing. Franz-Josef Paefgen**, Ingolstadt,  
former Chairman and Chief Executive of  
Bentley Motors Ltd., Crewe, Great Britain

**Helmut Petri** (until June 30, 2014), Grafenau,  
former Member of the Board of Management,  
Mercedes-Benz Passenger Cars Division of  
Daimler AG, Stuttgart

**Vincenzo Savarino<sup>1)</sup>**, Friedrichshafen,  
First Representative of IG Metall Administration  
Center Friedrichshafen-Upper Swabia

**Wolfgang Schuler<sup>1)</sup>**, Riegelsberg,  
Chairman of the Saarbrücken Location Works  
Council of ZF Friedrichshafen AG,  
Friedrichshafen

**Hermann Sicklinger<sup>1)</sup>**, Thyrnau,  
Chairman of the Passau Location Works  
Council of ZF Friedrichshafen AG,  
Friedrichshafen

**Weidong Xu**, Castrop-Rauxel,  
Vice General Manager of Shanghai PRIME (HK)  
Investment Management Co., Ltd.,  
Shanghai, China

## Board of Management

**Dr. Stefan Sommer**, Meersburg,  
**Chief Executive Officer**,  
Corporate Market, Corporate Research and  
Development, ZF Services

**Michael Hankel**, Eschborn,  
Corporate Production, Car Powertrain  
Technology, Car Chassis Technology,  
Electronic Systems

**Jürgen Holeksa**, Friedrichshafen,  
Corporate Human Resources, Corporate  
Governance, Service Companies, Asia-Pacific

**Dr. Franz Kleiner** (as of January 1, 2015),  
Passau,  
North America

**Rolf Lutz**, Friedrichshafen,  
Corporate Quality, Commercial Vehicle  
Technology, South America

**Wilhelm Rehm**, Höchstädt  
Corporate Materials Management,  
Industrial Technology

**Dr. Konstantin Sauer**, Überlingen,  
Corporate Finance, IT, M&A

## Chief Representative

**Andreas Hartmann**, Cologne

<sup>1)</sup> Employee Representative

# HIGHLIGHTS IN 2014

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## GROUNDBREAKING DECISIONS

In September, ZF announced its intention to acquire U.S. supplier **TRW**. In November, a substantial majority of

TRW shareholders approved the acquisition by ZF Friedrichshafen AG.

## Global footprint

### JANUARY

ZF Kama inaugurated a new production building for commercial vehicle transmissions in Naberezhnye Chelny (Russia).

### FEBRUARY

Foundation stone laid for the ZF Forum, the new Corporate Headquarters in Friedrichshafen (Germany).

### MARCH

A new joint plant was built at the Pune (India) location for ZF's Car Powertrain Technology and Commercial Vehicle Technology divisions and the ZF Services business unit.

### JULY

ZF started massive expansion of its headquarters for China and the market region of Asia-Pacific at the Shanghai (China) location.

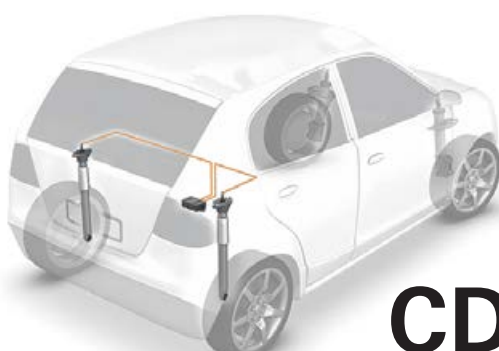
### OCTOBER

ZF and Beijing Automotive Industry Corporation (BAIC) founded a joint venture for the development and assembly of passenger car axle systems in Beijing (China).

## Future of logistics

As one of the initiators and with its name on the cover, ZF presented the **"ZF's Study on Future – Fernfahrer 2.0"** in Brussels. Taking its lead from the first ZF study on the future of long-distance truck drivers published in 2012, the study analyzed the impact of changing social values on the profession of truck driver. It also highlighted future trends such as the increased industrialization of the logistics sector and set out consequences as well as need for action on the part of industry players.

## ADAPTIVE DAMPING SYSTEM



## CDC 1XL

A further development of the CDC adaptive damping system (Continuous Damping Control) entered volume production for the first time in the new Honda Civic Tourer: CDC 1XL (i.e. "one axle") is used solely on the rear axle. It is precisely at this point where the axle load fluctuates heavily on subcompact and compact-class passenger cars. The ZF adaptive damping system accordingly adds a great deal of comfort and safety.

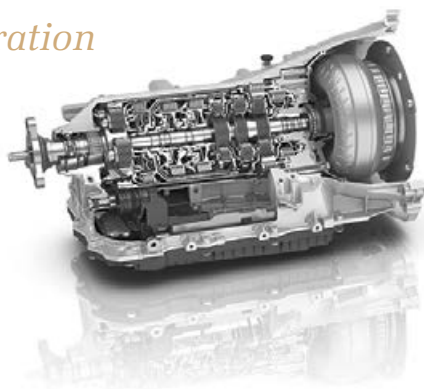
IAA 2014



ZF unveiled the **Innovation Truck** at the IAA 2014, a 25-meter-long truck, which can be maneuvered using a tablet thanks to a maneuvering assist function – simply by using one finger and from outside the cab. All this is made possible by networking innovative driveline and steering technology as well as telematics. As such, the Innovation Truck stands right in the middle of a groundbreaking concept for tomorrow's logistics.

Second-generation

**8HP**



Higher savings potential in terms of consumption and CO<sub>2</sub> combined with increased ride comfort and dynamics: These have been the hallmark characteristics of the successful **8-speed automatic** transmission since the start of production in 2009. The second generation of the 8HP was launched in July 2014, raising the bar even further with a series of optimization measures.

AWARDS 2014

**AWARD  
WINNING**

Two accolades in South Korea: Hyundai Kia Motor Company (HKMC) **certified the ZF research and development expertise** locally and honored the ZF subsidiary in Changwon City (South Korea) with the **"Supplier of the Year Award."**

In the reader polls run by "Auto Bild," "auto motor und sport," and "Auto Zeitung," ZF repeated its **top slot** in the "Transmission" category.

U.S. trade journal "Automotive News" singled out the 9-speed automatic transmission for passenger cars with the **PACE Award**.

An all-electric car driveline developed by ZF took the **"eCarTec Award 2014,"** the Bavarian State Award for Electric and Hybrid Mobility.

A jury of experts awarded ZF the **"International busplaner Sustainability Prize 2015"** for the AVE 130 electric portal axle for hybrid and electric buses.

# CORPORATE STATEMENT

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## Shaping the future responsibly

Our enthusiasm for innovative products and processes and our uncompromising pursuit of quality have made us a global leader in driveline and chassis technology. We are contributing toward a sustainable future by producing advanced technology solutions with the goal of improving mobility, increasing the efficiency of our products and systems, and conserving resources.


Our customers in the automotive and industrial sectors welcome our determined focus on products and services, which provide great customer value. Improvements in energy efficiency, cost-effectiveness, dynamics, safety, and comfort are key to our work. Simultaneously, we are aiming for continuous improvement in our business processes and the services we provide. As a globally active company, we react quickly and flexibly to changing regional market demands with the goal of always providing a competitive price/performance ratio.

Our independence and financial security form the basis of our long-term business success. Our profitability allows us to make the necessary investments in new products, technologies, and markets, thus securing the future of our company on behalf of our customers, market affiliates, employees, and the owners of ZF.

Our tradition and values strengthen our managerial decisions. Together, they are both an obligation and an incentive to maintain a reliable and respectful relationship with customers, market affiliates, and employees. Our worldwide compliance organization ensures that locally applicable laws and regulations are adhered to. We accept our responsibility toward society and will protect the environment at all of our locations.

Our employees worldwide recognize us as a fair employer, focusing on the future and offering attractive career prospects. We value the varied cultural backgrounds of our employees, their competencies, and their diligence and motivation. Their goal-oriented dedication to ZF, beyond the borders of their own field of work and location, shapes our company culture and is the key to our success.





*ZF technology generates added value. It helps people who want to get things moving or want to experience the ultimate in efficient mobility – in many different ways. This aspiration is our slogan.*

# MOTION AND MOBILITY



# FIT FOR THE FUTURE

THE PAST IS JUST THE BEGINNING. ZF is celebrating its 100<sup>th</sup> anniversary while writing the next chapter in its success story – with a strategic roadmap, innovative products, and motivated employees.

**100**  
YEARS  
MOTION  
AND  
MOBILITY





MARKET PENETRATION

16 **DYNAMIC  
GROWTH**

LEADING ROLE

20 **SYSTEMATIC  
FORETHOUGHT**

PRODUCT DIVERSITY

24 **MULTIFACETED  
DEVELOPMENT**

INDEPENDENCE

28 **INDEPENDENT  
ACTIONS**

EMPLOYER POSITION

32 **INDIVIDUALIZED  
PROMOTION**





A GROWTH MARKET tends to be instantly recognizable – just like here with the construction of the trade center in Suzhou near Shanghai (China). ZF has already established locations nearby, enabling it to benefit from the dynamic economy.



# DYNAMIC GROWTH







ZF is present with its portfolio at international trade shows such as the International Motor Show.



More than 480 employees work at the ZF Engineering Center in Shanghai.



Over 650 service partners worldwide ensure the supply of ZF spare parts.



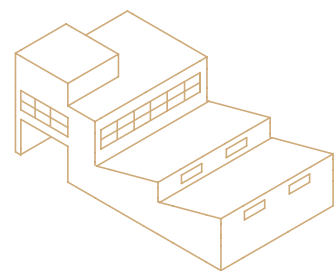
ZF technology enables transport concepts – such as Bus Rapid Transit in megacities – to be implemented in a particular cost-effective manner.

**Opportunities can be exploited more effectively by adopting an intelligent approach. Setting up new ZF locations ties up capital and retains employees. For that reason, dynamic growth does not simply mean building new plants. We also see it as balancing competencies and production capacity flexibly. Our global development, production, service, and supplier network allows us to achieve that balance across national borders and continents.**

## **ENGINEERING CENTER SHANGHAI LOCAL DEVELOPMENT**

What electronics standards do vehicles have in the emerging markets? Which automatic ZF transmission is best suited? What modifications are required? And how quickly can these modifications be made locally? These questions essentially sum up what "localization" and "application development" potentially entail. It is abundantly clear that these kinds of questions need to be decided quickly and locally wherever possible in a fast-changing, dynamic growth market like China. ZF can

do precisely that thanks to its Engineering Center Shanghai. Set up in 2005, its 480-plus employees provide all divisions and business units with local support. The basic notion of "localizeering" (a combination of the words "localization" and "engineering") is demanded more than ever in the booming Chinese market. In line with these developments, ZF has extensive growth plans for its Engineering Center Shanghai, which constitutes part of ZF's global development network.







WHAT'S THE TREND of future mobility? And what technologies will be especially interesting? We look far ahead with our innovation processes while considering long-term social and economic trends. Thus, we already have a clear picture of how people will travel and goods will be transported.





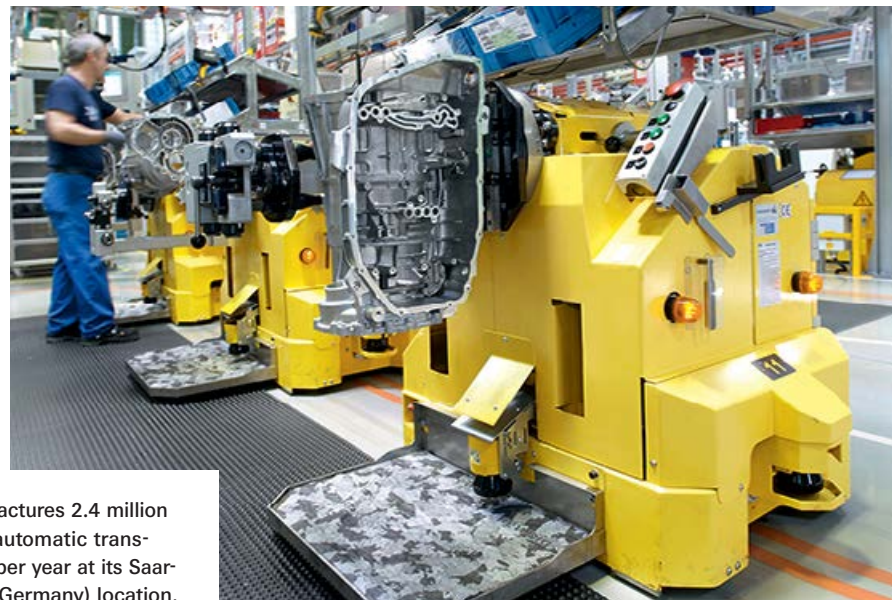
# SYSTEMATIC FORETHOUGHT







Motorsports as the ultimate endurance test. Here, ZF's DTM clutch also has to stand up to the rigors of racing.



ZF manufactures 2.4 million 8-speed automatic transmissions per year at its Saarbrücken (Germany) location.



In 2007, ZF became the first European supplier to start volume production of hybrid modules.

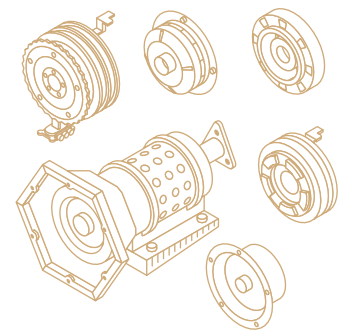


**We are all too familiar with conflicts of interest. Particularly when they involve the rules that govern the industry: The market demands innovations, customers expect value added, and it all needs to remain affordable. We are therefore situated right in the middle of this “magic triangle,” as technology, market and cost leader.**

## **PRODUCT MODULARIZATION CONSTRUCTION KIT ENHANCES FLEXIBILITY**

The idea of a “construction kit” not only puts a smile on children’s faces. Business managers, customers, and ZF engineers are just as enthusiastic. For us, modularization – to use the correct technical term – actually offers no end of opportunities: additional market shares, greater sales, and higher production efficiency. For that reason, many ZF products are conceived from the outset as a modular construction kit. Like the 8-speed automatic transmission, for instance. Several transmission types can be made from a single basic transmission – from the

conventional multi-ratio transmission with or without start-stop system through to the plug-in hybrid transmission. Each of these transmission types can also be configured as an all-wheel-drive system. TraXon, the new commercial vehicle transmission system, is a case in point: ZF offers the basic transmission with dry clutch, with dual-clutch module, but also with a hybrid module. In this way, we cover an enormous range of market requirements and leverage opportunities which an isolated individual product would never provide.







AUTOMOTIVE DEVELOPMENT is a world running at several speeds: Evolutionary further developments line up alongside revolutionary new approaches – at ZF too. Both are equally important for the future of mobility.





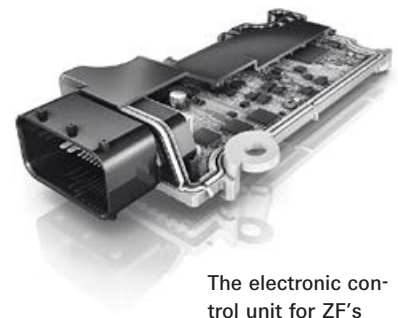
# MULTIFACETED DEVELOPMENT







ZF products help reduce fuel consumption in many passenger cars.



The electronic control unit for ZF's 9-speed automatic transmission.



ZF is making vehicles lighter with alternative materials – such as here with glass-fiber-reinforced plastics.



ZF Innovation Truck: Intelligently networking driveline, steering, and telematics paves the way for new logistics concepts.

ZF products are used wherever people and goods are transported – from the passenger car through the city bus to construction equipment and marine applications. In all these segments, a transition is currently underway toward electric drives, to even greater energy efficiency, to autonomous driving. Our strategy is tailored to such developments: We already offer practical concepts for all these frontline topics by bundling and networking our competencies.

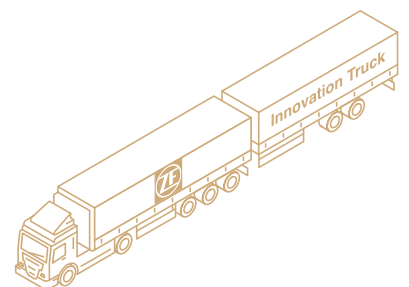
## ZF INNOVATION TRUCK LENGTHS AHEAD

A truck measuring 25 meters – moved using just one finger: This is possible because an intelligent prototype control unit perfectly networks the TraXon Hybrid transmission system (for silent, locally zero-emission maneuvering) with the system-compatible Servotwin superimposed steering system and the Openmatics telematics system (with special sensors in and around the truck).

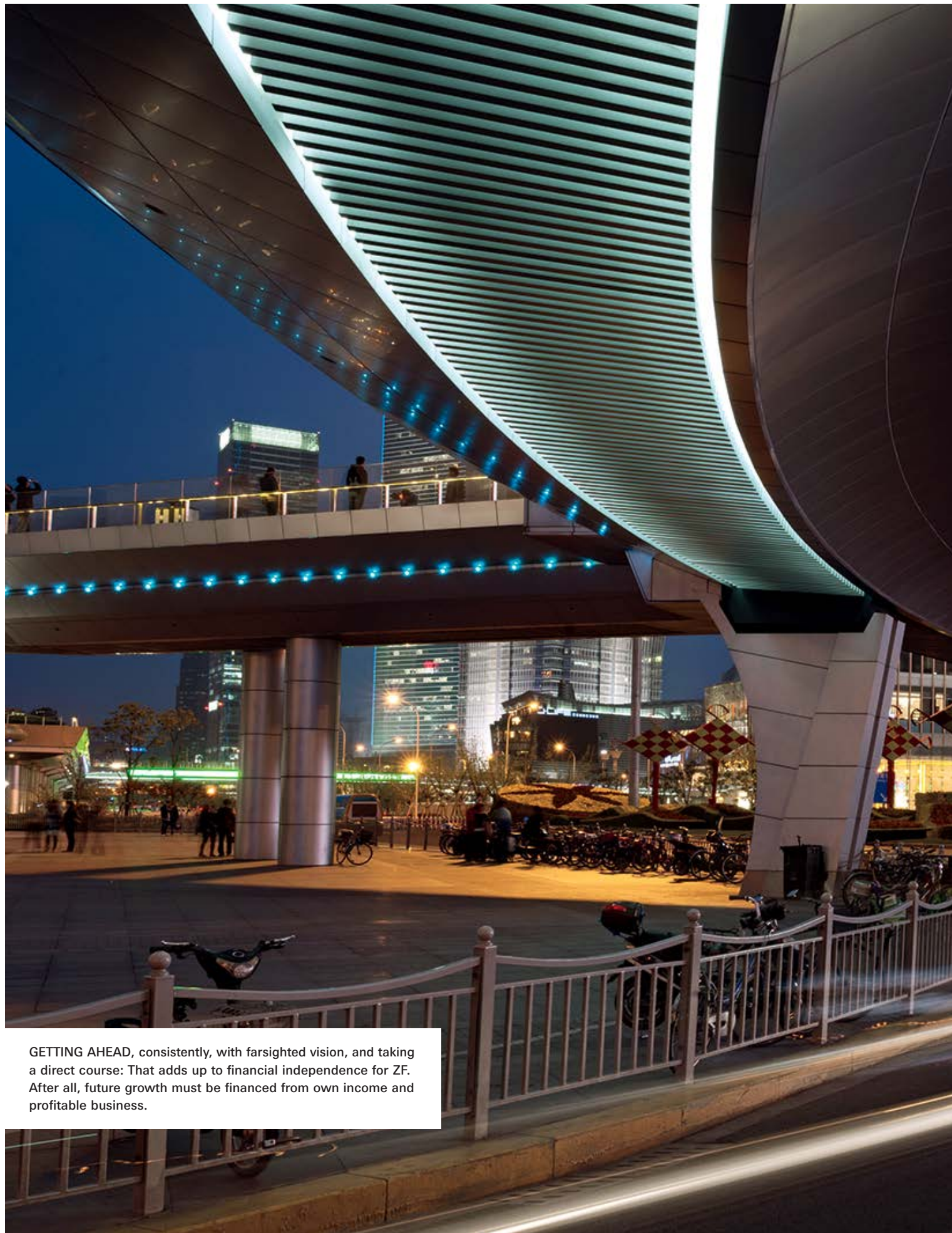
The users are, however, totally unaware of the complex automotive engineering processes at play. All they need to remotely

control the Innovation Truck is the maneuvering app, which is remarkably easy to operate. Simply select the gear and maneuvering speed from the screen menu and then drag the truck icon with a finger. The “real” truck follows these movements, making maneuvering child’s play.

The ZF Innovation Truck combines intelligent driveline and steering technology with telematics to create a groundbreaking concept for future logistics.







GETTING AHEAD, consistently, with farsighted vision, and taking a direct course: That adds up to financial independence for ZF. After all, future growth must be financed from own income and profitable business.



# INDEPENDENT ACTIONS





Setting up the transmission plant in Gray Court, South Carolina (USA), cost just under € 500 million and was thus the largest single investment in ZF's history.

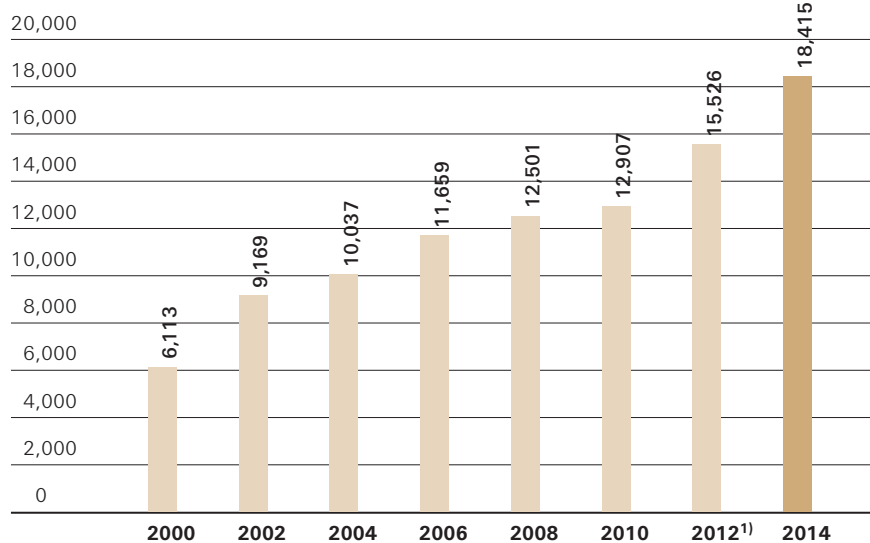


ZF manufactures complete passenger car axle systems at 15 locations in eight countries around the globe. The latest facility is located in Beijing (China) and was opened in 2014.



**ZF has enormous staying power: Many of our leading products that are now financially successful came into being thanks to our long-standing investment in development, production facilities, or in company acquisitions. This strategic vision requires financial independence – but also financial fitness. ZF ensures its finances are sound through a combination of objectives and targets for profitable growth itself.**

### **ZF SALES DEVELOPMENT SINCE 2000**



<sup>1)</sup> As of 2012 adjusted by ZF Lenksysteme.





"EXCELLENCE" was once a form of address for the nobility. Today, it is synonymous with outstanding performance. Not just as part of the cityscape, but for outstanding business performance too. That also depends on motivated, talented, in other words excellent employees. And they are not as easy to find as excellent examples of architecture.



# INDIVIDUALIZED PROMOTION



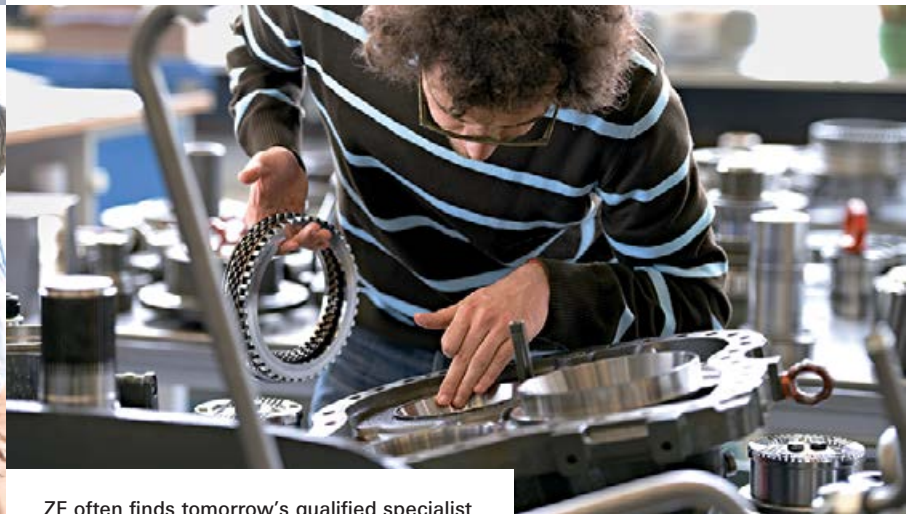




Sharing information with the CEO: ZF is characterized by a culture of open interaction.



In search of young engineering talents: ZF sponsors Formula Student.



ZF often finds tomorrow's qualified specialist staff and executives within its own ranks.



Inspiring students to go into engineering is the concept behind the "Wissenswerkstatt" (Knowledge Workshop), which ZF supports at several locations.



Quality, innovation, and business excellence – our teams at the worldwide ZF locations deliver on all counts. A strong company is supported by strong employees that see strategic objectives as an opportunity and implement them within their area of activity. For this reason, ZF positions itself as an employee-oriented company. This working environment and the image as an attractive employer go a long way to shoring up our competitive position.

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## GRAF-VON-SODEN INVENTION AWARD THE HUMAN FACTOR

It is well known that Alfred Graf von Soden-Fraunhofen, ZF's first managing director, subsequent member of the Board of Management, and head of the company, threw a great many of his own ideas, inventions, and patents into the melting pot to help the young ZF company succeed in the difficult early years.

So what better figure to associate with a ZF invention award. After all, even 100 years after ZF was founded, one factor is important for the innovativeness of our company: It is still individuals that come up with the ideas for innovations. ZF employees continually

develop groundbreaking technologies in order to meet current and future challenges in driveline and chassis technology. To reward such dedication, the best inventions of ZF employees from the past year are honored every year in May with the Graf-von-Soden Invention Award.

This potential helps us live up to our aspiration as technology leader. Our achievements are reflected in an impressive figure: ZF filed more than 860 patents in 2014 alone, thus gaining a top-ten ranking in the German Patent and Trade Mark Office's statistics as in the past few years.







# ABOUT THE COMPANY

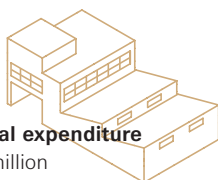
The following pages include reports on the development of the ZF Group's divisions and business units. The Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, and Industrial Technology divisions include the business units that are relevant to the particular industry with the exception of the two independent business units: Electronic Systems and ZF Services.

38 CAR POWERTRAIN TECHNOLOGY 40 CAR CHASSIS TECHNOLOGY 42 COMMERCIAL VEHICLE TECHNOLOGY  
44 INDUSTRIAL TECHNOLOGY 46 ELECTRONIC SYSTEMS 47 ZF SERVICES 48 ZF PRODUCT PORTFOLIO

**Sales<sup>1)</sup>**

in € million

	<b>2014</b>	<b>2014/2013</b>
Car Powertrain Technology	6,742	+ 18 %
Car Chassis Technology	5,885	+ 7 %
Commercial Vehicle Technology	3,036	– 7 %
Industrial Technology	2,052	+ 8 %
Electronic Systems	640	+ 10 %
ZF Services	1,630	+ 12 %
Corporate R&D, Corporate Headquarters, and Service Companies	152	+ 12 %
– Internal Sales	– 1,722	+ 1 %
<b>Consolidated ZF Group</b>	<b>18,415</b>	<b>+ 9 %</b>

**Capital expenditure**

in € million

	<b>2014</b>	<b>2013</b>
Car Powertrain Technology	576	541
Car Chassis Technology	156	158
Commercial Vehicle Technology	96	113
Industrial Technology	61	50
Electronic Systems	41	32
ZF Services	10	14
Corporate R&D, Corporate Headquarters, and Service Companies	65	46
<b>Consolidated ZF Group</b>	<b>1,005</b>	<b>954</b>

**Employees<sup>2)</sup>**

	<b>2014</b>	<b>2014/2013</b>
Car Powertrain Technology	23,646	+ 17 %
Car Chassis Technology <sup>3)</sup>	15,598	– 4 %
Commercial Vehicle Technology	13,146	– 9 %
Industrial Technology	8,759	+ 3 %
Electronic Systems	3,546	+ 16 %
ZF Services	3,512	+ 14 %
Corporate R&D, Corporate Headquarters, and Service Companies	3,195	+ 16 %
<b>Consolidated ZF Group</b>	<b>71,402</b>	<b>+ 5 %</b>

<sup>1)</sup> Sales stated in the following sections are consolidated values of the divisions and business units.

<sup>2)</sup> Number of employees by contracts in accordance with IFRS regulations.

<sup>3)</sup> Without employees of the Rubber & Plastics business unit and without AIBC employees.



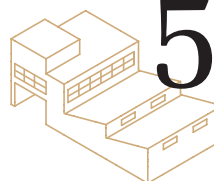
# Car Powertrain Technology

6,742



23,646

employees



576

€ million capital expenditure

## The year 2014 at a glance

The Car Powertrain Technology division managed to increase its sales compared to the prior year by 18 %, primarily thanks to the continued positive development in the passenger car premium segment. The number of employees rose by 17 % to 23,646 people, which are employed at 22 locations worldwide, three of which are development centers.

The increasing significance of e-mobility was the reason for establishing the new Electric Drive Technology business unit in mid-2014 which pools all activities of the division in terms of driveline electrification. The organizational structure required for this was set up in the second half of 2014. Since January 1, 2015, the business unit has been operating within the Car Powertrain Technology division.

## Market situation and regions

The strong sales growth of the division was still attributable to high sales in the upper mid-size and luxury vehicles segments. The ramp-up of the new automatic transmission plant in Gray Court, South Carolina (USA), had a positive impact. As in the previous year, this was mainly driven by the markets in Asia and the USA.

## Capital expenditure

In order to continue participating in the positive market development, the division increased its investments

compared to the prior year. In the year under review, capital expenditure amounted to approximately € 576 million. A significant portion of this investment flowed into the new transmission plant in Gray Court, South Carolina (USA), and into the expansion of capacities at the Saarbrücken (Germany) plant. In addition, machines and systems were modernized and capacities increased in all other business units.

## Research and development/Product innovations

The successful production of 6-speed automatic transmissions in Saarbrücken (Germany) was phased out in March 2014 after a total of around 7 million units had been produced up to that date. In future, these transmissions will be produced for renowned customers at the Shanghai (China) plant. At volume production start in Saarbrücken (Germany) in 2001, the transmission was the first 6-speed automatic transmission worldwide and received the “PACE Award.” In July 2014, volume production commenced for the second generation of the 8-speed automatic transmission in the BMW 5 Series. This came along with a reduction in fuel consumption and CO<sub>2</sub> emissions by another 3 % compared to the first generation. Moreover, a hybrid version for integrated electric motors was launched on the market. ZF’s 8-speed automatic transmission was installed for the first time in a commercial vehicle, i.e. in the Iveco Daily, the “International Van of the Year 2015.” In this context, the transmission also convinces with energy efficiency and riding comfort.

## From the business units

### Automatic Transmissions

The business unit's location in Saarbrücken (Germany) continued to be utilized at a very high level. The focus was on the ramp-up of the second generation of the 8-speed automatic transmission. The groundbreaking ceremony was celebrated for the new administration building, where construction activities will start in 2015. Capacities were also expanded at the Wellesweiler (Germany) plant as well as at the Distribution and Packaging Center. The foundation stone was laid for the new Customer Service Center of ZF Services at the Saarbrücken (Germany) location.

In the past year, the location in Gray Court, South Carolina (USA), accomplished a large volume increase from approximately 80,000 transmissions to more than 400,000 units.

The division, together with other Group departments, seeks to stabilize and optimize the processes in view of the expectation that volumes will continue to rise significantly. In Strasbourg (France), Punch Powerglide successfully commenced production under license in relation to 8-speed automatic transmissions in the fall of 2014. Since then, more than 20,000 transmissions have been manufactured. In future, approximately 200,000 transmissions are to be produced here.

### Manual Transmissions/Dual Clutch Transmissions

Sales in the Manual Transmissions business unit rose, largely thanks to the ramp-up of 6-speed manual transmissions for the Mercedes-Benz C-Class, while sales in the Dual Clutch Transmissions business unit remained on the previous year's level. 90 new office workplaces were created for Product Development in the context of the refurbishment of the old administration building in Brandenburg (Germany). Further modernization work concerned Production. In addition, a couple of new facilities were put into operation, such as the additional assembly line for the 7-speed dual clutch transmission.

### Axle Drives

The Axle Drives business unit recorded strong growth in the year under review. In contrast to the prior year, all

plants were utilized to full capacity. New start-ups were successfully implemented and major future projects were won.

### Powertrain Modules

The Powertrain Modules business unit managed to increase its sales year-on-year once again, although not all product lines were utilized to the same extent. In the torque converter area, the business unit benefitted from the heavy demand for ZF's 8-speed automatic transmissions as well as from the strong U.S. market, which saw high demand from General Motors and Chrysler.

*Massive volume increase of approximately 320,000 transmissions at the Gray Court location in South Carolina (USA).*

### Die Casting Technology

The Die Casting Technology business unit was able to increase its output once again. The main focus was put on the modernization of existing

plants and increasing their capacity. In both plants, Nuremberg (Germany) and Grosbliederstroff (France), the modernization activities undertaken in the past few years resulted in significant improvements in quality and output.

### Special events

The 9-speed automatic transmission from ZF received the renowned "PACE Award" of the "Automotive News" trade journal in 2014. The transmission – an innovation for the industry – convinced with highest efficiency, fuel savings, and compact design.

### Prospects for the fiscal year 2015

On the basis of the figures for 2014 and the continued encouraging prospects for the market, forecasts are also positive for the current year. The Car Powertrain Technology division expects another growth for 2015. This comes along with a moderate rise in the number of employees, which mainly refers to locations in foreign countries. In the current fiscal year, the division will continue to face challenges primarily as a result of the rise in volume planned for almost all plants, especially in the U.S. plant in Gray Court, South Carolina (USA).



# Car Chassis Technology

5,885

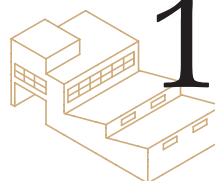


€ million  
sales



15,598

employees



156

€ million  
capital  
expenditure

## The year 2014 at a glance

The Car Chassis Technology division pools the Group's expertise in chassis technology for passenger cars and light commercial vehicles. Its product portfolio covers complete front and rear axle systems, suspension and steering components, shock absorbers, as well as electronic damper and chassis systems. With an increase of 7% over the previous year, sales amounting to € 5,885 million reached the forecast level. The number of employees dropped by 4% to 15,598, due primarily to the sale of the Rubber & Plastics business unit and the AIBC subsidiary.

## Market situation and regions

In the year under review, demand for products from the Car Chassis Technology division remained strong. However, the competitive situation is coming to a head more and more so that product developments, processes, and workflows have to be constantly scrutinized and optimized. This is the only way to ensure the company's leading position and competitiveness. Demand from Europe was more reserved in the year under review. In contrast, North America and China were true engines of growth. The markets in South America and Southeast Asia did not come close to meeting expectations.

## Capital expenditure

Last year, the division made investments worldwide totaling € 156 million. In the Chassis Components business unit, the financing was used to expand production capacities. The Chassis Systems business unit received a first-time order for corner modules from South America. These will be produced in Sorocaba (Brazil) starting in 2016. The Suspension Technology business unit invested in the construction of a second location for the production of shock absorbers in China.

## Research and development/Product innovations

In the Chassis Systems business unit, many promising meetings concerning the products AKC (Active Kinematics Control) and the first fully integrated electrically driven axle (electricTwistbeam) were held and numerous contracts signed in 2014. Both innovative products are currently in volume production or are about to go into production. The Chassis Components business unit broadened its product portfolio to include components made of plastics and fiber-reinforced composites. An important order for a suspension link made of formed sheet metal was won in China. In the Suspension Technology business unit, a new concept for a suspension system that does not rely on the traction/compression function was introduced. In addition, the "Modular Shock Absorber Concept" technology center went into operation.

## From the business units

### Chassis Components

Despite a very tense market environment in Brazil and in Eastern Europe, the business unit was still able to increase sales over the previous year. The sales figures for chassis components continued to climb in Europe and China, not least as a result of numerous production starts in these regions. For global vehicle platforms, important volume orders were acquired.

### Chassis Systems

ZF's first axle assembly location in Duncan (USA) celebrated its 20<sup>th</sup> anniversary in 2014. The plant in Solihull (UK) enjoyed its 10<sup>th</sup> anniversary. A framework contract for providing global axle endurance testing as a service was concluded for two renowned customers in Germany, China, and the USA. The production of active rear axle kinematics (AKC) in Lebring (Austria) established itself with outstanding quality results. ZF additionally entered into a joint venture with the Beijing Automotive Industry Corporation (BAIC) to develop and assemble axle systems in China. The new plant in Beijing (China) is expected to start operation in 2018 with 200 employees.

### Rubber & Plastics

The Rubber & Plastics business unit was sold and became Boge Rubber & Plastics Group on September 1, 2014.

### Suspension Technology

Sales generated by the business unit in 2014 met forecast figures. The main growth drivers still were the Regions of North America and Asia. One highlight was the green light for the production of modular twin-tube dampers and suspension struts. Moreover, the motorcycle business is booming, especially in the area of controlled dampers. According to internal estimates, the business unit is both the market and technology leader in this segment.

## Special events

In addition to numerous other awards, the division was acknowledged in 2014 with:

- the "Supplier Excellence Award" from General Motors for the plants in Europe and the USA
- the "Volvo Cars Quality Excellence Award"
- the "Customer Recommendation" from Hyundai Mobis
- the "Ford Q1 Award" and "GM Supplier Quality Excellence Award" for the Rayong (Thailand) plant
- the award as "Best Plant 2014" from PSA Peugeot Citroen for the Eitorf (Germany) plant
- the ZF Corporate Innovation Award for the modular shock absorber design

## Prospects for the fiscal year 2015

The Car Chassis Technology division expects to see positive development also for the fiscal year 2015.

*Following a sales increase of 7 % compared to the previous year, a positive trend is also expected for 2015.*

The Chassis Systems business unit will mainly focus on the production start in Chennai (India), diverse project start-ups with the AKC active rear-axle kinematics, and the production launch for further model ranges in Beijing (China).

In the Chassis Components business unit, the lightweight construction strategy is being further expanded, especially through applying expertise obtained from plastics and fiber-reinforced composite technology.

In Newton (USA), production of a sheet metal control arm with integrated supporting joint (SMiCA) was started, while in Germany, volume production of hybrid stabilizer links also kicked off. The business unit is additionally focusing on expanding business in the area of steering components.

The TechCenter Shanghai will undergo expansion to include regional development activities for the Suspension Technology business unit. A new plant for Suspension Technology will go into operation in Shenyang (China). The first foreign production location for semi-active shock absorbers in cars will be established in Korea.



# Commercial Vehicle Technology

## 3,036

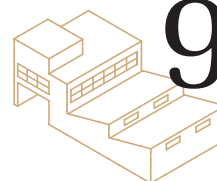


€ million  
sales



## 13,146

employees



## 96

€ million  
capital  
expenditure

### The year 2014 at a glance

In 2014, the Commercial Vehicle Technology division did not manage to reach the high sales level of the previous year. Negative exchange rate effects in South America and shifts in sales within the Group resulted in lower sales in the Truck & Van Driveline Technology, CV Powertrain Modules, as well as CV Damper Technology business units. In contrast, slight gains were achieved in the CV Chassis Modules and Axle & Transmission Systems for Buses & Coaches business units.

Overall, after a positive first half, order intake fell in the second half of the year due to the economic situation. The negative development in Europe – above all in Eastern Europe and Russia – and especially in South America had a particularly large impact. Compared to the prior year, these regions were exposed to massive declines.

In order to compensate for these market declines, the division's focus was on expanding its presence in the other regions, such as Asia and North America. As in the previous year, this was pushed forward by enlarging international production locations. In India, volume production was transferred to a new plant, while the capacity for chassis components was expanded in Turkey through the increase of production space. The new production hall of the joint venture ZF Kama led to a significant rise in production space for the manufacture of commercial vehicle transmissions in Russia.

The main challenge in the context of acquiring new customer groups is how to cater to local market requirements. In China, for instance, we offer the robust Value Line in addition to the international range of transmissions. The Value Line is a custom-fit solution for growth markets – in this case transmissions – which is mainly characterized by robustness, ease of operation, and cost benefits when compared directly to the market. Shock absorbers and chassis components are also manufactured specially for the Chinese market.

## Research and Development/Product innovations

In the fiscal year 2014, high priority was given to the development of new products and the further development of existing products; investment in both continued. These efforts focused on CO<sub>2</sub> reduction as well as fuel savings, lightweight design, networking, and systems expertise.

Among other things, we were successful in the ramp-up of the X2C dual-clutch module for long-distance trucks. Local axle production commenced for a large bus manufacturer in the USA. In addition, the AVE 130 electric portal axle designed for city buses showed its quality in many new applications around the globe. TraXon, the new modular transmission system, is now ready for production. Accordingly, PreVision GPS, the anticipatory shifting strategy for automated truck transmissions, is also available for vehicle manufacturers.

In the field of chassis technology, the demand for the CDC damper control systems for both commercial vehicles and agricultural machinery increased. Moreover, volume production was started for the new generation of rear-axle suspension systems for trucks.

The division's presence at the IAA Commercial Vehicles trade show in Hanover (Germany) was a great success. The presentation of the ZF Innovation Truck was a particular highlight, which was met with great customer attention.

Further innovations included a liftable rear axle for trucks with 4-point links made from glass-fiber-reinforced plastics and ITS 80 F, the weight-optimized independent suspension for trucks.

## Special events

The high innovative capacities are also documented by numerous awards which the division received around the world in all business units, such as:

- "Best Transmission" and "Best Retarders" in the reader's choice of the ETM publishing house
- the "International busplaner Sustainability Prize 2015" for the ZF AVE 130 electric portal axle

In addition, the partners in Asia in particular awarded the successful and reliable cooperation with ZF and its high-quality products with a number of prizes.

## Prospects for the fiscal year 2015

The industry is currently showing restrained optimism for market developments in 2015. The production volume for commercial vehicles is expected to be slightly above the 2014 level. Western Europe is likely to settle at the low level of the previous year. The Regions of North America and Asia expect moderate growth rates in the single-digit range. There are currently no indications for a turnaround from the market declines in South America and Eastern Europe.

After a very challenging start in the first quarter of 2015, the Commercial Vehicle Tech-

nology division expects sales to increase slightly for the full year. Accordingly, the truck industry is expected to grow only marginally, just as the bus segment. The division expects an invigorating impetus for the bus business from the Middle East in particular, which will likely offset the negative effects from other markets.

The Commercial Vehicle Technology division has to address the volatile markets and the increasing concentration of the vehicle manufacturer structure with a higher degree of flexibility. In order to maintain the technology leadership, the division relies on its high power of innovation in all fields of competence. This will be ensured primarily through thinking beyond system boundaries of its own technologies.

*The presentation of the ZF Innovation Truck at the IAA Commercial Vehicles in Hanover (Germany) was a particular highlight.*



# Industrial Technology

2,052

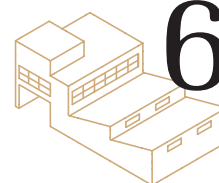


€ million  
sales



8,759

employees



61

€ million  
capital  
expenditure

## The year 2014 at a glance

In the Industrial Technology division, the ZF Group pools its activities for “off-road” applications. It is active in many markets with its heterogeneous product range. The division’s sales in 2014 rose approximately 8% above the prior-year value, reaching € 2,052 million. These gains are mainly attributable to the Wind Power Technology business unit in addition to the Construction Machinery Systems and Special Driveline Technology business units.

## Market situation and regions

After stabilization in 2013, the global construction machinery market showed no substantial growth stimulus in the year under review. This can be essentially traced back to weak development in China. Only the North American market was able to expand. In the agricultural machinery sector, markets were primarily on a downward slide.

The wind turbine market enjoyed considerable gains in 2014. There was once again increased investor interest in wind turbines stimulated by subsidies in the USA. In India, the weak economy, high interest rates, delays in infrastructure projects, as well as the devaluation of the rupee dampened willingness to invest.

Overall, the marine market has remained sluggish, with both positive and negative swings in the individual segments.

## Capital expenditure

A significant share of the capital expenditure was allocated to the Passau (Germany) location in 2014. Here, rationalization and replacement investments were used to streamline production processes and to replace older equipment and machines, thus bringing these facilities up to modern technological standards. In addition, the assembly hall expansion project of the Off-Highway Systems business unit at the Stankov location in the Czech Republic was completed. At the Steyr (Austria) location, the company invested in a new production line and in upgrading the machine fleet.

## From the business units

### Off-Highway Systems

The highest-grossing segments in the Industrial Technology division include construction machinery, agricultural machinery, as well as electric drives. With the newly developed TSA20 tractor steering axle, the company was able to re-enter the European market. A wheel loader axle was developed specially for the Chinese market and

will be produced in a joint venture established in 2013 with LiuGong, one of China's largest construction machinery producers. In 2014, another joint venture in the agricultural machinery sector was formed in China with partner Kintra. Here, the business unit will improve its competitiveness in the hard-fought low-cost market for axles. Volume production of the cPOWER continuously variable transmission started in December 2014 and facilitates additional business in new applications such as forestry vehicles.

#### Test Systems

In the year under review, sales in this segment shifted toward development test benches, especially in the Region of Asia. The business unit developed a new generation of tire production test benches that offer operators the highest precision in assessing internal product quality at reduced operating costs. The expansion of the sales and service network in the markets of the USA and China has created a solid base for future growth, especially for standard test benches.

#### Special Driveline Technology

The trend for the business unit was positive in the year under review. Rail drive systems was the greatest growth driver, primarily as a result of the high-speed train project in Tianjin (China), and the segment of special vehicles for civil services with mobile cranes for the European market as well as special vehicles for the Chinese market. In the industrial drives segment, prototypes were introduced for groundbreaking drive concepts in escalators.

#### Marine Propulsion Systems

In 2014, sales in the Marine Propulsion Systems business unit rose slightly above the level of the previous year. The opening of the new training and service center at the Arco (Italy) location constituted a significant milestone

for the business unit. ZF has once again set new standards with the expansion of its hybrid-capable transmission product range for the commercial ship industry and the introduction of the new ZF W10000 working boat transmission.

#### Aviation Technology

In the year under review, the business unit achieved sales that almost reached the prior year's level. Long-term customer relations help secure stable sales in this business unit. In the established product portfolios, product upgrades to improve performance and reduce life cycle costs are becoming more and more important.

*The Wind Power Technology business unit was mainly responsible for the 8 % sales increase in the Industrial Technology division.*

#### Wind Power Technology

The business unit was able to increase its sales by about two-thirds. This was achieved by further expanding the customer base through new

contracts with leading manufacturers, volume deliveries, as well as expanding the product portfolio into the 3 MW segment. The newest products, for example, provide Google's data center in the Netherlands with renewable energy.

#### Prospects for the fiscal year 2015

After substantial investments in expanded and new production facilities as well as a product portfolio that was again considerably extended to align with specific market requirements, the Industrial Technology division is expecting further growth for 2015. The global requirements for CO<sub>2</sub> reduction favor the division's efficient products and open up access to new customers and projects.

The goal is to guarantee company success over the long term and to grow through quality, cost optimization, customer satisfaction, and continuous innovation.



# Electronic Systems



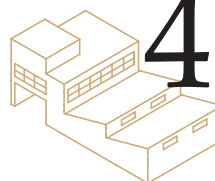
3,546

employees

640



€ million  
sales



41

€ million  
capital  
expenditure

## The year 2014 at a glance

The business unit develops and produces control and power electronics, sensors, and gearshift systems. Computer input devices and components for industrial applications are manufactured in two further product lines. In 2014, sales posted by this business unit rose by 10% to € 640 million compared to the previous year. As in the prior year, the high demand for automatic transmissions contributed decisively to this result and also had an effect on the gearshift systems that are used in automatic transmissions. As part of the complete acquisition of Lemförder Elektronik by ZF, the company was integrated into the Electronic Systems business unit in 2014. The number of employees in the business unit rose by 16% to a total of 3,546 in 2014.

*When it comes to future trends in the automotive industry, ZF will assume a leading role with its mechatronics solutions.*

In 2014, the business unit invested in Germany in the development of mechatronics for the 8-speed automatic transmission for a major customer. In Mexico, it made investments in expanding capacities for the production

of electronics for the 9-speed automatic transmission. Additional investments went toward increasing the production of electronics for automatic transmissions in Asia.

## Prospects

The mechatronics solutions offered through the Electronic Systems business unit consolidate ZF's expertise in the future trends of the automotive industry, namely e-mobility and increased vehicle efficiency. It therefore has a strategic significance for the ZF Group.

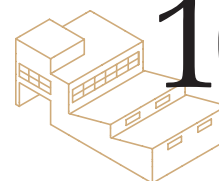
# ZF Services



3,512 employees

1,630

€ million  
sales



10

€ million  
capital  
expenditure

## The year 2014 at a glance

Today, the core product groups supplied by ZF Services already cover 20 % of a workshop's daily demand for spare parts. In Europe, the product brands enjoy a very high brand recognition among workshops. ZF Services opened a new remanufacturing center in China and is planning to build a new logistics center in Brazil. These actions are intended to help the company better tap the potential of these growth markets. The integration of the German Customer Service locations into the strategic SAP system for the ZF aftermarket is yet a further milestone in the implementation of its

*A milestone in the implementation of its global IT strategy is the integration of Customer Service into the strategic SAP system.*

global strategy. Moreover, the Brussels and Hong Kong locations were newly consolidated. ZF Services thus recorded sales growth of 12 % to € 1,630 million in 2014.

## Prospects

On January 1, 2015, Openmatics, ZF's telematics platform, was integrated into ZF Services. This comes along with the requirement of supplementing the service portfolio in the

aftersales business by innovative, digital services. ZF Services wants to become a leading player in the industry by offering a sustained solution also in the field of online trading with spare parts.



# ZF PRODUCT PORTFOLIO

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## Driveline Technology

### Drive Systems

Automatic transmissions and dual clutch transmissions for cars ■ Manual transmissions and automation of manual transmissions for cars ■ Electric drives and hybrid systems for cars, CVs, and lift trucks ■ Manual transmissions for CVs, special vehicles, and off-road machinery ■ Automatic transmissions for CVs, special vehicles, and off-road machinery ■ Powershift transmissions, continuously variable transmissions, and synchromesh transmissions for off-road machinery and special vehicles ■ Generator/Hybrid systems for off-road machinery ■ All-wheel drive and axle drive systems for cars, CVs, and special vehicles ■ Thrusters and shallow draft thrusters for ships ■ Surface and pod drives for ships ■ Transmissions for ships and aircraft; power units; wind turbine, escalator and elevator gearboxes ■ Hybrid-capable transmissions for ships ■ Rotor systems for aircraft and helicopters ■ Drives for mixers, rail vehicles, aircraft, and plant and industrial engineering ■ Drives for pumps of the oil and gas industry ■ Test systems for transmissions

### Drive Components

Wet and dry-running clutches, clutch systems, and torque converters for cars, CVs, special vehicles, off-road machinery, and rail vehicles ■ Dual clutches for CVs ■ Front and rear axle drives, bevel gearsets, and differentials for cars ■ Dual-mass flywheels for cars and CVs ■ PTOs for CVs, special vehicles, and off-road machinery ■ Retarder systems for CVs, special vehicles, and construction machinery ■ Control systems for cars, CVs, special vehicles, off-road machinery, ships ■ Gearshift systems and electronic components for cars, CVs, and off-road machinery ■ Differentials for off-road machinery ■ Transfer cases for special vehicles and off-road machinery ■ Propellers for ships ■ Brakes and clutches for plant and industrial engineering ■ Cargo loading system and rescue hoists for aircraft ■ Light-

alloy casting control components, transmission housings and inner components ■ Test systems for transmissions and their components, rotor blades, and oils ■ Torsional dampers for off-road machinery and special vehicles ■ PTOs and PTO clutches for CVs, special vehicles, and off-road machinery ■ Clutches for auxiliaries for CVs

## Chassis Technology

### Chassis Systems

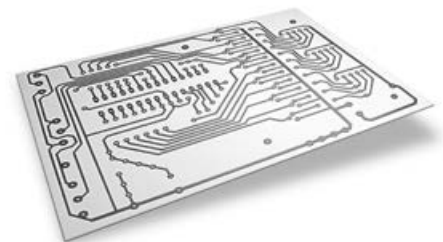
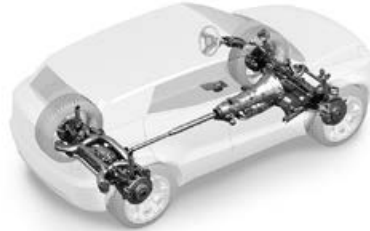
Front and rear axle systems for cars and CVs ■ Adaptive damping systems for cars, CVs, motorcycles, off-road and agricultural machinery ■ Tag axle systems for CVs ■ Cabin suspension systems and rear axle suspension systems for CVs ■ Electric portal axle systems for CVs ■ Corner modules for cars, CVs, and agricultural machinery ■ Axles and axle components for off-road machinery ■ Active kinematics actuators for car rear axles ■ Test systems for axles

### Chassis Components

Damper modules and damping systems for cars, CVs, rail vehicles, off-road and agricultural machinery, motorsports, and motorcycles ■ Tie rods, stabilizers, and stabilizer links for cars ■ Links, control arms, suspension joints, and cross-axis joints for cars ■ Wheel carriers and hubs for cars ■ Leveling systems for cars ■ Cabin suspensions and cabin anti-roll bars for CVs ■ Suspension modules, 4-point links, v-links, control arms, and stabilizer links for CVs ■ Torque rods, tie rods, and drag links for CVs ■ Stabilizer supports and suspension joints for CVs

## Electronics and Software

Gearshift systems for cars, CVs, and off-road machinery ■ Control systems for cars, CVs, special vehicles, off-road machinery, ships, industrial engineering, and rail vehicles ■ Electronic components for cars, CVs, and off-road machinery ■ Telematics systems for cars and CVs ■ Software for cars and CVs ■ Diagnosis tools for CVs







# GROUP MANAGEMENT REPORT

**ZF Group sales increased by 9 % to € 18,415 million in 2014. In the year under review, the number of employees rose by 5 % to 71,402. Investments in property, plant, and equipment amounted to € 1,005 million, a 5 % increase. An amount of € 891 million was spent on R&D, a 7 % increase. The profit after tax rose by 45 % to € 672 million.**



## BASIC PRINCIPLES OF THE ZF GROUP

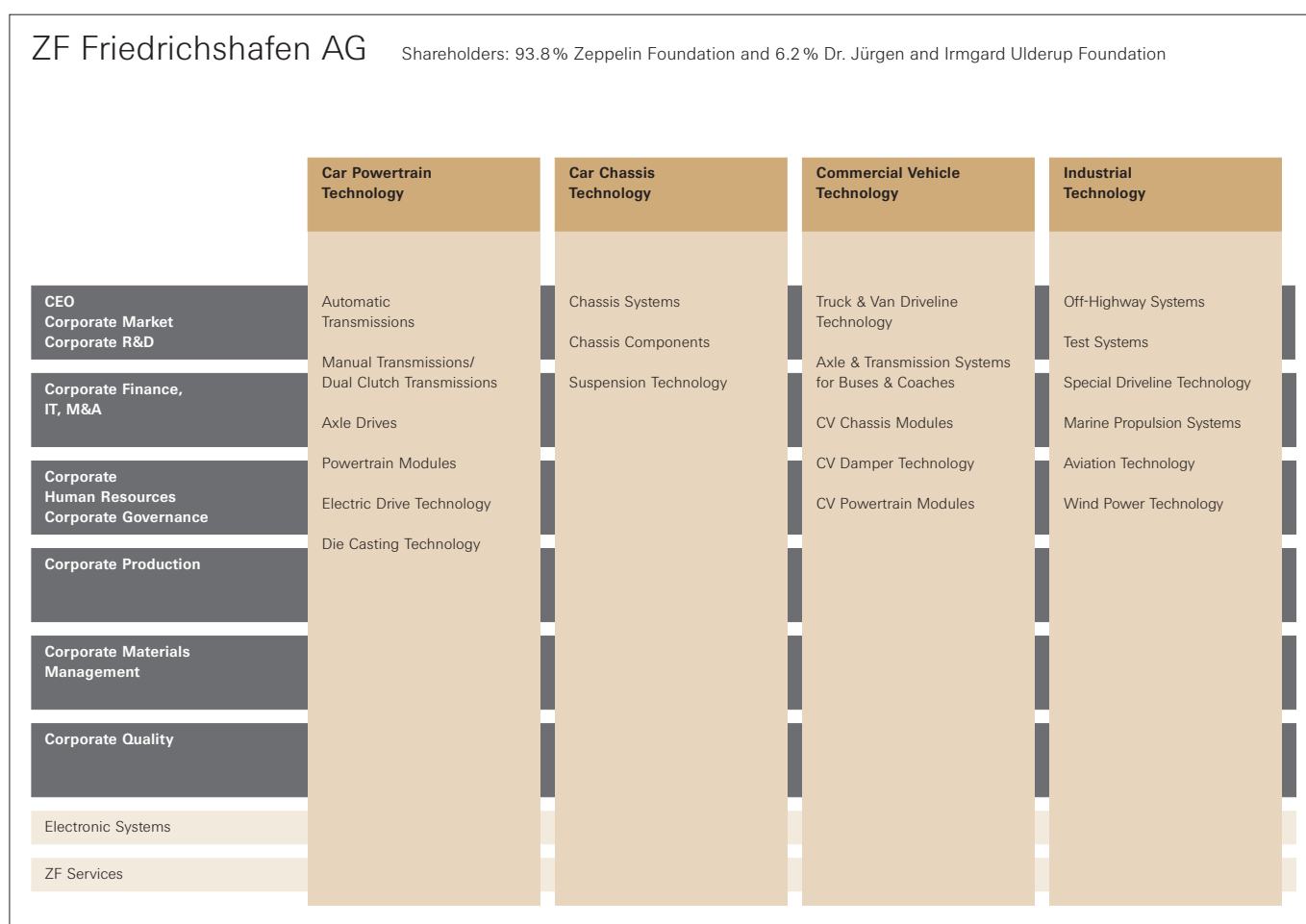
### Operating Activities and Corporate Structure

ZF Friedrichshafen AG is a corporation, of which 93.8 % is owned by the Zeppelin Foundation and 6.2 % by the Dr. Jürgen and Irmgard Ulderup Foundation. The company is headquartered in Friedrichshafen. As of December 31, 2014, the Group's workforce worldwide comprised 71,402 employees in 26 countries.

As a leading global technology company in driveline and chassis technology, ZF is active in many market segments. These mainly include the passenger car and commercial vehicle industries as well as the construction and agricultural machinery sectors. In addition, our activities cover

other market segments such as electronic systems, wind power, marine propulsion technology, aviation technology, rail drives, special drives, and test systems. Alongside transmission systems, units and components, the Group also produces chassis systems and components. ZF offers a wide range of services that is mainly marketed by the ZF Services organization. These services primarily involve the spare parts business for driveline and chassis technology as well as maintenance and repair services. The main sales markets of the Group are Europe, North America, and the Asia-Pacific region, with China as the core market.

ZF is set up along the lines of a matrix organization which links the Group-wide competencies of the corporate functions with the global business responsibility of the divisions and business units. The central departments of



the ZF Group are headed by the members of the Board of Management. The four divisions for business in Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, and Industrial Technology are assigned to the members of the Board of Management. A new division will be added after the approval of the acquisition of TRW Automotive Holdings Corp. The divisions include the business units relevant to the respective industry. The Electronic Systems and ZF Services business units are an exception. They are assigned directly to members of the Board of Management. The same applies to the responsibilities with regard to the Regions of North America, South America, and Asia-Pacific.

## Management and Supervision of the Company

The Board of Management of ZF Friedrichshafen AG manages the company together with 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 both the responsibility for the corporate functions and the divisions. In this context, particular importance is placed on close networking and cooperation within the Group. The operational topics of the divisions and business units are mainly addressed in the divisions.

As of January 1, 2015, the Board of Management has been expanded by one member with sole responsibility for the Region of North America. This acknowledges the increasing importance of this region in the run-up to the expected acquisition of the U.S. company TRW.

The supervision of the Board of Management by the Supervisory Board, whose 20 members are appointed with equal representation, is supported by an Executive Committee and an Audit Committee which are both composed of members of the Supervisory Board.

## Corporate Strategy

ZF Friedrichshafen AG is a global leader in driveline and chassis technology that provides its customers around the globe with products and services that offer a noticeable added value.

In order to successfully meet the major challenges of the global markets, ZF has laid the important groundwork for its future corporate development over the past few years with the “ZF 2025” corporate strategy. Important measures for the entire Group were derived from the analysis of the global megatrends, which will decisively influence ZF’s success over the coming years.

Progressive globalization changes the sales and sourcing markets decisively and calls for a stronger international focus of our structures and competencies. Furthermore, demographic change and increasing urbanization in many markets are leading to changes in consumer behavior. In light of the volatility and insecurity on the markets, we must be able to adapt and place more emphasis on balancing our business activities. In the context of a global market penetration, we want to intensify the expansion of our sales and sourcing markets not only in our core European market, but also in the Regions of Asia-Pacific, North America, and South America.

Increasing demand is countered by finite resources. The result is a technological change toward efficiency and resource conservation. This especially applies to fuel efficiency and the reduction of CO<sub>2</sub> and noise emissions. We want to significantly strengthen fields of competence such as electronics, its integration into ZF products and systems, as well as lightweight design.



Our customers welcome our determined focus on products and services, which provide great customer value. This also concentrates on the continuous improvement of driving safety and increasing digitalization and networking.

All divisions and business units of ZF are affected by these trends. ZF provides solutions for the requirements of the markets in all fields of automotive and industrial technology.

Furthermore, striving for leadership in both technology and costs will play a determining role in ZF’s market success in the future. Profitable diversification implies establishing and expanding new competence and market segments, such as in the fields of industrial technology, electronics, or service. To secure our financial independence in the long term, we must consider profitability in all processes. In this way, ZF is able to finance the necessary investments, the growth for the future, and the debt service resulting from the acquisition of TRW Automotive Holdings Corp. from its own income.

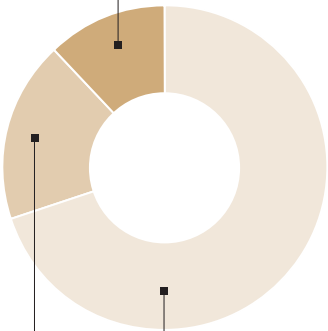
Global access to and availability of qualified employees present another great challenge to companies. We also want to position ourselves as a globally attractive employer in order to take advantage of worldwide market opportunities. ZF needs qualified specialists in all markets, who find attractive working and qualification opportunities at our company. Thus, we create targeted working structures suitable for families that come along with time models and high flexibility for the parents.

For a long time, ZF has been working hard to push forward e-mobility in addition to hybrid technology. Thanks to our comprehensive expertise in the areas of drive and electronics as well as their intelligent networking, we generate innovations meeting practical requirements.

The planned acquisition of TRW Automotive Holdings Corp. constitutes a key milestone to meeting our objectives in this respect. As a result, ZF guarantees access to groundbreaking technologies in the area of safety and autonomous driving. At the same time, our customer and product portfolio is being extended internationally and the ZF Group’s regional market presence is enhanced sustainably.

Sales distribution by sectors, consolidated ZF Group

Construction and agricultural machinery, marine craft, aircraft, special and rail vehicles, wind power 12 %



Cars and light commercial vehicles < 6 t 70 %  
Commercial vehicles > 6 t 18 %

**Worldwide development of the production of cars and light commercial vehicles < 6 t**  
in 1,000 units

	2010	2011	2012	2013	2014	2015 <sup>1)</sup>
Europe	19,000	20,300	19,100	19,200	19,600	20,100
North America	11,900	13,100	15,400	16,100	16,900	17,300
South America	3,800	3,900	4,000	4,200	3,600	3,400
Japan	9,400	8,100	9,600	9,300	9,500	8,900
China	16,600	16,800	18,200	20,900	22,600	24,300
Other countries	12,400	13,500	14,400	14,300	14,200	14,900
<b>Total</b>	<b>73,100</b>	<b>75,700</b>	<b>80,700</b>	<b>84,000</b>	<b>86,400</b>	<b>88,900</b>

<sup>1)</sup> ZF forecast

**Worldwide development of the production of commercial vehicles > 6 t**  
in 1,000 units

	2010	2011	2012	2013	2014	2015 <sup>1)</sup>
Europe	470	640	590	600	530	530
North America	290	430	480	460	520	550
South America	240	270	180	240	180	160
Japan	260	260	320	330	320	320
China	1,490	1,320	1,070	1,240	1,180	1,170
Other countries	400	450	410	310	400	440
<b>Total</b>	<b>3,150</b>	<b>3,370</b>	<b>3,050</b>	<b>3,180</b>	<b>3,130</b>	<b>3,170</b>

<sup>1)</sup> ZF forecast

## ECONOMIC REPORT

### The Business Environment and Industry Developments

#### Weak economic framework conditions

The global economy experienced a moderately positive development in the year under review. According to data provided by the International Monetary Fund, worldwide economic performance grew by 3.3 %, thus reaching prior-year levels once again. At the beginning of 2014, projections had been considerably more optimistic, forecasting growth of 3.8 %. These estimates had to be gradually corrected during the year.

The necessary correction was largely due to the sluggish recovery in Europe, which additionally suffered from the Ukraine crisis. The notable slowdown of the Russian economy itself, the economic crisis in Brazil, the negative trend in Japan, and the continued positive, albeit slower development in China caused Europe's delayed economic recovery. The Chinese economy grew by 7.4 %, after 7.7 % in the prior year. The fight against misallocations in the financial sector and the real estate markets led to considerably lower growth rates. Despite countermeasures introduced by the Chinese government such as spending programs and infrastructure projects as well as an accommodative fiscal policy, the original target of economic growth of 7.5 % could not be fully achieved.



Conversely, the U.S. economy continued to recover. Growth of 2.4 % was achieved in 2014, after 1.9 % in 2013. Here, labor market developments, rising investing activities, and growing private consumption caused by low inflation among other things, as well as the continued expansive monetary policy of the Federal Reserve all had positive effects.

After two years of recession in 2012 and 2013 and gross domestic product declining by 0.6 % and 0.4 %, respectively, the eurozone finally managed to achieve growth in 2014. The economic performance increased by 0.8 %. In Germany, the gross domestic product rose by 1.5 %, thus making a significant contribution to eurozone growth. In addition, after two years in deep recession, Spain finally returned to growth at a rate of 1.4 %. In contrast, France grew range-bound at a rate of 0.4 %, while Italy experienced another year of contraction with 0.4 %. The economic situation also remained weak in Japan. After the value added tax increase in April 2014, Japan slid into recession during the following two quarters. For the full year, the economy grew at a modest rate of just 0.1 %.

#### **Very irregular trends in the industries**

Against the background of relatively weak economic conditions, the development of the key ZF industries was also subdued and differed strongly depending on the region.

#### **Production increase of passenger cars and light commercial vehicles**

In 2014, more than 86 million passenger cars and light commercial vehicles were manufactured worldwide, an increase of 3 %. China again made a disproportionately high contribution to total growth. The largest car producing country of the world, which manufactures nearly 23 million passenger cars and light commercial vehicles (26 % of worldwide production), posted an increase of 8 % after growth rates of 8 % (2012) and 15 % (2013) in the previous years. The North American market also increased volumes by 5 % again.

The light truck segment picked up considerably as a result of the relatively low gasoline prices. Vehicle production in Western Europe rose by 4 %. In particular, the demand for passenger cars in Spain, Great Britain, and Italy rebounded strongly after years of weakness. In contrast, passenger car production in Russia had to be cut by a sizeable 16 % due to the Ukraine crisis, while manufacturing volumes in South America dropped fairly significantly by 14 % owing to the weak economy.

#### **Weak market development for heavy commercial vehicles > 6 t**

Around the globe, 3.1 million heavy commercial vehicles in the >6 ton segment rolled off the production lines in the past year. This represents a 2 % volume decrease compared to the prior year and, consequently, remained 240,000 units below the peak year of 2011 when almost 3.4 million vehicles were manufactured. The main reason for this decline was the market weakness in Europe, China, and above all in South America. In Europe, production of heavy commercial vehicles declined by 12 % which offset the implications of the pre-buy effect in 2013. Massive preemptive effects were identified particularly in the final quarter of 2013. The Euro 6 changeover and the resulting substantial rise in vehicle prices in the EU from January 2014 led to an increased earlier demand for Euro 5 vehicles. In the first quarter of 2014, China had recorded a 12 % rise in production volumes for commercial vehicles. In April, the decelerated economic momentum in conjunction with productivity gains within the goods transport segment triggered a turnaround. At the end of the year, the production volume was 5 % below the previous year's figure. In South America, commercial vehicle production had to be reduced by one fourth against the backdrop of a sluggish economy and a lack of capital expenditure. On the contrary, production of heavy commercial vehicles in North America rose by 13 %, highlighting the segment's high momentum in light of a positive economic environment. India also managed to fight the ongoing crisis in the commercial vehicle market. After production had dropped by 13 % in 2012 and by 28 % in 2013, the industry returned to growth after the change of government in the spring of 2014, posting a 10 % rise.

**Sales development by divisions and business units, consolidated ZF Group**

in € million

	2014	2014/2013
Car Powertrain Technology	6,742	+ 18 %
Car Chassis Technology	5,885	+ 7 %
Commercial Vehicle Technology	3,036	– 7 %
Industrial Technology	2,052	+ 8 %
Electronic Systems	640	+ 10 %
ZF Services	1,630	+ 12 %
Corporate R&D, Corporate Headquarters, and Service Companies	152	+ 12 %
– Internal Sales	– 1,722	+ 1 %
<b>Consolidated ZF Group</b>	<b>18,415</b>	<b>+ 9 %</b>

**Less off-road machinery produced**

The year 2014 was characterized by a 3 % decline in the construction machinery segment in ZF's markets, primarily caused by the weak markets of South America, Russia, China, and India. These four regions account for approximately 50 % of global construction machinery production. In China, the world's largest construction machinery market, production had to be cut by 9 %. Slower economic growth, reduced earnings expectations, as well as the marked rise of wage costs, social security expenses, and location-related costs depressed capital expenditure. The situation was further aggravated by sustained high inventories of construction machinery as well as excess capacities. The crisis also hit South America. As the economy weakened and industrial production fell in the context of high inflation, construction machinery production had to be cut by 7 %. India, another significant market, recorded a further decrease of 5 %. Positive news in relation to infrastructure investments made by the new government did not result in a noticeable recovery in 2014. In Europe, however, production rose slightly by 2 % after two years of declining volumes. Growth was driven primarily by Germany, while the recovery in Southern Europe was weaker than anticipated. North America continued to develop positively, recording another 5 % increase in construction machinery production.

2014 was a weak year also for the agricultural technology markets. Overall, the global production of tractors in the performance range of >30 kW was down 4 %. Falling agricultural producer prices and the resulting negative effects on the income situation of farmers led to a low investment activity. The European market was in a deep recession in view of the decline of 10 %. The situation in South America, especially in Brazil, was even more serious as production volumes fell by 18 %. Even North America was unable to evade this development, despite the relatively positive economic framework, and recorded a decline of 8 % in agricultural machinery production. In China, production was also cut by 5 %. India, the world's largest tractor market (albeit mostly machines in the low performance range), was the only significant market that developed positively, increasing by 3 %.

**Business Trend**

In 2014, sales in the ZF Group rose by 9 % to € 18,415 million, again increasing significantly above the industry average. In the reporting year, development in the major market segments and regions varied greatly. Major growth impetus came from the businesses with automatic passenger car transmissions and axle systems where high growth



### Sales development by regions, consolidated ZF Group

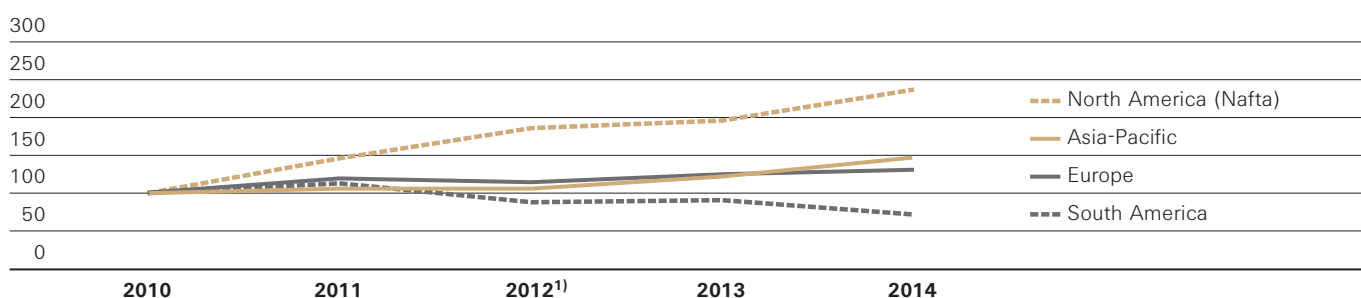
in € million (consolidated)

	2010	2011	2012 <sup>1)</sup>	2013	2014
Europe	7,892	9,458	9,081	9,827	10,316
North America (Nafta)	1,583	2,319	2,935	3,095	3,745
South America	776	880	692	704	556
Asia-Pacific	2,448	2,630	2,604	2,998	3,621
Africa	208	222	214	213	177
<b>Total</b>	<b>12,907</b>	<b>15,509</b>	<b>15,526</b>	<b>16,837</b>	<b>18,415</b>

<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

### Sales development by regions, consolidated ZF Group

2010 = Index 100



<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

rates were achieved, especially in North America and China. The economy in South America was declining. This led to a noticeable drop in sales in all ZF market segments. Especially the commercial vehicle and off-highway systems industries lacked positive momentum. A couple of market segments and regions were characterized by – in some cases considerable – downward trends.

At the beginning of 2014, the AIBC Group in South Africa was sold. We also completed the sale of the Rubber & Plastics business unit to Zhuzhou Times New Material Technology Co., Ltd. (TMT). The deconsolidation of both company sales resulted in income of € 104 million.

The operating profit also improved following the disposals of these companies from € 756 million to € 897 million, while EBIT rose from € 807 million in the previous year to € 1,098 million. Investments in property, plant, and equipment amounted to € 1,005 million, which is again a high figure with a rise of 5% over the previous year. The free cash flow (cash flow from operating activities less cash flow from investing activities) increased from € 288 million to € 696 million.

Preparatory measures in connection with the acquisition of the U.S. company TRW Automotive Holdings Corp. initiated in the year under review and the financing required for this transaction had an impact on the ZF Group's results of operations, net assets, and financial position already in 2014.

## Results of Operations, Net Assets, and Financial Position

### Preliminary remark

On September 15, 2014, an agreement was concluded with Robert Bosch GmbH, Stuttgart (Germany), to sell ZF's 50% shareholding in ZF Lenksysteme GmbH, Schwäbisch Gmünd (Germany). The sale became legally effective on January 30, 2015. The shareholding put up for sale had been accounted for using the equity method since January 1, 2013 and is presented in the current financial statements as an asset held for sale in accordance with the relevant accounting rules. Equity method accounting was ceased in September 2014.

The disposals of the AIBC Group in South Africa and of the Rubber & Plastics business unit, whose assets and liabilities were reported separately as disposal groups in the prior year's consolidated statement of financial position, were completed in February and September 2014, respectively.

### Results of operations

The ZF Group succeeded in increasing both sales and net profit compared to the previous year and can therefore look back at an encouraging development in 2014. The Group was able to achieve a significant growth in sales of 9.4% during the year.

The strongest gain was reported in the Car Powertrain Technology division where sales increased by 18% to € 6,742 million. The main drivers for this were high sales in the upper mid-size and luxury vehicles segments, especially in the markets of Asia and the USA. In addition, the ramp-up of the new automatic transmission plant in Gray Court, South Carolina (USA), had a positive impact. Despite the loss of sales due to the disposal of the Rubber & Plastics business unit as of September 1, 2014 and of the AIBC Group in South Africa at the beginning of 2014, sales in the Car Chassis Technology division rose by 7% to € 5,885 million. This increase was attributable to, among other things, volume production starts in Europe, the USA, and China.

Sales development in the Commercial Vehicle Technology division was disappointing. The continued market weakness in Brazil and sales declines in Russia as a result of the Ukraine crisis as well as negative exchange rate effects in South America were decisive for the decrease in sales by 7%. The 8% sales growth in the Industrial Technology division was mainly attributable to business with construction machinery systems and special drive-line technology, as well as the crisis in the Wind Power Technology business unit in the past years. In contrast, the agricultural machinery business suffered severely from weak markets in Europe, Brazil, and China.

The growing strategic significance of the Electronic Systems business unit is highlighted by the sales increase of 10% to € 640 million. Thanks to its mechatronics expertise, this business unit strongly benefits from the high demand for automatic transmissions. ZF Services recorded a growth in sales of 12% to € 1,630 million as a result of the takeover of the Customer Service business from the Commercial Vehicle Technology division at the Friedrichshafen (Germany) location, the opening of the new remanufacturing center in China, and the first-time consolidation of the locations in Brussels (Belgium) and Hong Kong (China).

A more detailed analysis of ZF's development in the individual regions shows distinctively contrasting business developments in North and South America. In particular, the robust demand for automatic transmissions and axle drives in the USA and Mexico led to further sales growth of € 650 million to € 3,745 million in this region. This figure corresponds to a share in Group sales of 20% and is – both in absolute terms and in relation to the year-on-year increase by 21% – on almost the same level as sales in the Region of Asia-Pacific (€ 3,621 million). In contrast, sales declined by 21% in South America due to market weakness in this region following the economic crisis in Brazil. Based on sales in the amount of € 10,316 million in Europe, this region's share in Group sales fell by 2 percentage points which still corresponds to a share of 56%.

**Structure of the consolidated statement of profit or loss, consolidated ZF Group**

in € million

	<b>2014</b>	<b>%</b>	<b>2013</b>	<b>%</b>
Sales	18,415	100	16,837	100
Cost of sales	15,319	83	13,912	83
<b>Gross profit on sales</b>	<b>3,096</b>	<b>17</b>	<b>2,925</b>	<b>17</b>
Research and development costs	891	5	836	5
Selling expenses	700	4	667	4
General administrative expenses	734	4	675	4
Other income	279	2	130	1
Other expenses	153	1	121	1
<b>Operating profit or loss</b>	<b>897</b>	<b>5</b>	<b>756</b>	<b>4</b>
Result from associates	49		43	
Net result from participations	152		8	
Net interest result and other financial results	-225		-124	
<b>Net financial result</b>	<b>-24</b>		<b>-73</b>	
<b>Net profit or loss before income tax</b>	<b>873</b>		<b>683</b>	
Income taxes	201		221	
<b>Net profit or loss after tax</b>	<b>672</b>		<b>462</b>	

**Consolidated statement of cash flows, consolidated ZF Group**

in € million

	<b>2014</b>	<b>2013</b>
Cash flow from operating activities	1,698	1,440
Cash flow from investing activities	-1,002	-1,152
Cash flow from financing activities	-750	-13
<b>Change in cash position</b>	<b>-54</b>	<b>275</b>
Cash position at the beginning of the fiscal year	1,143	888
Changes in cash position from changes in the basis of consolidation and exchange rate effects	25	-20
<b>Cash position at the end of the fiscal year</b>	<b>1,114</b>	<b>1,143</b>



The ZF Group's net profit was affected by various extraordinary items in the fiscal year 2014. For example, the pleasing increase in the operating profit by € 141 million to € 897 million includes the effect from the deconsolidation of the Rubber & Plastics business unit and the AIBC Group in South Africa in the amount of € 104 million, which is reported in the line item "Other income." This was partially offset by other expenses, which, among other things, included additions to specific allowances in the amount of € 32 million in relation to receivables from an Indian customer. Furthermore, cost of sales rose slightly disproportionately by 10.1% compared to sales, which was due, among other things, to the charges arising from the ramp-up of production at the Gray Court plant in South Carolina (USA) which in turn led to a decline of the gross margin from 17.4% to 16.8%. Accordingly, the gross margin is below the projected target value and will clearly be the focus of efforts within the ZF Group in 2015. Return on sales improved from 4.5% to 4.9% thanks to only moderate cost increases in the other functional areas, where research and development costs account for the largest proportion at an amount of € 891 million and a continued high percentage of 4.8% of sales, as well as thanks to the above-described extraordinary items.

The result from associates mainly comprises the pro-rata result of the ZF Lenksysteme GmbH joint venture. The noticeably strong increase of the participation result is attributable to a distribution made by a participation which received a payment for the settlement of a lawsuit in the USA. Together with the operating profit and the result from associates, EBIT amounted to € 1,098 million, which represents an increase by € 291 million over the prior-year figure. While higher foreign exchange gains and book profits from the disposal of securities made a positive contribution to the net financial result, expenses from hedging and transaction costs, in particular in connection with the proposed acquisition of TRW Automotive

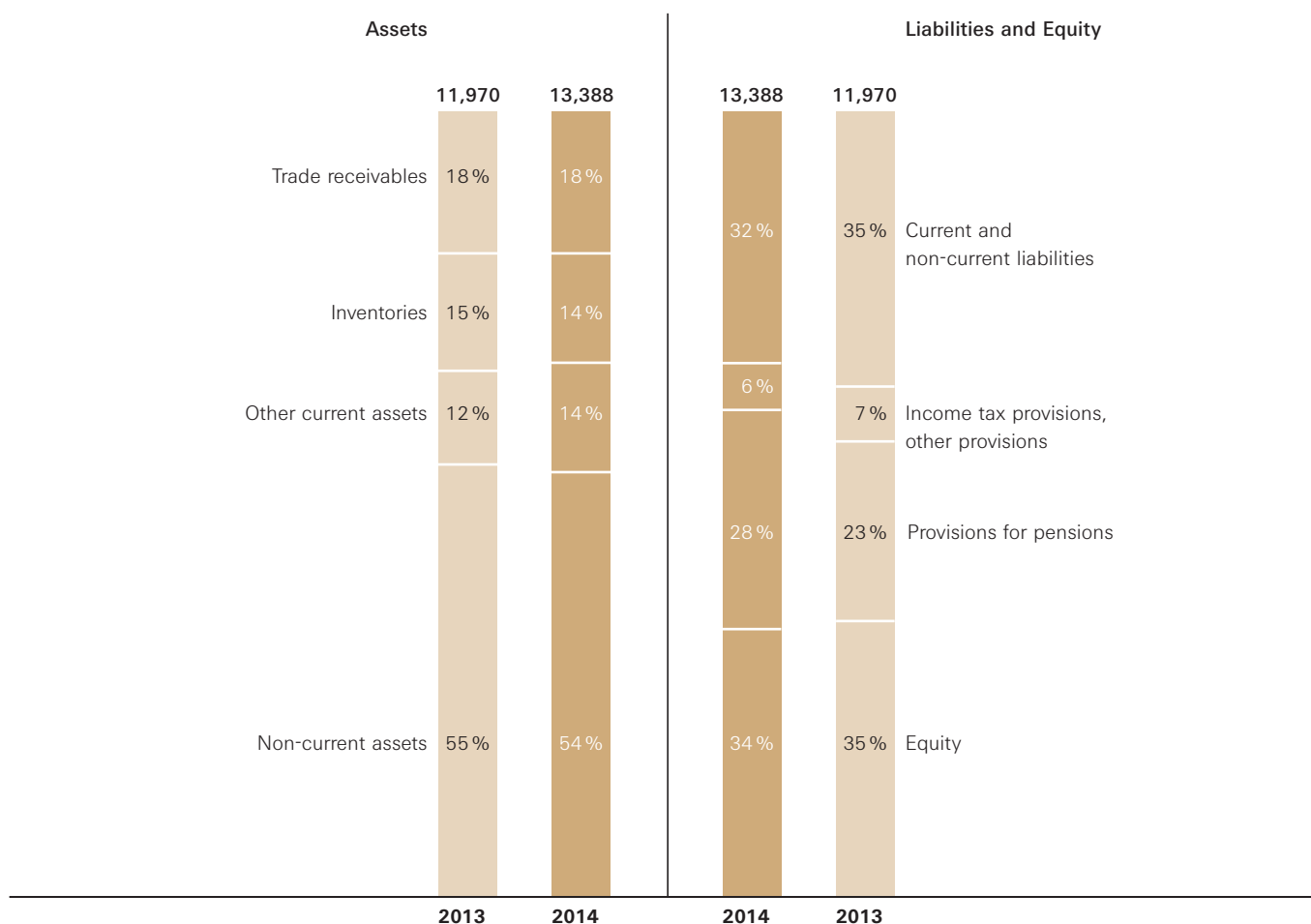
Holdings Corp., weighed on the financial result. Overall, the financial result improved from € -73 million to € -24 million. The reduction of the income tax expenses from € 221 million to € 201 million was due to income from deferred taxes on temporary differences and tax loss carryforwards in the amount of € 41 million. Accordingly, net profit or loss after tax amounted to € 672 million, which corresponds to an increase of 45.5% compared to the prior-year figure (€ 462 million).

### Financial position

In contrast to 2013, in which a positive net change in cash position in the amount of € 275 million had been recorded, the year under review saw a decrease by € 54 million. Thus, the ZF Group's liquidity declined slightly from € 1,143 million to € 1,114 million as of year-end 2014. Thanks to the improved net profit before income tax and lower cash outflows for working capital in 2014, which resulted in an increase of cash flow from operating activities by € 258 million, and also due to the slightly lower outflows from investing activities, the operational free cash flow could be increased compared to the previous year by € 408 million to € 696 million. Negative effects on liquidity mainly arose from repayments (increase of € 330 million) as a result of the advance redemption of borrowings made to adjust the financing structure to the future requirements. In addition, the decline in proceeds from borrowings of € 172 million and increased outflows for interest and transaction costs by € 236 million resulted in higher cash outflows from financing activities. ZF has a credit line of up to € 12.5 billion from a credit facilities agreement made in the context of the acquisition financing. However, this credit line has not been utilized yet. In view of a continued positive net liquidity of € 405 million and a net financial position totaling € 1,400 million including securities, the ZF Group continues to be based on a solid financial foundation.

**Structure of the consolidated statement of financial position, consolidated ZF Group<sup>1)</sup>**

in € million

<sup>1)</sup> Individual values including disposal groups.
**Capital structure**

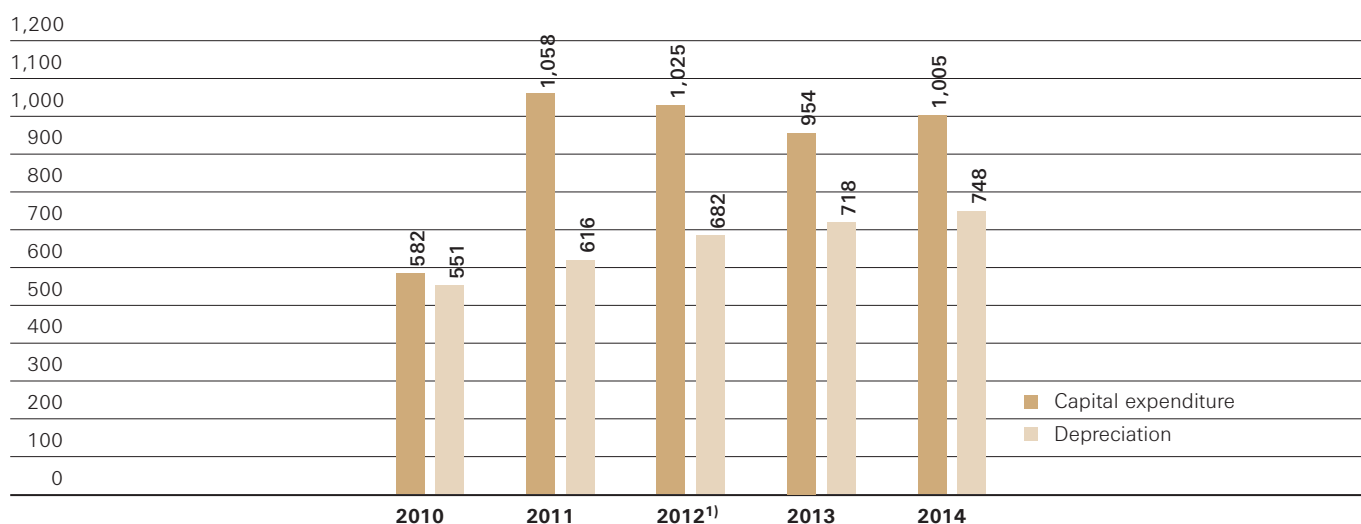
As of December 31, 2014, the Group equity amounted to € 4,519 million including non-controlling interests compared to € 4,165 million in the prior year. This results in a solid equity level of 34 % (2013: 35 %) despite the increase of total assets by € 1,418 million. This was largely the result of the increased net profit after tax in the amount of € 672 million. The negative effect from the reduction of the discount rate for the valuation of pension obligations, which amounts to € 724 million net of tax, was partially offset by positive effects from mark-to-market valuation of

cash flow hedges (€ 244 million) as well as from foreign currency translation (€ 188 million). The dividends paid to ZF shareholders in the year under review (€ 30 million) and to holders of non-controlling interests totaled € 49 million (2013: € 50 million).

As a result of the advance redemption made for a syndicated loan, financial liabilities were reduced from € 1,156 million to € 771 million. The proportion from current to non-current financial liabilities changed toward current financial liabilities due to the advance redemption of the bonded loan at the beginning of 2015.

**Capital expenditure and depreciation (property, plant, and equipment), consolidated ZF Group**

in € million

<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

Most of the financial liabilities are due at the end of the maturity period and are denominated in euro. Just over half of these loans has a fixed interest rate, with interest rates being country-specific in some cases and ranging between 0.4 % and 10.4 %. In connection with the financing of the acquisition of TRW Automotive Holdings Corp., proposed for 2015, the capital and financing structure of ZF will change considerably.

**Net assets position**

The increase in the ZF Group's total assets in 2014 by 12 % to € 13,388 million was essentially influenced by the increase of current financial assets by € 483 million and of other assets by € 140 million. This was attributable to the arrangements made in connection with the financing of the proposed acquisition of TRW Automotive Holdings Corp. On the one hand, this concerns derivative financial instruments from currency hedging in relation to a major portion of the purchase price for the TRW transaction, and on the other hand, the accrual of capital raising costs that were already incurred in 2014. The sales-related increase of working capital (total of current trade receiv-

ables and inventories) of € 406 million, which is offset by an increase in trade payables of € 465 million, contributed predominantly to the increase in total assets. Finally, the volume of property, plant, and equipment also increased by € 336 million as a result of the continued high level of capital expenditure. The reclassification of the shares in ZF Lenksysteme GmbH (previously reported as non-current assets) to the item "Assets held for sale and disposal groups" in the amount of € 400 million resulted in a corresponding shift from non-current assets to current assets. This reclassification was required due to the existing intention to sell the shares.

The changes as regards liabilities arose from the above-mentioned reduction of financial liabilities by € 385 million and from the increase in trade payables by € 465 million, above all in relation to provisions for pensions, which rose strikingly by almost 40 % from € 2,729 million to € 3,803 million. The decisive factors for this were almost entirely actuarial losses of € 1,002 million, particularly from the reduction of the discount rate from 3.8 % to 2.1 % due to developments on the capital market.



### Capital expenditure

In the year under review, investments in property, plant, and equipment amounted to € 1,005 million, representing an increase of around 5 % over the previous year (€ 954 million). The 5 % investment ratio remained unchanged from the prior-year level.

A share of 78 % of capital expenditure was spent on technical equipment and machines, including advance payments and construction in progress, while 17 % was spent on other equipment, factory and office equipment, and 5 % on land and buildings.

The largest portion of capital expenditure related to the ramp-up of new products and the expansion of capacities for existing products (75 %). Investment in buildings and IT infrastructure accounted for approximately 19 %.

In terms of geographical regions, capital expenditure focused on Germany, the USA, Mexico, and China.

Depreciation on property, plant, and equipment (excluding impairment losses) amounted to € 744 million (2013: € 713 million).

Investments in the Car Powertrain Technology division focused on increasing capacities for 8 and 9-speed automatic transmissions, especially in the context of the expansion of the new location in Gray Court, South Carolina (USA). Since 2011, approximately € 500 million has been invested in the establishment of this new production location. In this context, the Saltillo (Mexico) location was further expanded in order to meet the rising demand for torque converters in North America. Investments in Europe primarily referred to the Saarbrücken (Germany) location and were intended to increase the capacities of transmission production and assembly. At the same time, the capacities for the torque converter production in Schweinfurt (Germany) and the casting production in Nuremberg (Germany) were further expanded.

The Car Chassis Technology division made investments to expand capacity in both the Chassis Systems business unit in Beijing (China) and the Chassis Components business unit in Gumi (South Korea) and Shanghai (China). Apart from the expansion of the Damme (Germany) plant, investments focused on suspension technology at the Guadalajara (Mexico) location.

In the Commercial Vehicle Technology division, emphasis was put on the expansion of the Sorocaba (Brazil) location for heavy commercial vehicle transmissions (AS Tronic/TraXon). In addition, investments were made in the housing and transmission production in Friedrichshafen (Germany).

Investments of the Industrial Technology division mainly centered on the expansion of capacities for off-road machinery and on the plant expansion in the Czech Republic.

In the Electronic Systems business unit, focus was placed upon volume production preparations for new products, especially electronic control units for applications in passenger cars, commercial vehicles, and off-road machinery. This included, among other things, capacity expansion for the production of fully integrated transmission control units for 8 and 9-speed automatic transmissions in Juárez (Mexico).

In 2014, the majority of investments in the ZF Services business unit was spent on the further expansion of the logistics network and on improving the efficiency of logistics centers.

In addition to the new corporate headquarters and a day-care center, including an associated health center in Friedrichshafen (Germany), activities were initiated to expand the Engineering Center in Shanghai (China).

## Further Performance Indicators

### Employees

As of December 31, 2014, ZF employees worldwide numbered 71,402. This represents an increase of 5 % compared to the previous year. As a result of the sale of the Rubber & Plastics business unit in 2014, it must be noted that the employees from this business unit and from the sold AIBC subsidiary are no longer included in the figures.

ZF Friedrichshafen AG once again ranked among Germany's large companies offering training and apprenticeship opportunities in 2014, with 539 young people starting their apprenticeship. We offer a total of 35 different vocational training programs and work-study degree programs. At the end of 2014, ZF's workforce included approximately 1,900 apprentices and students in the work-study degree program at 15 apprenticeship locations.

### Attractive employer

ZF's attractiveness as an employer made further gains last year. For example, in the well-known "trendence Graduate Barometer 2014" ranking among prospective engineers, ZF came in 16<sup>th</sup> on the list, rising six spots. The Focus magazine ranked ZF Friedrichshafen AG sixth among "Germany's best employers" in the automotive manufacturer and supplier industry. Also, a 25 % increase in job applications received at German ZF locations compared to the previous year proves that ZF is a sought-after employer.

On an international level, we have also continued to work on successfully positioning ZF as an attractive employer. For example, we intensified our cooperation with colleges and universities in China, the USA, and several European countries, along with further efforts to internationalize our trainee program. The number of applications for our trainee program from abroad has also risen considerably.

### Workforce development, consolidated ZF Group

at the end of the year (direct and indirect employees)

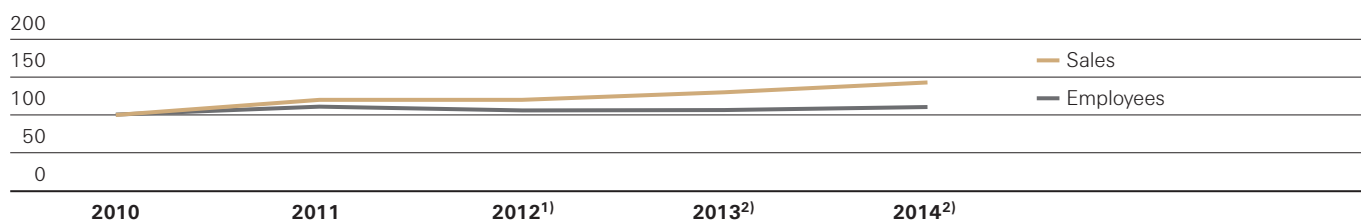
	2010	2011	2012 <sup>1)</sup>	2013 <sup>2)</sup>	2014 <sup>2)</sup>
Domestic	38,205	41,229	39,882	40,154	41,188
Foreign	26,395	30,259	28,524	28,082	30,214
<b>Total</b>	<b>64,600</b>	<b>71,488</b>	<b>68,406</b>	<b>68,236</b>	<b>71,402</b>

<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

<sup>2)</sup> Without employees of the Rubber & Plastics business unit and without AIBC employees.

### Development of sales and employees, consolidated ZF Group

2010 = Index 100



<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

<sup>2)</sup> Without employees of the Rubber & Plastics business unit and without AIBC employees.

### **We practice good leadership**

The ZF Group has defined leadership excellence as a strategic goal. Therefore, we completely revised all of our management development programs and introduced the first new programs in 2014. Moreover, by jointly developing and introducing globally uniform leadership principles, we have established an important orientation and action framework for further improving leadership and management work.

### **The Wissenswerkstatt success model**

In the context of promoting the MINT program (mathematics, information technology, natural sciences, and technology), we further expanded the Wissenswerkstatt (Knowledge Workshop) concept in cooperation with other companies, associations, and municipalities. New Wissenswerkstatt facilities were opened at the Saarbrücken and Schwäbisch Gmünd (Germany) locations, thus raising the number to five in Germany. All Wissenswerkstatt facilities are reporting an increase in demand, with attendance figures twice as high as originally expected.

### **Social commitment**

Now in its ninth year, the nonprofit association ZF hilft e.V. received broad and strong support from ZF's employees. The goal of the organization is to provide ad-hoc aid in the event of a disaster and educational opportunities for adolescents in developing countries and regions.

The generous donations collected from ZF employees in 2014 were used to finance, in cooperation with Unesco, the construction of a school for more than 500 teenagers in the Senegalese city of Médina Chérif. Immediate donations of € 102,650 were collected to aid victims affected by the heavy flooding that occurred in May 2014 in the Balkans.

### **Materials management**

The purchasing volume of the ZF Group rose along with sales in the year under review, thanks in particular to the expansion of business in the Regions of North America and Asia-Pacific. In order to prepare the future growth in these regions in strategic terms, the "Frontloading Materials Management Experts" initiative was established. As a result, new employees in Asia and America are being recruited above and beyond current requirements, trained, and prepared for the future assignments in Materials Management via project tasks. Similarly, a Global Procurement Office was agreed in Mexico in order to analyze and develop the Mexican supplier base early on.

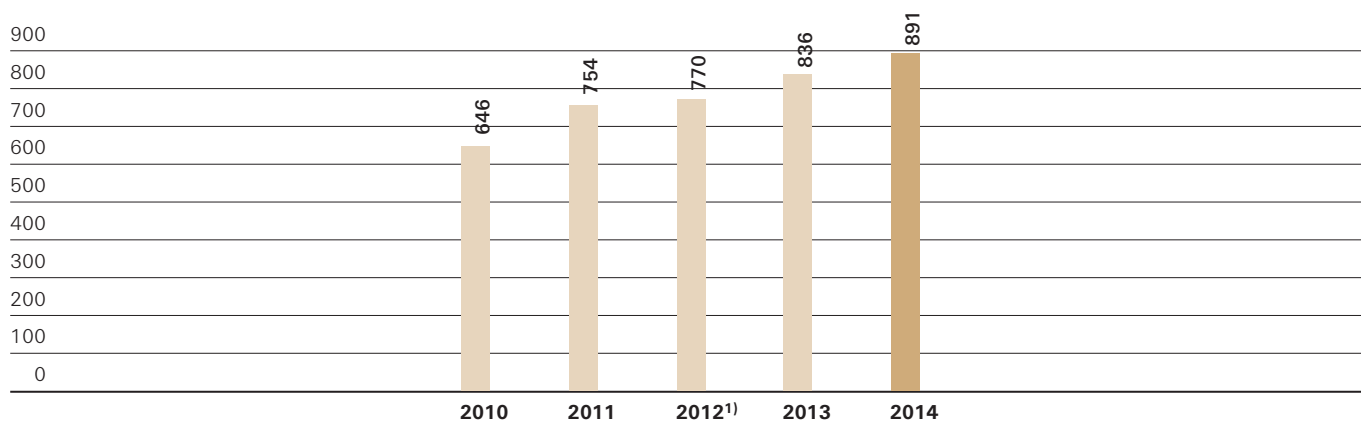
With the consistent implementation of the materials management strategy as part of the "ZF 2025" corporate strategy, we have optimized the global supply chain, ensured the security of supply, and further reduced complexity. Through the globally responsible Purchasing of Goods in conjunction with Sourcing Decision Board and Cost Engineering processes, a substantial result contribution was made in the year under review. We have also consolidated the supplier base and further standardized the purchasing processes, and switched to electronic communications.

In 2014 too, the "best of the best" of ZF suppliers were honored as part of the "ZF Materials Management Symposium." ZF presented awards to six suppliers in the categories of production materials, non-production materials, global supply, and innovation.

In 2014, we also continued to devote a great deal of time and effort to optimizing the global supply chain, which is reflected primarily in the security of the worldwide supply chains. We also optimized the global transport management sustainably. For example, we set up centralized consolidation centers for sea freight in Charleston, South Carolina (USA), Bremen (Germany), and Shanghai (China) in 2014.



**Research and development costs, consolidated ZF Group**  
in € million



<sup>1)</sup> As of 2012 excluding ZF Lenksysteme.

### Research and development

The number of employees working for ZF Research and Development worldwide amounts to 6,539. Of these, about 1,000 engineers and technicians work at the ZF Group's Corporate Research and Development departments in Friedrichshafen (Germany), and an additional 350 in Pilsen (Czech Republic), Shanghai (China), and Tokyo (Japan). In 2014, we invested € 891 million in R&D. Thus, the target of 5 % of sales for research and development costs has been reached.

### Wide range of tasks

The Group's product and technology planning is based on market, product, and competence roadmaps that are continuously updated. Corporate Research and Development continued its work in the areas of advanced engineering, basic development, and the optimization of development processes while focusing on the following subject areas.

In 2014, the international development locations were strengthened further. A new addition includes a Technology Development department at the Northville location in Michigan (USA) in order to meet local needs more effectively. The development competencies were extended substantially in the Engineering Center in Shanghai (China) and a team was established for advanced product engineering.

### Solutions for future mobility

In 2014, Advanced Engineering continued its work on a passenger car rear axle composed entirely of fiber-reinforced plastics material. In the context of target fleet values for CO<sub>2</sub> emissions, we are continuously further developing conventional drives and hybrid drives. Based on the central electric drive, ZF implemented a model whereby the electric drive is integrated into the chassis near the wheel on the right and left side. In addition, several projects promoted by the German Federal Government's National Electric Mobility Platform (NPE) are up and running in order to further advance developments to the electric drive.

An innovation prototype was set up to demonstrate ZF's expertise and the approaches to finding solutions in the area of driver assistance systems. The long-distance truck with a length of 25 meters proves that it is very easy with the aid of modern technology to steer and move a large truck-trailer combination weighing up to 60 tons using remote control in maneuvering mode with centimeter accuracy. Further assistance in this respect comes courtesy of the electric drive in the hybrid concept, which provides very precise yet zero-emission driving. The concept went down extremely well with customers and the public in general.

As hybrid and electric vehicles become increasingly important, the need for compatible automotive power electronics increases as well. For this reason, ZF is working intensively on developing these kinds of solutions. Intelligent control of the power consumption of different systems is a key factor in further reducing the auxiliary power required to control the units (power-on-demand). ZF is devoting a great deal of our efforts to this topic and offer vehicle manufacturers a corresponding range of solutions.

#### **Safeguarding legal requirements**

The Group-wide Product Data Management (PDM) system was further updated in 2014. International locations and newly added ZF locations were integrated into the PDM system. Within the framework of the new Product Lifecycle Management (PLM) strategy, we have launched several projects with the objective of optimizing the product evolution process. The quality of master data along with structure and change management will make a key contribution in this respect.

#### **Basic and technology development**

Measures on modern vehicles to boost energy efficiency increasingly compromise comfort in the overall vehicle. The interplay of driveline and chassis with low-frequency effects is complex. New overall vehicle models and the close coupling of simulation and testing provide reliable forecasts of the effects of vibrations on vehicle occupants.

In order to support the development of innovative products even more effectively with simulations, a cross-divisional, centralized computer cluster is being set up at ZF throughout Germany. In this way, highly computing-intensive simulations such as computational fluid dynamics can be completed much faster.

In Corporate Materials Technology, the “ZF Materials Warehouse” was developed to secure and provide materials data throughout the Group. This makes it much easier to select the most suitable metals and plastics. In the Gear

Development departments, a torque test bench for planetary gearsets was installed which can be used to test load capacity, efficiency, and acoustics behavior of planetary gearsets under laboratory conditions.

#### **Patent applications exceed high value of prior year**

The protection of industrial property is high on ZF’s list of priorities. As in the previous years, we were able to maintain our position among the top patent applicants in Germany also in 2014. We managed to exceed the high level set in the previous year once again with approximately 1,200 internal invention disclosures and over 860 new patents. The inventions still focused on transmission system technology. New, up-and-coming areas are electronic control systems for transmissions, electric drives, and axle systems. With regard to brand and domain rights, ZF has reinforced the protection of its valuable assets worldwide. Our brand and domain inventory consists of more than 3,800 individual brands and more than 1,200 domains.

#### **New products**

ZF once again launched numerous new products on the market in the fiscal year 2014.

In the Car Powertrain Technology division, the second generation of the 8-speed automatic transmission (8HP) was launched in the new BMW 5 Series model generation. The transmission achieves additional fuel savings of 3 %. At the same time, the 8HP application base was considerably expanded, which demonstrates the versatility of the multi-ratio transmission: It is now being used in recreational motorsports – in the BMW M235i Racing – as well as in light commercial vehicles such as the Iveco Daily. The plug-in hybrid transmission scheduled to arrive on the market in 2015 is also based on the 8HP transmission modular kit. The 9-speed automatic transmission (9HP) produced in Gray Court, South Carolina (USA), was able to record additional volume production starts in the year under review.

In the Car Chassis Technology division, volume production for the rear axle variant of the CDC (CDC 1XL) adaptive damping system started in 2014 in the Honda Civic Tourer. Volume production was ramped up successfully also for the innovative AKC (Active Kinematics Control) rear axle steering system.

#### **Innovation Truck sets standards**

In the commercial vehicle market, the ZF Group was able to underpin its technological leadership with the Innovation Truck: The concept of a long truck-trailer combination unites intelligent driveline and steering technology with telematics to form a groundbreaking concept for future logistics. Thanks to ZF technology, the truck can be maneuvered easily and safely via a tablet – purely electrically and with zero local emissions from outside the driver's cab.

The AVE 130 electric portal axle for purely electric low-floor buses was awarded the "International busplaner Sustainability Prize 2015" in November 2014. The modularly designed TraXon automatic transmission system for heavy trucks was further developed to be ready for production. The highly successful EcoLife multi-ratio transmission has also been used in coaches since last year.

In 2014, the agricultural machinery area expanded its TERRAMATIC range by the new TMT 09 and TMT 11 continuously variable transmissions. In addition, the integrated powerful ZF-TERRA+ generator module and the new power take-off generator enable electrification of the driveline.

Furthermore, ZF diversified the portfolio to meet the demands of the sophisticated low-wind and high-performance offshore market. The new generation of 3MW gearboxes for wind turbines with a rotor diameter of more than 130 meters has significantly increased annual power generation. The advanced design of the 6.2MW OCTOPUS is making it possible for customers to build even larger wind turbines in the rough offshore environment.

In the rail vehicle area, customers benefitted from the world's first EMU (Electrical Multiple Unit) multispeed transmission. The Get2 rail drive concept combines the advantages of previous ZF applications with a savings potential of up to 5 %.

For special vehicles, ZF offers the advanced EcoLife Off-road, an enhanced model of the EcoLife 6-speed automatic transmission for city buses. With seven speeds and designed for extreme loads, it is setting new standards for automatic transmissions in medium and heavy special vehicles. Based on the successful passenger car transmission modular kit, the high-performance, efficient 8HP90S 8-speed automatic transmission is tailored to the requirements of light special vehicles. It can handle up to 1,000 Nm of input torque and is nonetheless extremely light and compact.

In Marine Propulsion Systems, the product portfolio was expanded to include the TOUGH GEAR W10000 and the hybrid-ready ZF 3300 PTI transmissions.

#### **Quality**

The "ZF4Q" Quality Strategy was derived from the "ZF 2025" corporate strategy. It focuses on products and customers. The ZF Quality Management System is based on three elements: Quality Planning as a synonym for prevention, Quality Assurance to secure the current volume production, and Quality Management to shape processes and structures. The goal is to implement all processes, both industrial as well as business processes, at a high level of maturity and to continually improve them in line with the ZF Production System.

At the same time, the Quality Organization will be analyzed and receive an even more global focus in the future. Working in partnership with our suppliers also plays an important role. After all, we will only be able to jointly achieve our quality objectives if the entire supply chain is optimally coordinated.



Our Quality Strategy focuses on our employees, whose expertise in the field of quality will increase through the newly established ZF Q Academy.

Moreover, ZF motivates all employees to remain constantly involved in the continuous improvement process. Our “Total Quality Management” contest was held for the 20<sup>th</sup> time in 2014. Overall, more than 1,100 employees worldwide entered the competition with around 340 projects, which not only contributed to quality improvements, but also initiated product innovations and production improvements.

### **Production**

In 2014, ZF introduced globally standardized key performance indicators (KPIs) to manage its production plants. The agreed targets for the ZF Production System (ZF PS) and the projects included in the roadmaps are analyzed along with the development of these indicators. Approaches to optimization are derived from this analysis, thus supporting the continuous improvement process. Progress is being made with the introduction of the ZF PS in the Development departments.

The ZF Composites Tech Center for the advanced development of production technologies for fiber-reinforced plastics (FRP) in Schweinfurt (Germany) is closely cooperating with Product Development in a host of projects to develop the basis for the volume production of innovative lightweight components made out of thermosetting and thermoplastic FRP materials.

The Integrated Process Planning (IPP) project was successfully completed in 2014. Worldwide, 1,500 users are able to improve efficiency significantly throughout 10,000 planning processes. The production locations’ IT security in terms of protection against malware was sustainably improved through the global rollout of the Production IT Security (PITS) project.

Simultaneous engineering should pave the way for capable, robust, and efficient production processes. This is supported by setting up a global network of experts for the Design for Manufacturing and Assembly (DFMA) and Material Flow Simulation (MFS) methods.

The process for the systematic assessment of in-house and/or external production was also restructured in the year under review. It allows for investment to be leveraged specifically.

The measures initiated at the major German locations in the “Year of Energy” 2012, which aim to reduce energy consumption, also had a lasting impact in 2014.

### **Compliance**

Correct, responsible, and sustainable corporate management along with the assumption of corporate social responsibility underpin our business policy. Compliance is thus an essential element in ensuring the long-term success of the ZF Group. We are committed to managing the businesses fairly and transparently, and base our activities on law and jurisdiction in all the countries in which ZF operates. The following motto underpins this aspiration: “If there is no legal way, there is no way for ZF.” In accordance with this principle, we further extended and qualified our Compliance Organization in 2014. A case management system was introduced and now supplements the preventive legal consulting services, training and communications measures, as well as business partner audits. This system is connected to the electronic notification system “ZF Trustline.” Relevant compliance measures are recorded and analyzed systematically in this case management system. The Code of Conduct and other internal compliance directives show employees the right approach, thus supporting the ZF Group’s compliant business activities.

**Sustainability**

As a foundation-owned company, ZF considers sustainable and responsible business practices as one of its basic values. For us, this means long-term, value-oriented corporate management that benefits everyone: our owners, customers, employees, as well as the environment and society. The triad of financial success, environmental protection, and social commitment forms the basis for the company's future viability. In the year under review, we published our second Sustainability Report in accordance with the international Global Reporting Initiative (GRI) standard. It discloses our economic, environmental, and social key performance indicators.

In the context of a materiality analysis, the most important sustainability impacts were systematically assessed. To this end, we identified the main stakeholder expectations for the ZF Group based on a worldwide media analysis and focused individual discussions. This input for ZF's sustainability management was then prioritized with regard to its significance for long-term successful corporate management. Based on these findings, we will develop a Group-wide sustainability program in the current year under review.

**Environmental protection**

At ZF, environmental protection is integrated as a corporate objective at all levels and throughout all processes. Through innovative products and state-of-the-art production technologies, we have succeeded in minimizing the environmental impacts resulting from our operating activities and the use of ZF products.

An environmental management system according to ISO 14001 is the Group standard for all production and main development locations. It has been centrally managed in line with the multi-site process since 2006. In the fiscal year 2014, independent experts certified 89 locations worldwide according to ISO 14001. This corresponds to a certification rate of 93 % with regard to the production locations. In this context, our compliance with current legislation was confirmed.

Back in 2013, we adapted the energy savings and climate protection measures in our existing environmental management system to meet ISO 50001 requirements. In the year under review, ISO 50001 certification of German production locations was expanded to include the service locations. This enabled ZF to meet the more stringent requirements as a prerequisite for receiving an energy tax refund through the Tax Cap and Efficiency System Ordinance (SpaEfV).

Using our management standard, we identified additional potential for corporate environmental protection and energy management at numerous ZF locations. In 2014, the activities therefore focused on energy savings and reducing CO<sub>2</sub> emissions, many of which were very successful. The European Industrial Emissions Directive (IED) for particularly environmentally relevant installations and equipment was implemented at the respective locations in cooperation with the authorities.

Since 1996, selected projects with particular achievements in the areas of environmental protection and sustainability have been submitted to be considered for the ZF Environmental Protection Award. Last year, the award went to a project from the Dielingen (Germany) location which was able to eliminate the environmentally harmful process of phosphating by redesigning the production process.

As part of our corporate development plans, we conducted an environmental due diligence audit for five projects to assess their environmental risks as well as their occupational health and safety risks. Business segments that were sold received intensive support regarding the transfer of these high environmental standards. ZF also completed several waste clean-up projects at two locations. In 2014, we spent a total of € 19 million on new environmental protection installations and equipment and € 40 million on operation and maintenance at domestic and international locations.

#### **Market organization and market processes**

The more market-oriented organizational structure has proven its worth: The Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, and Industrial Technology divisions as well as the Electronic Systems and ZF Services business units have been successfully established in their markets. Grouping activities in the market-oriented divisions forms the basis for improved cooperation and the development of customer-oriented solutions.

On account of globalization and the increasing concentration of our customers, we have strengthened even further our customer-specific coordination measures. For instance, global key account management was set up last year. Here, all activities tailored to a specific customer are controlled on a cross-business unit and cross-divisional basis in order to ensure focused customer management. In this respect, full transparency across all decisive business transactions and customer strategies is a key fundamental in ZF's overall successful presence vis-à-vis the customer. Thus, overarching topics can be bundled and processed together, and redundancies as well as potential escalations are increasingly avoided. In this new organization, the customers also have clear contacts for cross-divisional topics below Board of Management level. These contacts can promote suitable questions from a Group perspective to the benefit of all parties involved.

The issue of market intelligence is also becoming increasingly important for ZF. The prompt identification and evaluation of customer-specific, regional, and technological trends and interrelationships, the derivation of opportunity and risk assessments, as well as competitor analyses through to portfolio assessments of the product groups constitute an essential basis for our management decisions. To derive potential innovations, a cross-divisional and cross-regional team compiles all important information, assesses that information, and subsequently derives appropriate recommendations and actions.

Market developments differ greatly by region, customers are continuously operating on an ever more global scale, and markets are increasingly subject to cyclical fluctuations. Given the growing lack of planning security, our organization must become more flexible if we want to respond faster to changes. Moreover, our planning processes must be adapted. Another key area remains optimizing the process landscape in the Corporate Market function based on Group-wide standardized master data and hierarchies.

#### **Process management and IT platforms**

We constantly strive to provide our employees worldwide with the best communication and collaboration platforms for secure, effective, and efficient business transactions based on excellent processes and advanced information technology.

The global rollout of the Windows 7 operating system was completed. A total of 42,000 PCs at 165 locations in 30 countries were migrated over the past two years and updated to the very latest versions. As a further result of the migration, profiles of all users are now being virtualized under Windows. Consequently, ZF employees will have their personal settings available anytime, anywhere, on any device.



IT security remains one of the top issues in IT. ZF continues to be confronted with a rapidly growing number of cyber attacks that are becoming increasingly professional, and which aim at accessing ZF's know-how. A comprehensive security program was launched back in 2013, which is designed to ensure the highest possible protection at ZF. Among other things, all IT applications provided via the Internet by ZF were reviewed by the end of 2014 and migrated to a new security environment.

As part of our IT innovation strategy, we have derived five areas of innovation for ZF from the global IT trends: IT security, production IT of the future, mobile IT, enterprise communication, and enterprise collaboration. To this end, short, medium, and long-term goals have been defined. These are pursued in the form of innovation programs. The objective is a transparent approach in order to provide IT innovations for ZF employees as quickly as possible.

The effectiveness and efficiency of our business processes in cooperation with our customers and suppliers as well as within the ZF Group is pursued through systematic process management. For the ZF Group, process management also means knowledge management. To address cross-functional issues and the move toward a "modular process kit," process solutions are made transparent in a uniform language in a joint database called the Business Process Network. It allows employees worldwide to see whether a tried-and-trusted process solution for a certain request exists or whether there are mandatory process-related specifications and standards.

Jointly used processes require cross-functional demand management and clear process responsibility. Each request for a project change must be recorded, objectively assessed, and approved by the process owner.

In 2014, globally binding rules were passed for the essential core elements of the Business Process Network, demand management, the organizational roles, committees, and functions regarding process responsibility.

#### **Further development of the process and IT platforms in the context of carve-in/carve-outs**

When it comes to planned growth, the ability to adapt our business process platforms to meet new demands when merging or selling parts of the company is becoming critical.

The integration of the Customer Service in Friedrichshafen (Germany) into the ZF Services strategic SAP system in early 2014 was an important milestone in implementing the global ZF Services strategy. At the end of 2014, the Passau and Saarbrücken (Germany) locations were also integrated. Joint customers now receive all products and services from a single source. The objective is to harmonize processes and master data on a global level and to strengthen the cooperation across locations.

Following the sale of the Rubber & Plastics business unit to the Chinese company TMT, all IT services provided by the IT departments were outsourced to external service providers on the basis of a tight schedule until the end of August 2014. These service providers will support the new company Boge Elastmetall GmbH. Worldwide, this affects around 2,000 users in Germany, France, Slovakia, the USA, Brazil, China, and Australia. ZF IT will continue to provide support if required through to August 2016.

## Group Management Overall Statement on Business Performance

The ZF Group once again performed well in the fiscal year 2014. The sales increase by 9% to € 18,415 million, the EBIT rise by € 291 million, and the improvement of net profit after tax from € 462 million to € 672 million are encouraging overall. The number of employees rose – adjusted by employees of the Rubber & Plastics business unit and the AIBC subsidiary – by 5% and stood at 71,402 employees at the end of the year. Thus, the expectations given in the previous year's forecast report could almost entirely be fulfilled.

As in the past few years, the market regions experienced different business trends in 2014. While the Regions of North America and Asia-Pacific increased sharply and Europe slightly, the Region of South America was marked by a sharp fall in market development. The main growth driver for ZF was the business with automatic passenger car transmissions and axle systems. The market success of the range of 8-speed automatic transmissions in particular is very pleasing. The markets for commercial vehicle products and off-road machinery proved more challenging. The Wind Power Technology business unit, which suffered from negative market influences in the previous years, saw a slight recovery.

Both operating profit and EBIT were positively influenced by extraordinary items. Further efforts are required in relation to both income and costs to achieve a marked improvement of the gross margin, which fell short of expectations in the year under review. The other financial result was under pressure due to the preparatory measures in connection with the acquisition of the U.S. company TRW Automotive Holdings Corp., which was initiated in 2014, and the financing required for this transaction.

The planned acquisition is an important component in the consistent implementation of the “ZF 2025” corporate strategy and will enhance and secure the long-term future of ZF as a technology company in many respects. At € 1,005 million, the ZF Group made significant investments in property, plant, and equipment, primarily in the extension of production and development capacities as well as the Engineering Center in Shanghai (China). New joint ventures were set up in China, with Beijing Automotive Industry Corporation (BAIC) in the chassis segment and with YTO in the agricultural machinery segment. The sale of the Rubber & Plastics business unit to the Chinese company Zhuzhou Times New Material Technology Co., Ltd. is now complete. In January 2015, the sale of the shares in the ZF Lenksysteme GmbH joint venture to the joint venture partner Robert Bosch GmbH was concluded successfully.

In view of an equity ratio of 34% – almost unchanged despite the high charges from the market interest-based valuation of the obligations from the company pension scheme – and as a result of cash and cash equivalents of € 1,114 million in connection with a positive net liquidity, ZF continues to rest on a solid financial foundation. Against the backdrop of a stable liquidity and financial basis as well as the good business performance recorded in the result, the economic situation is considered to be positive on the whole. The focus in the next years will be on a further improvement of profitability and particularly the generation of free cash flow. In this context, ZF expects for 2015 a market development in the industries relevant for ZF which is overall more positive than in the year under review.

## OCCURRENCES AFTER THE END OF THE FISCAL YEAR

On September 15, 2014, an agreement was made with Robert Bosch GmbH, Stuttgart (Germany), to sell ZF's 50% shareholding in ZF Lenksysteme GmbH. ZF Lenksysteme GmbH develops and produces steering systems for passenger cars and commercial vehicles. The sale became legally effective on January 30, 2015.

In January 2015, ZF issued a bonded loan in the amount of € 2.2 billion with terms of three, five, and seven years. This is to finance part of the acquisition of TRW Automotive Holdings Corp.

No other events occurred that impacted the consolidated financial statements.

## RISK MANAGEMENT

The aim of risk management at ZF Friedrichshafen AG is to identify and assess risks as early as possible and to avoid such risks by initiating appropriate measures or to minimize their impact. The objective is to avoid threats to the continued existence of the ZF Group. The regular analysis of identified risks increases risk awareness and enables continuous improvement.

ZF defines risk as any event that may result in negative deviations from our business plan.

The Board of Management is responsible for the Risk Management System. The Board of Management reports to the Audit Committee and the Supervisory Board about the major existing risks on a regular basis. ZF's early detection system for risks is regularly audited and assessed by Internal Auditing and the external auditors in terms of compliance.

The Risk Management System is set out in a ZF Group Directive, which was approved by the Board of Management and which can be accessed by all employees. This Group Directive describes processes and responsibilities of the Risk Management System. Risk areas are defined as structural elements along the value added chain, including risks such as quality, sales, procurement, restructuring, location, and other risks. Risks are captured, assessed, and tracked on the basis of these risk areas. The directive is regularly reviewed and updated and is binding for all companies of the ZF Group.

Risks are captured, assessed, and tracked quarterly by the reporting units. The captured risks are combined on division and Group level and tracked in coordination with the relevant responsible corporate function department. The ZF Risk Management System captures risks in terms of their potential financial impact in connection with their probability of occurrence where these risks exceed a limit defined by the Board of Management. Essential risks that exceed a second, defined limit are brought to the attention of the responsible party or person via an ad-hoc reporting process. This enables ZF to initiate effective risk control measures. Opportunities are included in the ZF Risk Management System if they have a direct material link to a risk.

### Financial risks

The overarching objective of the central coordination of the financial requirements is to secure the financial independence of the ZF Group. In order to limit financial risks, liquidity, market value, foreign currency, interest rate, and counterparty risks as well as credit risks are monitored, controlled and, if necessary, hedged as part of central risk management.



Derivative financial instruments may only be used to hedge existing underlying or planned transactions. Hedging transactions are concluded in accordance with Group-wide uniform guidelines and are subject to strict monitoring and documentation requirements. A strict separation of duties between trading, settlement, and control is ensured.

■ **Counterparty and credit risk**

In order to reduce counterparty risks within finance, all transactions are carried out only with banks having a first-class credit rating. Financial investments are only made with these banks within the framework of defined limits. In terms of borrowings, for instance in connection with the acquisition of TRW, we also seek to ensure that creditors have a high credit rating and to avoid dependence on individual banks.

The development of the level of trade receivables and the credit rating of our counterparties are also monitored on a continuous basis. Any existing credit risk is largely hedged through corresponding terms of payment as well as, on a case-by-case basis, trade credit insurance.

■ **Liquidity risk**

In order to ensure the solvency and, at the same time, high financial flexibility on the basis of medium and long-term financial and liquidity planning, ZF has sufficient cash as well as credit lines committed at matching maturities. Cash is managed within the context of central cash pooling and provided to the subsidiaries as needed. The acquisition of TRW was hedged through a financing framework in the amount of € 12.5 billion provided by 23 banks.

■ **Foreign currency risk**

A directive for a Group-wide uniform currency management is in place. Only hedges that refer to a specific underlying transaction are allowed. Planned foreign currency sales are hedged within the framework of prescribed hedging ranges and within defined maximum limits. Individual project-specific hedging is also possible.

Material portions of the USD-denominated purchase price payment for the acquisition of TRW Automotive Holdings Corp. were hedged through deal-based forward contracts and currency options.

As of December 31, 2014, derivative financial instruments were held with positive market values in the amount of € 397 million and a nominal volume of € 6,291 million, and derivative financial instruments with negative market value in the amount of € 31 million with a nominal volume of € 811 million.

Translation risks that arise from the translation of various currencies in the context of measuring financial line items are not hedged.

■ **Interest rate risk**

This risk mainly results from changes in market interest rates and their impact on the fair value of or future cash flows for financial liabilities or financial investments, the development of which is closely monitored. Any potential interest rate risks are hedged in part by fixed interest agreements.

■ **Market price risk from securities**

The market price risk is the risk that the fair value of securities decreases. Securities investments are basically investments in interest-bearing securities, shares, and alternative investments. Diversification will fundamentally reduce risk which constitutes the prerequisite for the best possible continuous increase in value resistant to fluctuation.

## FORECAST, OPPORTUNITIES, AND RISK REPORT

### The Business Environment

#### No significant change in 2015

Over the next two years, the global economy offers the potential for marginal growth. In its forecast published in mid-December, the Kiel Institute for the World Economy (IfW) also confirmed the expectations of the EU Commission and the IMF set out in October and November 2014. Following the 3.3 % for 2014, the experts see growth in global economic output of around 3.7 % as entirely feasible. In this respect, it will once again be the established economies which will make an above-average contribution to this increase, while the newly industrialized countries will tend to grow at a constant pace. The recovery in the eurozone will prove sluggish, in the wake of the low growth of 0.8 % in 2014, and, with 1.2 %, is unlikely to feed through into any sustained recovery. Persistent structural problems, at least in part of the eurozone, coupled with the possibility of Greece's exiting the eurozone will stifle dynamic growth in the IfW's view. Among the major economies, Germany will, however, move positively sideways with a forecast 1.1 % growth in the economy for 2015; France and Italy will tend to stagnate with a marginal increase of 0.9 % and 0.4 % respectively, while only Great Britain (2.5 %) and Spain (2.4 %) offer the prospect of higher growth. The Russia/Ukraine crisis, the economic situation in Russia itself, and the situation in the Middle East continue to pose significant risk factors for economic development for the EU in particular. By contrast, economic development in the USA is viewed positively. The trend in industrial production, further job creation, as well as high consumer confidence justify the expected 3 % increase in gross domestic product in 2015.

Japan, however, is dogged by stagnation, with slight boost in growth expected. China has been showing the lowest economic growth since the 2009 recession in the third and fourth quarter of 2014. All forecasts point toward economic growth of slightly above 7 % in 2015 despite the positive impact of low raw material costs. The focus of the Chinese government on further reforms and the reduction of misallocations will limit growth and also poses sustained risks.

The global economy will therefore maintain the generally positive growth trend in 2015, but only exhibits a slightly higher rate of growth than in 2014. Decisive factors will continue to be the trend toward debt reduction in many countries and, in turn, lower growth compared with the period before 2009. Low raw material costs, especially the low oil price, will have a positive impact, but will, in turn, also feed deflationary tendencies.

### Industry Trends 2015

#### Passenger cars and light commercial vehicles

Following the 3 % increase in vehicle production in 2014, similar growth of 3 % is expected for the current fiscal year. In this respect, China should once again be able to post the highest growth. With an expected increase in the production of passenger cars and light commercial vehicles of up to 8 %, China is set to exceed the 24 million vehicle mark. Following two weak previous years (– 4 % and – 1 %), India has the potential to head toward 4 million vehicles with a forecast increase in production of 8 %. Following several very good years of growth (17 % in 2012, 5 % in 2013, and again 5 % in 2014), North America is entering a more moderate growth phase with a forecast 2 % and will produce over 17 million vehicles. Europe and Germany have additional growth potential of around 2 %, in the wake of the economic recovery, which nonetheless fails to gain any sustained momentum. After the slump of 15 % in 2014, another decline in production to 3.4 million vehicles is expected in South America. However, it is still approximately 800,000 vehicles less than

in 2013. Japan is forecast to see a fall in domestic production; growth of Japanese manufacturers occurs in transplants around the world, primarily in Southeast Asia.

#### **Heavy commercial vehicles**

In an overall economic environment characterized essentially by a sluggish recovery, growth expectations for the commercial vehicle sector are modestly optimistic. Following the 2% decline in global production of heavy commercial vehicles last year, 2015 should see figures recover to the 2013 level. India offers the best opportunities for higher growth rates; after a few sluggish years, the country boasts the potential for double-digit growth (16%). In China, consolidation of the industry is set to continue; no growth is anticipated for 2015, rather production could fall another year – even if only slightly (1%). In North America, all signs point to further growth (5%) to 550,000 commercial vehicles. As such, output of 483,000 vehicles is above the statistical average of the past 20 years, which could indicate the onset of saturation. In 2015, Western Europe should have weathered the impact of the introduction of the Euro 6 standard (with the pre-buy effect translating into high production figures for 2013 and subsequent correction in 2014) and be heading toward moderate growth of around 2%. South America should stabilize following the deep recession in 2014. However, a decline of 9% is expected.

#### **Off-road machinery**

A weak positive trend is forecast worldwide for off-road machinery; in the case of agricultural machinery, an increase of 1% is predicted, while construction machinery will see growth of 2%.

In the case of construction machinery, ZF is working on the basis of growth potential similar to the previous year of 3% in the North American market. Western Europe faces the prospect of weak growth at 1%. Economic growth in Southern Europe (catch-up scenario) is lower than

expected, while in Germany expectations have been tempered slightly. The Russia/Ukraine conflict is also dampening forecasts. In China, the economy is merely expected to move sideways, following the decline of 9% seen last year. South America seems to not yet have bottomed out following the recession in 2014, forecasting a further decline in construction machinery production.

For agricultural machinery, an increase in production of 3% is forecast in the Asian megamarkets of China and India. A trend toward more powerful tractors can also be seen. By contrast, the markets in Europe, North and South America remain under pressure. As long as agricultural producer prices fail to show any sustainable improvement, farmers will be reluctant to invest. Against this background, all three markets are likely to see further declines in agricultural machinery production of 3% to 4%.

### **Opportunities and Risks**

The key topic for 2015 will be the conclusion of the acquisition of TRW Automotive Holdings Corp., which is slated for the first half of 2015. The acquisition is an important component in the consistent implementation of the “ZF 2025” strategy. This will enable ZF to achieve the key objectives of this strategy – balanced global market penetration, the expansion of technology and cost leadership, and profitable diversification – within a shorter time frame. ZF’s product portfolio comprising efficient driveline and chassis technologies is being sensibly supplemented to include future technologies in active and passive safety technology encompassing state-of-the-art driver assistance systems. Various opportunities and risks arise from this transaction for the ZF Group. In addition to reinforcing the strategic positioning by extending the technology and product portfolio, improved market access, and the synergies expected



from integration on the one hand, there is, on the other hand, the risk of failing to meet the planned earnings targets and cash inflows, for instance, due to economic or market-related downturns. The aforementioned risks may have an impact particularly on our obligations from the financing in the context of the acquisition.

The organic sales growth planned for 2015, the consistent implementation of cost engineering projects, improved material price structures, and the focus on cost and structural optimizations will help improve earnings quality within the ZF Group's operating business. Opportunities also emerge from the planned program-dependent investment for new product and customer projects and for setting up and expanding new locations, which will allow the Group to become more competitive. Considerable sales growth is again forecast in Car Powertrain Technology for 2015. The issue of e-mobility will become increasingly important. The plug-in hybrid transmission based on the 8HP transmission modular system, which is due to be launched in 2015, will boost success with efforts aimed at reducing CO<sub>2</sub> emissions, and improve market opportunities. The SOP of axle systems in Chennai (India), various project start-ups with the AKC active rear-axle kinematics, and the production launch for further model ranges in Beijing (China) also offer favorable potential for the Car Powertrain Technology division. The increased sales expected as a result will, however, merely offset the decline in sales from the Rubber & Plastics business unit sold in 2014 so that sales will approximately come in on a par with the previous year.

As regards Commercial Vehicle Technology, TraXon, the new modular transmission system, is now ready for production. Hence, PreVision GPS, the anticipatory shifting strategy for automated truck transmissions, is available for vehicle manufacturers. No substantial increase in sales is expected however, due to the continuing unfavorable market environment. After substantial investments in expanded and new production facilities as well as a

product portfolio that was again considerably extended to align with specific market requirements, the Industrial Technology division is expecting considerable growth for 2015. The global requirements for CO<sub>2</sub> reduction favor the division's efficient products and open up access to new customers and projects. The Industrial Technology division is expected to see significant growth in sales for the fiscal year.

The mechatronics solutions offered through the Electronic Systems business unit consolidate ZF's expertise in the future trends of e-mobility and increased vehicle efficiency. We once again forecast significant sales growth for the fiscal year. ZF's Openmatics telematics platform will enable ZF Services to supplement its service portfolio in the aftersales business with innovative, digital services and thus gain new customers. Following the assignment of Customer Service at the Friedrichshafen location, the Customer Services in Saarbrücken and Passau will be assigned to the ZF Services business unit in 2015. This reassignment will have a positive impact on the business unit's income, as it did in 2014. Overall, the business unit expects to see higher sales growth than in the prior year.

ZF may well face risks, similar to those faced by the automotive supplier industry as a whole, associated with negative developments in global markets, which may have negative repercussions on the business, financing conditions, and profitability. One possible cause may include the difficulties resulting from the massive debt burden of certain countries within the European Monetary Union. Fiercer competition may also impact negatively on output as well as on sales prices. In the Asian market in particular, which is significantly important for ZF, a succession of new providers will enter the market and hence intensify competition. Another earnings risk is associated with unexpected material price increases.

In the case of ZF products involving very high volumes such as the 8HP automatic transmission, errors in the production process may translate into huge financial losses on account of warranty obligations. ZF consistently combats such possibilities by means of thorough quality checks and optimized process workflows.

ZF is increasingly operating in the emerging markets such as Eastern Europe, Brazil, or India. Economic downturns in these countries, as is currently the case in Russia due to the conflicts in the Ukraine, may lead to declining sales and payment defaults.

Product piracy, industrial espionage, or social engineering and unauthorized access to IT systems may also cause huge losses. ZF's preventive measures, which are continually adapted to the growing threats, are designed to minimize the dangers associated with the aforementioned risks.

Exchange rate effects particularly in relation to financing the planned acquisition of TRW Automotive Holdings Corp. and the associated cash flows between the eurozone and U.S. dollar area may result in a financial burden that cannot be hedged in its entirety. The acquisition and integration of TRW Automotive Holdings Corp. may also give rise to numerous risks that cannot be fully estimated. These include, for instance, ZF's high level of borrowing to finance the acquisition, which is, however, safeguarded by means of a well thought-out, detailed structuring of the financing. However, the loss of management staff and other qualified employees on the part of TRW, the possibility of joint ventures being terminated, and other ramifications of changes of control may also have negative repercussions.

ZF is represented with locations in 26 countries worldwide. In some of these countries, risks associated, for instance, with unstable political conditions or on account of different competitive, legal, and taxation systems pose a threat. Critical situations may also arise due to bottlenecks in the supply chain and financial problems affecting key suppliers. There is a risk of strikes feeding through into loss of production depending on labor legislation and the respective level of organization on the part of the employees.

Antitrust authorities are increasingly focusing on investigating infringement of competition rules in many countries, which may give rise to losses through fines associated with unlawful conduct. In South America, the antitrust authorities searched a ZF plant on suspicion of the infringement of competition rules in September 2014. Substantial additional tax demands may also be made as a consequence of regular audits by the tax authorities in the various countries in which ZF companies operate. Tax laws and circumstances relevant to tax could be interpreted and assessed in a different manner by the tax authorities than by ZF.

As seen above, an established risk management system is used systematically to identify as early as possible, assess, and prevent the aforementioned across-the-board potential risks in ZF by taking suitable measures; the system also helps minimize the impact of such risks.

Based on information available at present and the individual risks set out in this report, no market-related opportunities and risks above and beyond those mentioned in the forecast can be identified which may influence substantially the ZF Group's results of operations, net assets, and financial position, or jeopardize its continued existence in the fiscal year 2015. The Group's financial situation is stable; the need for cash is currently covered by existing liquidity and available credit lines.

## Forecast

Overall, ZF expects solid organic sales growth for the fiscal year 2015 on a level similar to 2014, with overall moderate growth of the markets. New markets will continue to be opened up, the diversification strategy pushed forward, new products launched, and technology leadership underpinned with continued investment in research and development. This positive picture can be seen for virtually all markets and regions. The strongest growth will be found in North America and Asia-Pacific, while Germany and Europe will post slightly weaker growth. Developments in the Region of North America, which is characterized by new customer projects primarily in the automatic passenger car transmission segment, warrant special mention. The challenges for ZF will be seen in implementing the numerous projects in all regional markets involving new customers and products in certain cases.

Further challenges will arise from the upcoming integration of TRW Automotive Holdings Corp., a company that operates very successfully on the market and is almost as big as ZF. At the same time, this expected merger offers a unique strategic opportunity, especially if we manage to bring together the best from both companies. For instance, the highly efficient hybrid drive technology by ZF on the one hand, and future technologies for active and passive safety encompassing state-of-the-art driver assistance systems on the other, will provide a compelling and extensive overall portfolio.

The focus in 2015 will be on further improving the gross margin and ensuring stable free cash flow. Excluding the acquisition of TRW Automotive Holdings Corp., the planned investment in property, plant, and equipment is again forecast at over € 1,000 million and hence above annual depreciation. This will make us even more competitive. The ratio of operating profit to sales is expected to be on a par with the previous year. In conjunction with the targeted improvements in working capital, free cash flow should be maintained at a level of around € 400 million in 2015. Headcount developments are positive, with a planned increase to slightly over 80,000 employees.

ZF's success is based on a wealth of factors. These include not only compelling products based on advanced technology, but also the trust placed in cooperation with ZF by customers, suppliers, and business partners. It also includes committed, qualified employees looking to deliver excellence and willing to embrace change. Taking into account these factors and future prospects, which will result from the expected merger with TRW, ZF can rise to the upcoming challenges and look to the future with optimism.





# CONSOLIDATED FINANCIAL STATEMENTS

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

ZF Friedrichshafen AG for the period dating January 1 to December 31, 2014

in € million	Notes	2014	2013
Sales	1	18,415	16,837
Cost of sales	2	15,319	13,912
<b>Gross profit on sales</b>		<b>3,096</b>	<b>2,925</b>
Research and development costs	7	891	836
Selling expenses		700	667
General administrative expenses		734	675
Other income	3	279	130
Other expenses	4	153	121
<b>Operating profit or loss</b>		<b>897</b>	<b>756</b>
Result from associates	5	49	43
Net result from participations	5	152	8
Interest income	5	35	36
Interest expenses	5	172	154
Other financial income	5	132	86
Other financial expenses	5	220	92
<b>Net financial result</b>		<b>- 24</b>	<b>- 73</b>
<b>Net profit or loss before income tax</b>		<b>873</b>	<b>683</b>
Income taxes	6	201	221
<b>Net profit or loss after tax</b>		<b>672</b>	<b>462</b>
thereof shareholders of ZF Friedrichshafen AG		648	437
thereof non-controlling interests		24	25



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### ZF Friedrichshafen AG for the period dating January 1 to December 31, 2014

in € million	Notes	2014	2013
Net profit or loss after tax		672	462
Line items that will be reclassified in the consolidated statement of profit or loss			
Foreign currency translation differences		175	-124
Amounts reclassified through profit or loss		-3	0
Mark-to-market of securities			
Gains arising during the year (2013: losses)		25	-2
Amounts reclassified through profit or loss		-36	3
Mark-to-market of cash flow hedges			
Gains arising during the year		359	6
Amounts reclassified through profit or loss		-2	-4
Income taxes		-110	1
Other comprehensive income from associates		23	-11
		431	-131
Line items that will not be reclassified in the consolidated statement of profit or loss			
Actuarial losses from pension obligations		-1,002	-100
Income taxes		278	28
Other comprehensive income from associates		0	-4
		-724	-76
Other comprehensive income after tax	23	-293	-207
Total comprehensive income		379	255
thereof shareholders of ZF Friedrichshafen AG		348	234
thereof non-controlling interests		31	21

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ZF Friedrichshafen AG as of December 31, 2014

Assets in € million	Notes	Dec. 31, 2014	Dec. 31, 2013 adjusted <sup>1)</sup>
<b>Current assets</b>			
Cash		1,114	1,143
Financial assets	8	528	45
Trade receivables	9	2,403	2,132
Other assets	10	335	195
Income tax receivables		12	11
Inventories	11	1,870	1,735
		<b>6,262</b>	<b>5,261</b>
Assets held for sale and disposal groups	22	400	267
		<b>6,662</b>	<b>5,528</b>
<b>Non-current assets</b>			
Financial assets	12	1,148	1,178
Trade receivables	9	13	50
Other assets	10	85	21
Associates	13	23	347
Intangible assets	14	905	856
Property, plant, and equipment	15	4,006	3,670
Investment property	17	5	0
Deferred taxes	6	541	320
		<b>6,726</b>	<b>6,442</b>
		<b>13,388</b>	<b>11,970</b>

<sup>1)</sup> Prior-year figures adjusted. Further explanations in the Notes to the Consolidated Financial Statements in "Changes in the reporting of financial assets and liabilities and other assets."

Liabilities and equity in € million	Notes	Dec. 31, 2014	Dec. 31, 2013 adjusted <sup>1)</sup>
<b>Current liabilities</b>			
Financial liabilities	18	492	185
Trade payables		2,440	1,975
Other liabilities	19	852	779
Income tax provisions		36	28
Other provisions	20	376	413
		<b>4,196</b>	<b>3,380</b>
Liabilities of disposal groups	22	0	167
		<b>4,196</b>	<b>3,547</b>
<b>Non-current liabilities</b>			
Financial liabilities	18	279	971
Other liabilities	19	233	185
Provisions for pensions	21	3,803	2,729
Other provisions	20	315	335
Deferred taxes	6	43	38
		<b>4,673</b>	<b>4,258</b>
<b>Equity</b>			
Subscribed capital	23	500	500
Capital reserve	23	386	386
Retained earnings <sup>2)</sup>	23	3,474	3,153
<b>Equity attributable to shareholders of ZF Friedrichshafen AG</b>		<b>4,360</b>	<b>4,039</b>
Non-controlling interests		159	126
	24	<b>4,519</b>	<b>4,165</b>
		<b>13,388</b>	<b>11,970</b>

<sup>1)</sup> Prior-year figures adjusted. Further explanations in the Notes to the Consolidated Financial Statements in "Changes in the reporting of financial assets and liabilities and other assets."

<sup>2)</sup> Disposal groups and assets held for sale account for € 37 million (2013: € 2 million).



## CONSOLIDATED STATEMENT OF CASH FLOWS

ZF Friedrichshafen AG for the period dating January 1 to December 31, 2014

in € million	Notes	2014	2013 adjusted <sup>1)</sup>
Net profit or loss before income tax		873	683
Depreciation/Reversal of impairments for intangible assets and property, plant, and equipment		946	894
Changes in non-current provisions made through profit or loss		16	-81
Income taxes paid		-235	-187
Results from first-time consolidation and deconsolidation		-129	0
Results from the disposal of intangible assets and property, plant, and equipment		4	1
Net financial result		24	73
Increase in inventories		-60	-195
Increase in trade receivables		-152	-258
Decrease in other assets		1	3
Increase in other liabilities		410	507
<b>Cash flow from operating activities</b>		<b>1,698</b>	<b>1,440</b>
Expenditures for investments in			
intangible assets		-240	-232
property, plant, and equipment		-1,005	-954
participations		-5	-2
securities		-50	-50
financial receivables		-95	-10
Proceeds from the disposal of			
intangible assets		12	8
property, plant, and equipment		30	28
participations		0	2
securities		2	1
financial receivables		14	0
Cash inflow from the sale of consolidated companies	27	237	0
Cash inflow from the acquisition of consolidated companies	26	12	0
Payments for hedging transactions in connection with future investments		-105	0
Dividends received		152	25
Interest received		39	32
<b>Cash flow from investing activities</b>		<b>-1,002</b>	<b>-1,152</b>

in € million	Notes	2014	2013 adjusted <sup>1)</sup>
Dividends paid to ZF Friedrichshafen AG shareholders		-30	-30
Dividends paid to holders of non-controlling interests		-19	-20
Repayments of borrowings		-491	-161
Proceeds from borrowings		71	243
Proceeds from capital increases through holders of non-controlling interests		3	3
Interest paid and transaction costs		-284	-48
<b>Cash flow from financing activities</b>		<b>-750</b>	<b>-13</b>
<b>Net change in cash</b>		<b>-54</b>	<b>275</b>
Cash position at the beginning of the fiscal year		1,143	888
Effects of changes in the basis of consolidation on cash		3	13
Effects of exchange rate changes on cash		22	-33
<b>Cash position at the end of the fiscal year</b>	<b>25</b>	<b>1,114</b>	<b>1,143</b>

<sup>1)</sup> The cash flow from operating activities will be adjusted by the total financial result as of 2014.  
Until 2013, only the net interest result and net result from participations was eliminated. The prior year's figures have been adjusted accordingly.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ZF Friedrichshafen AG for the period dating January 1, 2013 to December 31, 2014

in € million

Subscribed  
capital

Capital  
reserve

	Notes		
<b>Jan. 1, 2013</b>		<b>300</b>	<b>586</b>
Net profit or loss after tax			
Other comprehensive income after tax			
<b>Total comprehensive income</b>			
Dividends paid			
Capital increase from reserves		200	– 200
Changes in the basis of consolidation			
<b>Dec. 31, 2013</b>		<b>500</b>	<b>386</b>
Net profit or loss after tax			
Other comprehensive income after tax			
<b>Total comprehensive income</b>			
Dividends paid			
Capital increase at subsidiaries			
Changes in the basis of consolidation			
<b>Dec. 31, 2014</b>		<b>500</b>	<b>386</b>



Retained earnings					Equity attributable to shareholders of ZF Friedrichshafen AG	Non-controlling interests	Group equity
Other retained earnings	Foreign currency translation differences	Mark-to-market of securities	Mark-to-market of cash flow hedges	Actuarial gains and losses			
							23
3,145	93	42	8	- 339	3,835	115	3,950
437					437	25	462
	- 130	1	2	- 76	- 203	- 4	- 207
437	- 130	1	2	- 76	234	21	255
- 30					- 30	- 20	- 50
					0	3	3
					0	7	7
3,552	- 37	43	10	- 415	4,039	126	4,165
648					648	24	672
	188	- 8	244	- 724	- 300	7	- 293
648	188	- 8	244	- 724	348	31	379
- 30					- 30	- 19	- 49
						3	3
- 21	- 2			26	3	18	21
4,149	149	35	254	- 1,113	4,360	159	4,519

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### ZF Friedrichshafen AG

#### Fundamental Principles

##### Corporate structure

ZF Friedrichshafen AG is a corporation, of which 93.8 % is owned by the Zeppelin Foundation and 6.2 % by the Dr. Jürgen and Irmgard Ulderup Foundation. The company is headquartered in 88046 Friedrichshafen, Germany, Graf-von-Soden-Platz 1.

Further explanations on the corporate structure can be found in the management report.

##### General

The line items of the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, and the consolidated statement of changes in equity are broken down and explained in the notes to the consolidated financial statements.

The Group's currency is the euro. Unless otherwise stated, all amounts are reported in millions of euros (€ million).

The Board of Management of ZF Friedrichshafen AG approved these consolidated financial statements on February 20, 2015, and forwarded them to the Supervisory Board.

The consolidated financial statements, which were prepared as of December 31, 2014, as well as the group management report will be announced in the Electronic Federal Gazette.

The consolidated statement of financial position is broken down by maturities. The financial line items are divided into non-current and current assets and/or liabilities on the basis of whether they have a residual term of more than one year or up to one year, respectively.

Assets and liabilities included in a disposal group classified as held for sale as well as assets held for sale are presented separately from other assets and liabilities in the consolidated statement of financial position.

The recognition of assets and liabilities is carried out according to the historical cost principle. This does not include derivative financial instruments, securities, and investments in participations that are recognized at fair value, as far as it can be determined reliably.

##### Adoption of IFRS

As a company that is not publicly traded, ZF Friedrichshafen AG has chosen the option to draw up its consolidated financial statements on the basis of IFRS pursuant to § 315a Section 3 HGB (German Commercial Code).

The consolidated financial statements are in accordance with the standards and interpretations valid on the reporting date and issued by the International Accounting Standards Board (IASB), London (Great Britain), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a HGB.

In the fiscal year 2014, the following amended and new standards and interpretations had to be taken into consideration for the first time:

- Amendment to IAS 32 "Financial Instruments: Presentation"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"
- IFRIC 21 "Levies"

The amendment to IAS 32 specifies the provisions for offsetting financial assets and liabilities. The IASB does not plan to change the existing principle for offsetting. The clarification of the criteria “Simultaneous settlement” and “Legally enforceable right to set off” can only result in a change of the accounting practice if IAS 32 has previously been interpreted differently. The clarification did not lead to any change in the ZF Group accounting.

The amendment to IAS 39 allows for a continuation of hedge accounting in cases where the derivatives designated as hedging instruments are transferred to a central counterparty (novation) due to the introduction of a new law or regulation, provided that certain criteria are met. The clarification did not lead to any change in the ZF Group accounting.

IFRIC 21 addresses the accounting for levies other than income taxes within the meaning of IAS 12 “Income Taxes” and above all clarifies when obligations to pay such a levy have to be recognized as liabilities in the financial statements. The clarification did not lead to any change in the ZF Group accounting.

The IASB has passed the following standards and interpretations that the European Union has already endorsed into European law but are not yet mandatory. There was no early adoption.

- Amendment to IAS 19 “Employee Contributions” (mandatory adoption for fiscal years beginning on or after July 1, 2014)
- Improvements to IFRSs 2010 – 2012 (mandatory adoption for fiscal years beginning on or after July 1, 2014)
- Improvements to IFRSs 2011 – 2013 (mandatory adoption for fiscal years beginning on or after July 1, 2014)

The amendment to IAS 19 permits the recognition of contributions from employees or third parties to defined benefit plans as a reduction of the current service cost in the period in which the related service is rendered, if the contributions are independent of the number of years of service. If, in contrast, contributions by employees are

dependent on the number of years of service, the projected unit credit method must be applied. The clarification did not lead to any change in the ZF Group accounting.

The improvements to IFRSs 2010 – 2012 and IFRSs 2011 – 2013 describe omnibus standards which were published in December 2013 and deal with amendments to various IFRSs. Below, the amendments are listed that have an effect on the consolidated ZF Group:

- IFRS 3 and follow-up amendment to IFRS 9: Clarification that a company has to apply IAS 32 when it classifies contingent considerations in a business combination either as financial liabilities or equity. Subsequent changes to contingent considerations not classified as equity have to be measured at fair value. It is planned to introduce corresponding changes to IFRS 9 to ensure that contingent considerations cannot be measured at amortized cost. The disclosure requirements of IFRS 7 for contingent considerations have to be complied with, along with those set out in IFRS 3;
- IFRS 13: Clarification of the possibility to measure non-current receivables and liabilities without discounting, despite the follow-up amendments to IFRS 9 and IAS 39;
- IFRS 3: Clarification that all types of joint arrangements within the meaning of IFRS 11 are excluded from the scope of IFRS 3, and that this exclusion from the scope of IFRS 3 only applies to the financial statements of the joint venture or the joint operation itself;
- IFRS 13: Clarification that the portfolio exception set out in IFRS 13.52 has to be applied to all contracts that are within the scope of IAS 39 and IFRS 9, respectively, irrespective of whether or not these contracts meet the definitions of “financial assets” or “financial liabilities” in IAS 32.



Furthermore, the following standards and interpretations, which may be relevant in part for ZF Friedrichshafen AG, have already been passed by the IASB, but have not yet been endorsed by the European Union. ZF Friedrichshafen AG will not adopt any of these standards earlier:

- IFRS 9 “Financial Instruments” (mandatory adoption for fiscal years beginning on or after January 1, 2018)
- Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosure of Interests in Other Entities,” and IAS 28 “Investments in Associates and Joint Ventures” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- Amendments to IFRS 11 “Joint Arrangements” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- IFRS 14 “Regulatory Deferral Accounts” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- IFRS 15 “Revenue from Contracts with Customers” (mandatory adoption for fiscal years beginning on or after January 1, 2017)
- Amendments to IAS 1 “Presentation of Financial Statements” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- Amendment to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- Amendments to IAS 27 “Equity Method in Separate Financial Statements” (mandatory adoption for fiscal years beginning on or after January 1, 2016)
- Improvements to IFRSs 2012 – 2014 (mandatory adoption for fiscal years beginning on or after January 1, 2016)

IFRS 9 contains new provisions for the classification and measurement of financial assets and financial liabilities and is intended to replace IAS 39. According to this, financial assets are to be recognized depending on their respective characteristics and considering the business model or business models, either at amortized cost or at fair value through profit or loss. Contrary to the currently valid provisions, equity instruments are generally to be measured at fair value. Volatility in value of the equity instruments may also be recorded in equity without affecting profit or loss. In this case, only certain income from participations is recognized through profit or loss for equity instruments. The previous provisions of IAS 39 are adopted to a large extent with regard to the classification and measurement of financial liabilities. One change affects the accounting of financial liabilities which are designated as at fair value through profit or loss. In the future, the part of the fair value change resulting from the change of one’s own credit risk is to be recorded in other comprehensive income and not in the consolidated statement of profit or loss. Another change relates to liabilities from derivative financial instruments which are linked to equity instruments not listed on the stock exchange. In the future, these liabilities are always to be recognized at fair value, while the currently applicable provisions allow recognition at amortized cost. The initial adoption of IFRS 9 could have effects on the measurement of investments in participations. Until now, these have predominantly been recognized at cost because their fair values cannot be determined reliably. In addition, starting from the date of the first-time adoption, the unrealized fair value gains and losses from debt instruments that were previously recorded in equity are to be recognized in the consolidated statement of profit or loss. The implementation of the new accounting policies can lead to a higher volatility of the profit or loss after tax.

In addition, IFRS 9 comprises new rules for hedge accounting. Changes to the previous accounting policies mainly refer to new provisions regarding the designation of instruments and risks, requirements for hedge effectiveness, the adjustment and discontinuation of hedging relationships, and some rules for the recognition of hedging relationships. IFRS 9 supersedes IFRIC 9 “Reassessment of Embedded Derivatives” and also changes a number of existing standards, including IFRS 7, which governs the disclosure requirements for financial instruments, and the provisions of IFRS 9 in the versions published in 2009 and 2010. IFRS 9 was revised in July 2014. The new version includes revised provisions regarding classification and measurement of financial assets and, for the first time, provisions in relation to the impairment of financial instruments; the new “expected loss model” uses a forward-looking approach for the recognition of losses by recognizing both losses already incurred and losses expected for the future. The impacts on the consolidated financial statements are currently being analyzed.

The amendments to IFRS 10 and IAS 28 address a known inconsistency between both standards as regards the sale or contribution of assets between an investor and its associate or joint venture. If the transaction affects a business as defined in IFRS 3, the investor recognizes the full gains or losses from that transaction; if the transaction is only a sale of assets that do not represent a business, only a portion of the gains or losses is recognized. The Group currently does not expect that the amendments, if adopted by the EU in this form, will have a significant impact on the presentation of financial statements.

The amendment to IFRS 12 relates to the application of the consolidation exception in case the parent company meets the definition of an investment entity. The amendment is not significant for the ZF Group.

The amendments to IFRS 11 clarify that the acquisition of both the initial interest and additional interests in a joint operation which constitutes a business, has to be accounted for based on the accounting provisions for business combinations set out in IFRS 3, unless there is a conflict with the guidance set out in IFRS 11. The disclosure requirements of IFRS 3 also have to be met. The Group currently does not expect that the amendments, if adopted by the EU in this form, will have a significant impact on the presentation of financial statements.

IFRS 14 “Regulatory Deferral Accounts” permits a first-time adopter of IFRS, subject to a few limitations, to continue to account for regulatory deferral accounts that it recognized in accordance with previously applied GAAP. This applies to both the first IFRS financial statements and to financial statements for subsequent periods. The amendment does not impact ZF’s consolidated financial statements.

The objective of IFRS 15 is to aggregate the various revenue recognition rules included in several standards and interpretations and define uniform basic principles applicable to all industries and all types of sales transactions. IFRS 15 determines the timing and the amount of revenue recognition. The core principle is that revenue is recognized during the transfer of goods or services in an amount that reflects the expected consideration. IFRS 15 comprises, among other things, expanded guidance for multiple-element arrangements as well as new rules for the treatment of service contracts and contract modifications. In addition, the new standard requires the disclosure of a number of quantitative and qualitative information to enable users of the consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. IFRS 15 supersedes IAS 11 “Construction Contracts” and IAS 18 “Revenue” as well as the related interpretations.

To implement the transition to the new standard, companies may adopt either a full retrospective approach (with optional practical expedients) or a modified retrospective approach. The latter permits the first-time adoption of the standard from the current reporting period without adjusting comparative periods, but requires additional disclosures. The Group currently cannot finally assess the effects the first-time application of the standard will have if it is adopted by the EU in this form.

The amendments to IAS 16 and IAS 38 provide further guidance to determine acceptable methods of depreciation and amortization. Accordingly, sales-based methods of depreciation or amortization of property, plant, and equipment and intangible assets, respectively, are only appropriate in particular exceptions. The Group currently does not expect that the amendments, if adopted by the EU in this form, will have a significant impact on the presentation of financial statements.

The amendments to IAS 1 are intended to improve financial reporting in relation to disclosures. A stronger focus is put on the materiality principle. The amendments introduce further subdivisions of the minimum components of the statement of financial position as well as the presentation of subtotals. In addition, there is now a greater flexibility as regards the order of disclosures. Moreover, the provisions set out in IAS 1 with respect to the identification of significant accounting policies as a component of the notes were abolished. The Group currently does not expect that the amendments, if adopted by the EU in this form, will have a significant impact on the presentation of financial statements.

The amendment to IAS 16 and IAS 41 refers to biological assets and has no significance for the ZF Group.

The amendment to IAS 27 is designed to reintroduce the application of the equity method in the separate financial statements; this means that interests of an investor held in subsidiaries, joint ventures, and associates have to be accounted for either at amortized cost in accordance with IAS 39 or IFRS 9, respectively, or using the equity method. The selected method has to be applied consistently for each category of interests. The amendment has to be applied retrospectively. Early adoption is permitted. The Group does not expect that the amendments, if adopted by the EU in this form, will have a significant impact on the presentation of financial statements.

The improvements to IFRSs 2012 – 2014 describe omnibus standards which were published in September 2014 and deal with amendments to various IFRSs. Below, the amendments are listed that have an effect on the consolidated ZF Group:

- IFRS 5: Inclusion of separate guidance for cases where a company reclassifies an asset from the held-for-sale category to the held-for-distribution category and vice versa;
- IFRS 7: Clarification of the applicability of the amendments to IFRS 7 in relation to disclosures on netting in condensed interim financial statements;
- IAS 19: Clarification that high quality corporate bonds which are used to determine the discount rate for post-employment benefits have to be denominated in the same currency as the payments to be made;
- IAS 34: Clarification of the meaning of the phrase “elsewhere in the interim financial report” and inclusion of a provision to incorporate a cross-reference to such other statement if it is not included in the main part of the report.



## Basis of consolidation

In addition to ZF Friedrichshafen AG, six domestic and 110 foreign subsidiaries controlled by ZF Friedrichshafen AG are included in the consolidated financial statements.

The following table shows the composition of the consolidated ZF Group (without ZF Friedrichshafen AG):

	Jan. 1, 2014	First-time consoli- dations	Legal changes	Deconsoli- dations	Dec. 31, 2014
Subsidiaries	123	8	-7	8	116
of which domestic	4	2	0	0	6
of which foreign	119	6	-7	8	110
Joint ventures	3	1	0	0	4
Associates	1	0	0	0	1

## Company acquisitions

Based on a purchase contract dated July 11, 2014, ZF acquired 100 % of FTU Beteiligungsverwaltung GmbH ("FTU"). This resulted in the acquisition of an indirect stake of 51 % in the subsidiary Lemförder Electronic GmbH. The previous shareholding had amounted to 49 %. Both companies were included in the consolidated financial statements for the first time in the year under review. The purchase price was paid completely in cash in 2014. Lemförder Electronic GmbH develops and produces mechatronic and electronic systems for the automotive industry. The acquisition aims at extending the electronics expertise of the ZF Group.

The acquired assets and liabilities of FTU and Lemförder Electronic GmbH were recognized at the date of acquisition with the following fair values which are based on a preliminary purchase price allocation:

in € million	100 %
Cash	16
Trade receivables	11
Inventories	7
Property, plant, and equipment	12
Deferred taxes	2
Financial liabilities	-2
Trade payables	-6
Other liabilities	-2
Income tax provisions	-1
Other provisions	-8
<b>Acquired net assets</b>	<b>29</b>
Purchase price	4
<b>Negative goodwill</b>	<b>25</b>

Negative goodwill arose in connection with contractual arrangements in the past.

In the period from January 1, 2014 to December 31, 2014, Lemförder Electronic GmbH generated sales of € 62 million and a profit of € 5 million. Since initial recognition in the consolidated financial statements, the company almost exclusively generated sales with consolidated companies, which are, therefore, not recorded in the statement of comprehensive income of the ZF Group. Net profit after tax amounted to € 4 million for the same period.

As of December 31, 2014, ZF YTO (Luoyang) Axle Co., Ltd. was established together with the joint venture partner First Tractor Co., Ltd. (FTL) in order to expand the activities with agricultural machinery components in the Asian market. ZF YTO (Luoyang) Axle Co., Ltd. manufactures axles for agricultural machinery. ZF holds 51% of the interests. The joint venturers had not made their contribution to the joint venture's share capital as of December 31, 2014. ZF has an obligation to make its contribution in the amount of € 19 million in cash. FTL will make a contribution in kind in the amount of € 7 million as well as a cash contribution in the amount of € 11 million. Furthermore, ZF YTO (Luoyang) Axle Co., Ltd. purchased inventories of € 1 million and intangible assets of € 21 million from FTL. As of December 31, 2014, trade payables amounted to € 22 million.

#### Other changes in the basis of consolidation

In addition to the above-mentioned company acquisitions, the following companies have been included in the consolidated financial statements of ZF Friedrichshafen AG for the first time in the fiscal year 2014:

in %	Share in capital
MSNA, Inc., Wilmington, USA	100
ZF Holding Dover Inc., Wilmington, USA	100
ZF Components Investment Private Ltd., New Delhi, India	100
ZF Services Belgium N.V. – S.A., Brussels, Belgium	100
ZF Services Hong Kong Ltd., Hong Kong	100

The first-time consolidation of the above-mentioned companies had the following impact on the assets and liabilities of the Group:

#### in € million

Current assets	– 8
Non-current assets	– 1
Current liabilities	– 12
Non-current liabilities	0

The sale of the AIBC Group was implemented through a share deal; the sale of the Rubber & Plastics business unit was effected through share and asset deals. In this context, the following companies were deconsolidated in the fiscal year 2014:

#### in %

#### Share in capital

ZF Boge Elastmetall Slovakia a.s.	100
ZF Boge Elastmetall Australia Pty. Ltd.	100
ZF Boge Elastmetall (Shanghai) Co., Ltd.	100
ZF Boge Elastmetall LLC	100
ZF Boge Elastmetall France S.A.	100
Auto Industrial Brake and Chassis Investment Holdings (Pty.) Ltd.	100
ZF Auto Industrial Spartan (Pty.) Ltd.	100
ZF Hubco Forgings South Africa (Pty.) Ltd.	100

The gain or loss from the disposals is recorded in other income. All of the assets and liabilities disposed are disclosed in Note (27).

#### Consolidation principles

The consolidation of investments in subsidiaries is carried out according to the purchase method. When control was obtained, the revalued assets and liabilities of the subsidiary and contingent liabilities, if they do not depend on a future event, are offset against the fair value of the consideration paid for the shares. Contingent purchase price payments are recognized at the amount expected.

Subsequent adjustments of contingent purchase price payments are recognized in profit or loss. Acquisition-related expenses are recognized in profit or loss when they are incurred.

Any excess remaining after capital consolidation is recognized as goodwill and recorded under intangible assets. The goodwill is tested for impairment as of the reporting date. An impairment test is performed during the year if there are any triggering events. Negative differences arising on the consolidation of investments in subsidiaries are recognized in profit or loss in the consolidated statement of profit or loss under other income.

If not all interests are acquired during an acquisition, the non-controlling interests can be recognized at the amount of the proportionally revalued net assets or at their proportional total company value including the applicable goodwill. This right of choice is applicable to every company acquisition. As of December 31, 2014, all non-controlling interests are reported at the proportional net assets.

In the case of a step acquisition, the already existing interests in the company to be consolidated are revalued at the fair value at the date when control is obtained. The difference to the carrying amount of the investment is recognized in profit or loss.

The acquisition of additional interests of already consolidated subsidiaries is recognized as an equity transaction. In this method, the difference between the cost of the investment acquired and the carrying amount of the non-controlling interest is recognized in retained earnings. The effects of a sale of interests, which does not lead to a loss of control over a subsidiary, are to be recognized in equity with no effect on profit or loss by offsetting the capital gain or loss against retained earnings and by increasing the non-controlling interests to the amount of the proportional net assets.

The deconsolidation of subsidiaries is carried out on the date of the loss of control or the date of liquidation. The gain or loss deconsolidation is recognized in other income or expenses, respectively. Remaining interests are recognized at fair value under investments in participations.

Consolidation of receivables, liabilities, provisions, income, and expenses, as well as gains or losses is effected for the companies included in the basis of consolidation. Guarantees and warranties between consolidated companies are eliminated.

#### Foreign currency translation

The financial statements of consolidated group companies prepared in foreign currencies are translated on the basis of the concept of functional currency by the modified closing rate method. Since the subsidiaries operate independently from a financial, economic, and organizational point of view, the functional currency is generally identical with the company's local currency. Accordingly, the income and expenses in the financial statements of subsidiaries drawn up in foreign currencies are translated in the consolidated financial statements applying average rates, and assets and liabilities at the closing rate. The exchange difference resulting from the translation of equity at historical rates and the exchange differences resulting from the translation of the consolidated statement of profit or loss at the average exchange rate are recognized in retained earnings without effect on profit or loss.



Upon initial recognition, foreign currency receivables and liabilities are measured at the rate valid on the day of transaction in the individual financial statements of ZF Friedrichshafen AG and its subsidiaries. The closing rate on the reporting date will be used for subsequent measurements. Foreign exchange gains and losses from the revaluation of trade receivables and trade payables on the reporting date are recognized in other income and

expenses. Foreign exchange gains and losses from financial assets and liabilities are recognized within other financial income and financial expenses.

The exchange rates used for foreign currency translation with a significant influence on the consolidated financial statements changed as follows in relation to one euro:

	Closing rate		Average rate	
	Dec. 31, 2014	Dec. 31, 2013	2014	2013
U.S. dollar	1.2141	1.3791	1.3283	1.3283
British pound	0.7789	0.8337	0.8061	0.8493
Chinese renminbi	7.5358	8.3491	8.1837	8.1662
Brazilian real	3.2207	3.2576	3.1215	2.8701
Mexican peso	17.8679	18.0731	17.6578	16.9682

### Accounting policies

The financial statements of ZF Friedrichshafen AG and the companies included in the consolidated financial statements are drawn up on December 31 of each fiscal year, applying uniform Group accounting policies.

### Recognition of expenses and income

**Sales** from the sale of products are recognized at the time of transfer of ownership or the risk to the customer, when a price is agreed or can be determined and when payment is probable. Sales are reported net of cash discounts, price reductions, customer bonuses, and rebates. Sales from services are recognized according to the stage of completion, if the amount of sales can be reliably measured and an economic benefit from the business can be reasonably expected. Royalties are recognized on an accrual basis in accordance with the terms of the underlying contract.

**Cost of sales** comprises the cost of conversion of products sold as well as the purchase costs of sold merchandise. In addition to the directly attributable material and production costs, it also includes indirect production-related overheads, including depreciation on property, plant, and equipment used and amortization of intangible assets. Cost of sales also includes write-downs of inventories to the lower net realizable value.

**Research costs** and non-capitalizable **development costs** are recognized in profit or loss when incurred.

**Borrowing costs** that are directly attributable to the acquisition or production of an asset which requires a considerable amount of time in order to be brought into the intended usable or sellable state are recognized as part of the cost of that asset. All other borrowing costs are recognized immediately as expenses.

**Interest income** is recognized in profit or loss when it is incurred.

**Dividend income** is recognized at the time the payout entitlement arises.

### **Hedging transactions**

Derivative financial instruments are used at the consolidated ZF Group for hedging in order to reduce foreign currency and raw material price risks as well as interest rate and market price risks. In accordance with IAS 39, all derivative financial instruments are recognized at market value.

If the criteria for hedge accounting are met, they are accounted for as fair value hedge or cash flow hedge. If hedge accounting is not applicable, the derivative financial instruments are measured at their fair values and changes in fair value are reflected in profit or loss.

Fair value hedges are used to hedge risks of changes in the value of financial line items. If the criteria are met, the results from mark-to-market of derivative financial instruments and the underlying hedged items are reflected in profit or loss.

Cash flow hedges are used to hedge exposure to variability in future cash flows. If the market value of derivative financial instruments – used for cash flow hedges – changes, the unrealized gains and losses in the amount of the effective part are initially recognized in the retained earnings without affecting profit or loss. Reclassification to the consolidated statement of profit or loss is effected in the same period during which the hedged transaction affects profit or loss. The ineffective part of market value changes is reflected directly in the consolidated statement of profit or loss.

Impacts on profit or loss resulting from hedging transactions that have been concluded in order to hedge risks relating to raw material price changes are shown under cost of sales. The profit and loss derived from foreign currency hedging transactions is recognized under other income and expenses or as part of acquisition cost. Gains and losses from derivative financial instruments used to hedge interest rate risks and market price risks related to securities are shown under other financial results.

### **Cash**

Cash comprises cash on hand, bank deposits available any time, and short-term overnight money.

### **Financial assets**

Current and non-current financial assets are divided into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial assets at fair value through profit or loss
- Financial assets held for trading

The “Loans and receivables” category comprises cash, financial receivables, as well as trade receivables. Loans as well as earmarked time deposit investments and bank deposits are shown under financial receivables. They are recognized at amortized cost using the effective interest method. Trade receivables are recognized at the original invoice amount.

If there are objective indications for an impairment of the loans and receivables, the impairment losses are calculated as the difference between the present value of the expected future cash flows and the carrying amount and recognized in profit or loss using a separate allowance account. In case they are expected to be uncollectible, a direct impairment is recognized.

The “Available-for-sale financial assets” category includes current or non-current securities, as well as investments in participations. Following their initial recognition, available-for-sale financial assets are generally measured at fair value. Investments in participations for which there is no active market and fair values cannot be reliably determined due to a lack of planning data, are recognized at cost. Sale of these shares is currently not planned.

Gains and losses resulting from changes in the fair value of available-for-sale financial assets are recognized directly in equity within the retained earnings. Reclassification to the consolidated statement of profit or loss is effected as soon as an impairment is recognized, but no later than the date of disposal of financial assets.

In the case of objective evidence for prolonged impairment, such as a continuous decrease of the financial assets’ fair values or a considerable decline of the issuer’s credit rating, the accumulated net loss is removed from equity and shown under the net financial result. The accumulated net loss is the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss. Subsequent reversals of impairments for equity instruments are registered without affecting profit or loss. In the case of debt instruments, reversals of impairments made through profit or loss are at maximum effected at the level of previously recorded impairments. If there are indications for impairment of investments in participations which are valued at amortized cost, the impairment loss is recognized in profit or loss. There is no reversal of such impairment losses.

Securities which contain embedded derivatives are assigned to the “Financial assets at fair value through profit or loss” category, since the fair value of the embedded derivatives cannot be reliably determined. The unrealized fair value gains and losses are recorded in other financial results.

“Financial assets and liabilities held for trading” affect derivative financial instruments that do not meet the hedge accounting criteria. Changes in fair value of derivative financial instruments are recognized within other financial income and expenses.

As a rule, financial assets are capitalized as of the settlement date.

A financial asset is derecognized as of the settlement date when the contractual rights to receive cash flows from the asset have expired or substantially all risks and rewards have been transferred. A derecognition is performed ahead of the settlement date, once it is established that the trade receivables as well as financial receivables are uncollectible.

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when the entity currently has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### **Inventories**

As a general rule, raw materials and supplies as well as merchandise are measured at the lower of average cost and net realizable value. Work in progress and finished goods are recognized at cost of conversion, taking into account the lower net realizable value. The cost of conversion includes all costs directly attributable to the manufacturing process and appropriate portions of the production-related overheads. This includes production-related depreciation, prorated general administrative expenses, and prorated social expenses.

### Investments in associates and joint ventures

Investments in associates and joint ventures are generally recognized in accordance with the equity method with the proportionate equity. If, on the reporting date, there is objective evidence for the impairment of an investment, an impairment test is performed. The share of the ZF Group in the profit for the period of the associate or joint venture, respectively, is recognized separately in the consolidated statement of profit or loss as part of the financial result. Income and expenses that are directly recognized in equity of the associate or joint venture are recognized in the ZF Group without effect on profit or loss as well and presented separately in the consolidated statement of comprehensive income.

### Intangible assets

Purchased or internally generated intangible assets are capitalized if a future economic benefit can be expected from the use of the asset and the costs of the assets can be reliably determined.

For recognition and measurement of **goodwill**, please refer to the explanations on the consolidation principles.

**Tooling subsidies** to suppliers are capitalized when they represent a right granted by the supplier or a fee for a service still to be rendered by the supplier. Tooling subsidies paid are amortized over a period of one to six years.

**Development costs** are capitalized at cost if both technical feasibility and marketability are ensured. It must furthermore be sufficiently probable that the development activity will generate future economic benefits. Capitalized development costs comprise all costs directly attributable to the development process. Capitalized development costs are amortized from the start of production over an expected product life cycle of five years.

**Other intangible assets** are recognized at cost and amortized based on the following useful lives:

	in years
Software	3 to 5
Patents, trademarks, and licenses	5
Customer relations	3 to 30

Intangible assets with indefinite useful lives affect trademarks and are not amortized.

### Property, plant, and equipment

The entire **property, plant, and equipment** is used for business purposes and is measured at cost less depreciation for wear and tear. Depreciation on property, plant, and equipment is recorded on the basis of the straight-line method in accordance with its utilization. Throughout the consolidated group, depreciation is based on the following useful lives:

	in years
Buildings	9 to 33
Technical equipment and machines	2 to 14
Other equipment, factory and office equipment	2 to 13

The depreciation on machines used in multi-shift operations is increased accordingly by shift allowances.

The residual values, depreciation methods, and useful lives of assets are reviewed annually and adapted, if necessary.



In accordance with the provisions on accounting for leases, economic ownership is attributed to the lessee if it bears substantially all of the risks and rewards associated with ownership. Lease agreements which meet these requirements are classified as **finance leases**. Leased assets are recognized at the commencement of the lease term at fair value or the lower present value of the minimum lease payments. The assets are depreciated on a straight-line basis over the expected useful life or the shorter term of the lease.

The discounted payment obligations resulting from the future leasing installments are recognized under financial liabilities.

In subsequent periods, leasing payments are divided into principal and interest payments. The interest portion is recognized in the net financial result. The principal payments reduce financial liabilities.

Lease and rent payments resulting from **operating lease** contracts are recognized as expenses in the consolidated statement of profit or loss on a straight-line basis over the duration of the lease term. The future burdens under operating lease relationships are disclosed under other financial obligations.

### **Investment properties**

Property that is not owner-occupied, but held to earn rentals or for capital appreciation is reported separately in the statement of financial position under "Investment property." Land and buildings are recognized at amortized cost. Depreciation is based on the method used for buildings which are part of property, plant, and equipment.

### **Government grants**

Government grants are recognized only if there is reliable evidence that the related conditions are met and the subsidies are likely to be granted. Investment subsidies are deducted from property, plant, and equipment in the period in which they were received. Expense subsidies are recognized as income during the same period in which the expenses, for which compensation was granted, are incurred.

Current market interest rates are used for the valuation of non-interest-bearing or low-interest-bearing government loans. The difference between the discounted value and the repayment value is deferred and recognized under other liabilities. The deferred amount is broken down over the duration of the loan contract and recognized in the interest expenses.

### **Non-current assets held for sale and disposal groups**

Assets and liabilities are reported as disposal groups when these are to be disposed of by sale together as a group in a single transaction which is highly probable. Individual assets are reported in the statement of financial position as assets held for sale. The affected assets and liabilities are presented separately in the consolidated statement of financial position in current assets and liabilities as "Assets held for sale and disposal groups" is what the item is called in the statement of financial position and "Liabilities of disposal groups," respectively. Income and expenses of the assets and liabilities affected are included in the profit or loss from continuing operations until disposal.

The disposal group is measured upon initial recognition in accordance with the relevant IFRS standards. Subsequently, the disposal group is measured at the lower of its carrying amount or fair value less costs to sell.

### Impairment tests

For **investments accounted for using the equity method, intangible assets** already in use, and **property, plant, and equipment**, it is verified as of the reporting date whether there are indications of potential impairment. If there are any indications, an impairment test must be performed. Intangible assets that are not yet ready to be used and intangible assets with indefinite useful lives are subject to an annual impairment test.

To perform the impairment test, the recoverable amount is determined. This is the higher amount of the asset's or the smallest cash-generating unit's fair value less costs to sell and their value in use. The recoverable amount is determined for the individual asset or a cash-generating unit, if no cash flows can be allocated to the individual asset. The smallest units for which cash flows are forecast within the context of the ZF corporate planning, are considered cash-generating units. These are either individual companies or parts of individual companies.

The value in use is the net present value of future cash flows, which are expected from the continued use of the asset or the cash-generating unit and its disposal at the end of its useful life. The value in use is determined by the discounted cash flow method on the basis of the current corporate planning data which refers to a three-year planning horizon. The capital cost rate of the ZF Group, which is determined on the basis of the WACC (Weighted Average Cost of Capital) method, is used to discount the cash flows.

The forecast for cash flows is based on the current operational planning of the ZF Group, in which general economic data from external macroeconomic research as well as financial surveys is also taken into consideration. The assumptions made consider the country-specific rates of inflation for the period investigated. Cost of materials is forecast based on the individual premises at the level of each cash-generating unit. The development of personnel expenses is also forecast individually on the basis of the collective agreements in effect. Based on these cash flow predictions, the value in use of the cash-generating units is determined assuming a discount factor before tax of 9 % to 14 % (2013: 8 % to 12 %) and growth rate of 1.5 %. At the end of the three-year planning horizon, the expected cash flows are extrapolated using weighted averages based on the cash flows from the planning period.

Fair values less costs to sell for property, plant, and equipment are estimated on the basis of discounted cash flows as well as a cost-based approach for comparable assets that are generally not based on parameters observable on the market.

An impairment loss is recognized if the recoverable amount falls below the carrying amount of the asset or the cash-generating unit.

If the reason for an impairment loss recognized in an earlier period ceases to exist, the impairment loss is reversed, however up to a maximum of the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized. Impairment losses and reversals of impairment losses for intangible assets and property, plant, and equipment are assigned to the functional areas as of the consolidated statement of profit or loss.

**Goodwill** from business combinations is allocated to those groups of cash-generating units that derive benefit from the business combinations. In the consolidated ZF Group, these are the respective divisions and business units. An impairment test for goodwill is performed annually using the impairment test in accordance with the above-described methods. An impairment of goodwill is recognized if the recoverable amount of the corresponding cash-generating unit is below its carrying amount. Impairment losses for goodwill are reported under other expenses. Impairment losses recognized on goodwill are not reversed.

#### **Financial liabilities and other liabilities**

Financial liabilities and other liabilities are recognized initially at cost, which represents the fair value of the consideration received. The transaction costs are also taken into account here. In subsequent periods, the liabilities are measured at amortized cost based on the effective interest method. To the extent that financial liabilities have not been utilized, transaction costs are deferred within other assets. Recognition through profit or loss is made using the item "Other financial expenses." The derecognition of financial liabilities and other liabilities takes place as soon as the obligations they are based on have been fulfilled or terminated.

A best estimate is made for the risks of financial guarantee contracts issued by the Group as of the reporting date. To the extent that utilization is probable, a financial liability is recognized in the amount of the expected cash outflow.

The consolidated ZF Group basically dispenses with applying the fair value option to register financial liabilities upon first-time valuation under the category of "Financial liabilities at fair value through profit or loss."

#### **Tooling subsidies received**

Tooling subsidies received represent a consideration in exchange for services to be rendered or rights granted to the payer of the subsidy. The subsidies are deferred as tooling subsidies received under other liabilities. The reversal takes place during the project duration.

#### **Provisions for pensions**

Provisions for pensions are recognized in accordance with the projected unit credit method. Under this method, not only pensions and vested interests recognized as of the reporting date are taken into account, but also increases in pensions and current salaries and wages that are expected in the future. The calculation is based on actuarial reports, taking into account biometric calculation bases. Actuarial gains and losses are recognized in full in other comprehensive income in the period in which they occur. Expenses resulting from unwinding the discount and expected returns on plan assets are offset and recognized in interest expenses. All other expenses resulting from the addition to pension provisions are assigned to the affected functional areas within the consolidated statement of profit or loss.

#### **Other provisions**

Other provisions are recognized if an obligation to third parties exists, which will probably result in the outflow of resources, and if a reliable estimate can be made of the amount required.

As a general rule, all cost elements that are relevant to determine the value of the inventories flow into the measurement of provisions relating to sales, in particular those for warranties and potential losses on pending transactions. The measurement takes place at the value of the best possible estimate of expenses which are necessary to fulfill the obligation on the reporting date. The measurement of provisions for warranty costs takes place on the basis of actual warranty expenses under consideration of warranty and goodwill periods as well as sales development over several years.

Personnel-related obligations affect long-service awards and semi-retirement obligations in particular. Provisions for employee long-service bonuses are calculated on an actuarial basis. The provisions for semi-retirement obligations comprise individual or pay-scale-related top-up benefits for pension insurance as well as the wages and salaries to be paid during the release phase. They are accrued on a pro-rata basis when the obligation arises.

Semi-retirement obligations are protected against insolvency using a trust model. For this purpose, shares held in a special fund are assigned to a trustee. The shares in the special fund are measured at fair value. The assets, which are solely used for satisfying the semi-retirement obligations and which are restricted from the access of all other creditors, are offset against provisions (plan assets). If these exceed the amount of provisions, such excess is reported under non-current other financial receivables. The return on plan assets is offset against expenses from the interest cost of provisions and reported in the statement of profit or loss.

Non-current provisions with a residual term of more than a year are recognized at the reporting date with their discounted settlement amount. They are discounted when the effect of the time value of money is material.

## Income taxes

The **current income tax receivables and provisions** for current and previous periods are measured using the amount for which reimbursement from or payment to tax authorities is expected. The amount is calculated using the tax rates and the tax laws that are in effect on the reporting date.

**Deferred tax assets and liabilities** are recognized on temporary differences between the tax basis and the IFRS carrying amounts. Deferred tax assets also include tax reductions that will result from the expected utilization of existing tax loss carryforwards and tax credits in the subsequent years. Deferred taxes are computed on the basis of the tax rates that will or are expected to apply at the realization date with sufficient probability in accordance with the current legal situation in the individual countries.

Deferred tax assets on temporary differences and on tax loss carryforwards are only recognized if there is sufficient probability that the tax reductions resulting from them will actually occur in future.

The carrying amount of deferred tax assets is reviewed on the reporting date and written down accordingly, if it is anticipated that there will not be enough taxable profit to offset the tax assets at least in part. Unrecognized deferred tax assets are reviewed on each reporting date and recognized to the extent that a future taxable income allows the utilization of deferred tax assets.



In addition, no deferred tax assets and liabilities are recognized if these result from the initial recognition of goodwill, an asset, or a liability as part of a business transaction which is not a business combination, and if, through this initial recognition, neither the accounting net profit or loss before income tax nor the taxable profit is influenced.

Deferred taxes that refer to line items that are directly recognized in equity are also recognized in equity and not in the consolidated statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset against each other, if the Group has a recoverable right to offsetting the current tax refunds against current tax liabilities and if they apply to the income taxes of the same taxable entity levied by the same tax authority.

#### **Judgments and uncertainties in connection with estimates**

Preparation of the consolidated financial statements requires assumptions to be made and estimates to be applied, which affect the reported amounts and disclosure of assets and liabilities, income and expenses, and contingent liabilities.

Essential assumptions and estimates as used in the recognition and measurement of the financial line items are explained below.

Management estimates as to technical and economic feasibility of development projects influence the decision to **capitalize development costs** (Note 14). The valuation of the capitalized development costs depends on the assumptions about amount and timing of expected future cash flows, as well as on the discount rates to be applied.

For the accounting of other **intangible assets** and **property, plant, and equipment**, the assumptions and estimates essentially relate to the definition of useful lives.

In the context of the **impairment tests** (Note 16), assumptions and estimates are used in determining the future cash flows to be expected as well as for defining discount rates. This may have an influence on the values of intangible assets and liabilities in particular.

The assessment of the recoverability of **trade receivables** (Note 9) is subject to judgement as regards the future solvency of the debtors.

The fair values of the **securities** (Note 31) which correspond to level 3 of the fair value hierarchy are determined on the basis of underlying data that is not observable on the market. The calculation according to the discounted cash flow method is based on estimates regarding the expected cash flow and used discounting rates.

In accounting for the **deferred tax assets** (Note 6), the assumptions and estimates essentially relate to the likelihood of expected tax reductions actually occurring in the future.

The actuarial valuation of **provisions for pensions** (Note 21) is particularly based on assumptions as to discount rates, future pension developments, age shifts, and the development of the general cost of living.

Determination of **warranty provisions** (Note 20) is subject to assumptions and estimates which refer to the time period between delivery date and the occurrence of the warranty event, warranty and goodwill periods, as well as future warranty burdens.

The determination of non-current **provisions for onerous contracts** (Note 20) is subject to judgement with respect to the interpretation of supply contracts. In this respect, the major decision criteria are to determine term, quantities, and prices for delivery with binding effect.

The amount of impairment losses for the **available-for-sale financial assets** is impacted by the judgments relating to the estimate whether fair value losses are considered significant or prolonged, and in terms of the credit rating of the issuers.

The amount of the fair value of the **derivative financial instruments** entered into to hedge the currency risk arising from the purchase price payment in a total amount of USD 12.4 billion for the proposed acquisition of the TRW Group is based on the assumption that successful completion of the company acquisition is highly probable. The determination of the fair value is described in more detail in Note 31.

No other major judgments were made.

In individual cases, actual amounts could differ from these assumptions and estimates. Changes are recognized in profit or loss as soon as better information is available.

When preparing the consolidated financial statements, the underlying estimates were not subject to any major risks; therefore, no major adjustments to the assets and liabilities recognized in the consolidated statement of financial position are expected during the subsequent fiscal year.

#### **Change in the presentation of financial assets and liabilities as well as other assets**

In order to enhance the meaningfulness of the statement of financial position, derivative financial instruments were allocated consistently to financial assets and liabilities. In addition, a separate item in the statement of financial position was introduced for non-financial other non-current assets. In order to improve the comparability of the statement of financial position, the prior-year figures in the statement of financial position and the notes to the consolidated financial statements were adjusted accordingly.

The change in presentation had an impact on the following financial line items:

Assets in € million	2013 published	Adjust- ments	2013 adjusted
<b>Current assets</b>			
Financial assets	35	10	45
Other assets	205	- 10	195
	<b>240</b>	<b>0</b>	<b>240</b>
<b>Non-current assets</b>			
Financial assets	1,199	- 21	1,178
Other assets	0	21	21
	<b>1,199</b>	<b>0</b>	<b>1,199</b>

## NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The consolidated statement of profit or loss has been drawn up in accordance with the cost of sales method.

### 1 Sales

in € million	2014	2013
Domestic	5,792	5,607
Western Europe	3,597	3,300
Eastern Europe	927	920
North America	3,745	3,095
South America	556	704
Asia-Pacific	3,621	2,998
Africa	177	213
	<b>18,415</b>	<b>16,837</b>

Sales include € 17,864 million (2013: € 16,421 million) from the sale of goods and € 520 million (2013: € 374 million) for the rendering of services as well as € 31 million (2013: € 42 million) for royalties.

### 2 Cost of sales

in € million	2014	2013
Cost of materials	10,880	9,857
Personnel expenses	2,839	2,686
Depreciation and amortization	846	807
Other	754	562
	<b>15,319</b>	<b>13,912</b>

Depreciation and amortization include impairment losses for property, plant, and equipment of € 4 million (2013: € 4 million) as well as reversals of impairment losses of € 0 million (2013: € 3 million).

### 3 Other income

in € million	2014	2013
Foreign exchange gains	89	61
Income from hedging	16	7
Compensation payment and reimbursement of costs	15	29
Income from the disposal of intangible assets and property, plant, and equipment	7	7
Income from rentals and lease payments	2	2
Income from deconsolidations	104	1
Negative goodwill from company acquisition	25	0
Other income	21	23
	<b>279</b>	<b>130</b>

### 4 Other expenses

in € million	2014	2013
Foreign exchange losses	71	60
Expenses from hedging	16	4
Changes of allowances for receivables	35	3
Losses on the disposal of intangible assets and property, plant, and equipment	11	8
Expenses from additions to provisions	0	22
Other expenses	20	24
	<b>153</b>	<b>121</b>

## 5 Net financial result

in € million	2014	2013
<b>Result from associates</b>	<b>49</b>	<b>43</b>
Income from participations	152	5
Write-downs of participations	0	-2
Reversal of provisions for risks in participations	0	5
<b>Net result from participations</b>	<b>152</b>	<b>8</b>
Interest from current financial investments	16	25
Interest from non-current financial investments	19	11
<b>Interest income</b>	<b>35</b>	<b>36</b>
Interest on financial liabilities	62	46
Interest from pension provisions	104	101
Unwinding the discount on other non-current items	6	7
<b>Interest expenses</b>	<b>172</b>	<b>154</b>
Foreign exchange gains	79	41
Income from hedging	8	18
Income from the disposal of securities	40	18
Unrealized fair value gains from securities	5	8
Reversal of impairments for financial receivables	0	1
<b>Other financial income</b>	<b>132</b>	<b>86</b>
Foreign exchange losses	66	70
Expenses from hedging	111	10
Losses on disposal of securities	2	2
Unrealized fair value losses from securities	6	3
Write-downs of financial receivables	0	1
Transaction costs and incidental expenses	35	6
<b>Other financial expenses</b>	<b>220</b>	<b>92</b>
<b>Net financial result</b>	<b>-24</b>	<b>-73</b>



## 6 Income taxes

in € million	2014	2013
Current tax expenses	232	206
Tax refunds from prior years	0	-2
Payment of taxes from prior years	10	3
Deferred taxes on temporary differences	-21	19
Deferred taxes on tax loss carryforwards and tax credits	-20	-5
	<b>201</b>	<b>221</b>

A corporate tax rate of 15 % applies in Germany (2013: 15 %). Taking into account an average business tax multiplier of 389 % (2013: 386 %) and the solidarity surcharge of 5.5 % (2013: 5.5 %), an income tax rate of 29 % (2013: 29 %) applies to the domestic companies. This income tax rate is used as the tax rate for the tax reconciliation statement.

The tax rates that apply abroad during the fiscal year are between 0 % and 40 %, and thus remain unchanged compared to the prior year.

The deferred tax assets and liabilities result from the following financial line items:

in € million	Dec. 31, 2014		Dec. 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Financial assets	18	34	8	22
Trade receivables	6	11	7	2
Other current assets	29	119	2	3
Inventories	51	8	48	9
Intangible assets	5	21	4	17
Property, plant, and equipment	34	149	37	131
Current financial liabilities	1	0	1	0
Trade payables	9	0	3	0
Other liabilities	14	1	10	0
Provisions for pensions	492	8	226	5
Other provisions	84	5	67	9
Other	54	4	32	6
	<b>797</b>	<b>360</b>	<b>445</b>	<b>204</b>
Tax loss carryforwards and tax credits	61		41	
Netting	-317	-317	-166	-166
	<b>541</b>	<b>43</b>	<b>320</b>	<b>38</b>

Based on mark-to-market of securities and cash flow hedges, deferred tax liabilities are recognized in equity in the amount of € 116 million (2013: € 6 million). The recognition of actuarial gains and losses for pension provisions in equity without affecting profit or loss leads to deferred tax assets in the amount of € 429 million (2013: € 151 million). As a result, equity is increased by € 168 million (2013: € 29 million). Another change of the deferred taxes of € 3 million (2013: € 5 million), recognized without effect on profit or loss, is the result of closing-date exchange rate differences. Beyond that, all other changes, except changes due to first-time consolidations, have been recognized in profit or loss.

The amount of deductible temporary differences as well as unused tax losses and tax credits for which no deferred tax assets were recognized in the consolidated statement of financial position is € 879 million (2013: € 957 million). Of these, tax loss carryforwards account for € 649 million (2013: € 764 million), with a limited expiration period (up to 20 years) for € 406 million (2013: € 513 million) thereof and an unlimited expiration period for € 243 million (2013: € 251 million) thereof.

As a basic principle, the measurement of deferred tax assets is based on anticipated future business developments at the time of the consolidated financial statements' preparation based on the corporate planning for the following three fiscal years.

The reduction in current tax expenses due to use of losses not yet taken into consideration, tax credits, or as a result of a temporary difference from prior periods not yet recognized, amounts to € 2 million (2013: reduction of

€ 2 million). The increase in deferred tax expenses due to use of losses not yet taken into consideration, tax credits, or as a result of a temporary difference from prior periods not yet recognized, amounts to € 6 million (2013: increase of € 2 million).

The income resulting from non-recognition and the impairment of deferred taxes (or their reversal) in cases where it is no longer likely (or likely again) that sufficient taxable profit will be available to use the deferred tax asset, either in part or in full, amounts to € 47 million (2013: tax expenses of € 71 million).

Deferred taxes are to be calculated for temporary differences in relation to shares in subsidiaries if realization is probable. No deferred tax has been calculated for the earned reserves of the subsidiaries, as the profits are normally not subject to any considerable further taxation or are to be reinvested for an indefinite period of time. In the reporting year, € 5 million (2013: € 0 million) of deferred tax liabilities were recorded for the future tax burden resulting from the sale of a joint venture.

An amount of € 32 million (2013: € 0 million) of deferred tax assets is attributed to subsidiaries that generated losses in the current period or the previous period. This amount will presumably be realized within the next three years due to future taxable profit.

Reconciliation between expected and reported income tax expenses:

in € million	2014	2013
Net profit before income tax	873	683
Expected income tax expenses	253	198
Tax effects due to different national tax rates and group taxation systems	5	-21
Effects of changes in tax laws	-1	-7
Tax effects due to non-recognition and write-down of deferred tax assets and their reversal	-47	71
Tax effects due to permanent differences	-20	-6
Tax effects due to prior-period items	10	-14
Other tax effects	1	0
<b>Reported income tax expenses</b>	<b>201</b>	<b>221</b>

## 7 Other notes to the consolidated statement of profit or loss

The consolidated statement of profit or loss includes the following cost of materials:

in € million	2014	2013
Cost of raw materials, supplies, and merchandise	10,739	9,720
Cost of purchased services	270	279
Other cost of materials	11	12
	<b>11,020</b>	<b>10,011</b>

The cost of raw materials, supplies, and merchandise comprises costs amounting to € 1 million (2013: € 1 million) resulting from hedging against raw material price changes.

The breakdown of personnel expenses is as follows:

in € million	2014	2013
Wages and salaries	3,408	3,201
Social security and benefits expenses	684	648
Pension expenses	144	130
	<b>4,236</b>	<b>3,979</b>

Personnel expenses include expenses for defined contribution plans in the amount of € 275 million (2013: € 258 million). The expenses contained for the state plans amounting to € 215 million (2013: € 205 million) primarily comprise the employer's contribution to the state pension scheme, which is included in the social security expenses.

Termination benefits and other long-term employee benefits of € 2 million (2013: € 3 million) were recorded in the consolidated statement of profit or loss. They affect severance pay as well as expenses from additions to restructuring provisions.

An impairment loss on intangible assets in the amount of € 4 million (2013: € 0 million) is included in the research and development costs.

An impairment loss on property, plant, and equipment in the amount of € 4 million (2013: € 4 million) is included under cost of sales as well as in the amount of € 0 million (2013: € 1 million) under general administrative expenses in the consolidated statement of profit or loss.

Reversals of impairment losses for property, plant, and equipment are included in the cost of sales and amount to € 0 million (2013: € 3 million) and amounting to € 0 million (2013: € 4 million) in general administrative expenses.

Explanations on the impairments and the reversals of impairment losses are given under Note (16).

Amortization on intangible assets is included in the following consolidated statement of profit or loss items:

in € million	2014	2013
Cost of sales	170	163
Research and development costs	4	3
Selling expenses	7	7
General administrative expenses	13	10
	<b>194</b>	<b>183</b>

Depreciation on property, plant, and equipment is included in the following consolidated statement of profit or loss items:

in € million	2014	2013
Cost of sales	672	643
Research and development costs	24	24
Selling expenses	8	9
General administrative expenses	40	37
	<b>744</b>	<b>713</b>

Research and development costs recorded in the fiscal year reached € 891 million (2013: € 836 million). This figure includes amortization for capitalized development costs of € 1 million (2013: € 1 million).

In the fiscal year, payments from operating leases or rental agreements in the amount of € 105 million (2013: € 103 million) were recognized in the consolidated statement of profit or loss.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 8 Current financial assets

in € million	Dec. 31, 2014	Dec. 31, 2013
Securities	0	2
Financial receivables	131	33
Derivative financial instruments	397	10
	<b>528</b>	<b>45</b>

The financial receivables do not include any overdue amounts that are not impaired. The financial receivables contain earmarked bank deposits of € 5 million (2013: € 1 million).

The allowances for the financial receivables have developed as follows:

in € million	2014	2013
Carrying amount as of Jan. 1	4	11
Additions	0	1
Utilization	0	7
Reversals	0	1
Carrying amount as of Dec. 31	<b>4</b>	<b>4</b>

The gross value of the impaired financial receivables is € 4 million (2013: € 4 million).

As far as the financial receivables are concerned which are neither impaired nor overdue there have, as of the closing date, been no indications that the debtors would not meet their payment obligations.



## 9 Trade receivables

The trade receivables have the following age distribution:

in € million	Carrying amount	Thereof current	neither impaired nor overdue	not impaired and overdue for			
				1 to 30 days	31 to 60 days	61 to 360 days	more than 360 days
Dec. 31, 2014	2,416	2,403	2,154	156	44	24	3
Dec. 31, 2013	2,182	2,132	1,983	135	22	37	1

If payment plans have been agreed with customers, and provided that these are adhered to, these receivables are recognized as neither impaired nor overdue.

The allowances for current and non-current trade receivables have developed as follows:

in € million	2014	2013
Carrying amount as of Jan. 1	26	29
Net exchange differences	-1	0
Additions	41	10
Utilization	3	6
Reversals	7	7
Carrying amount as of Dec. 31	56	26

The gross value of the impaired trade receivables is € 91 million (2013: € 30 million).

As far as the trade receivables are concerned which are neither impaired nor overdue there have, as of the closing date, been no indications that the debtors would not meet their payment obligations.

## 10 Other assets

in € million	Dec. 31, 2014		Dec. 31, 2013	
	Total	Thereof current	Total	Thereof current
Other tax receivables	140	137	141	138
Prepaid expenses	224	147	29	18
Receivables from employees	8	8	9	9
Sundry assets	48	43	37	30
	420	335	216	195

Other tax receivables are, for the most part, sales tax refund entitlements. Sundry assets comprise, in general,

payments in advance, reimbursement claims, and receivables from insurance companies.

The other assets do not include any overdue amounts that are not impaired.

The allowances for other current and non-current assets have developed as follows:

in € million	2014	2013
Carrying amount as of Jan. 1	0	1
Additions	1	0
Utilization	0	1
Carrying amount as of Dec. 31	1	0

The gross value of the impaired receivables is € 1 million (2013: € 0 million).

#### 11 Inventories

in € million	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	802	752
Work in progress	390	367
Finished goods and merchandise	666	604
Payments in advance	12	12
	1,870	1,735

Write-downs of inventories increased by € 23 million (2013: decrease by € 15 million) to € 143 million (2013: € 120 million) in the fiscal year 2014.

#### 12 Non-current financial assets

in € million	Dec. 31, 2014	Dec. 31, 2013
Investments in participations	69	69
Securities	959	948
Financial receivables	120	151
Derivative financial instruments	0	10
	1,148	1,178

Investments in participations have developed as follows:

in € million	2014	2013
Carrying amount as of Jan. 1	69	73
Changes in the basis of consolidation	-2	0
Net exchange differences	2	-2
Additions	5	2
Disposals	-1	-2
Write-downs	0	-2
Reclassifications	-4	0
Carrying amount as of Dec. 31	69	69

Non-current financial assets include among other things the assets of special funds which serve to secure pension obligations to some extent. The assets of these special funds are shown under non-current securities and financial receivables.

The financial receivables contain non-current earmarked bank deposits and time deposit investments of € 34 million (2013: € 65 million). Of these, € 30 million is apportioned to special funds (2013: € 59 million).

The financial receivables also include granted loans and direct insurance claims against life insurance policies of € 39 million (2013: € 39 million) as well as plan assets for other performance obligations exceeding the obligation toward employees in the amount of € 12 million (2013: € 0 million).

The financial receivables do not include any overdue amounts that are not impaired. No allowances on financial receivables are recorded as of the reporting date.

Concerning the non-current financial receivables, there are no indications that the debtors would not meet their payment obligations.

### 13 Associates

in € million	Dec. 31, 2014	Dec. 31, 2013
Investments in joint ventures	23	347
Investments in associates	0	0
	<b>23</b>	<b>347</b>

#### Disclosures on investments in joint ventures

The joint venture ZF Lenksysteme GmbH, Schwäbisch Gmünd (Germany), including its subsidiaries, was recognized in the previous year in accordance with the equity method in the consolidated statement of financial position of ZF Friedrichshafen AG. ZF's shareholding is 50%. On September 15, 2014, the shareholding was put up for sale and presented as an asset held for sale in accordance with IFRS 5; the equity method accounting was discontinued as of that date. Until that point in time, the following total comprehensive income was recorded in the consolidated financial statements:

in € million	2014	2013
Net profit or loss after tax	48	121
Other comprehensive income	21	-34
<b>Total comprehensive income</b>	<b>69</b>	<b>87</b>

In addition, the shares in Shanghai Sachs Powertrain Component Systems Co., Ltd., Shanghai (China), SOMIC ZF Components Ltd., Gurgaon (India), as well as ZF Liuzhou Axle Co., Ltd., Liuzhou (China), are included in ZF's consolidated financial statements as joint ventures. In those companies, ZF holds a 50 % share each. Their shares in the total comprehensive income are as follows:

in € million	2014	2013
Net profit or loss after tax	1	1
Other comprehensive income	2	0
<b>Total comprehensive income</b>	<b>3</b>	<b>1</b>

#### Disclosures on investments in associates

ZF PWK Mécacentre S.A.S., St. Etienne (France), is classified as associate despite the participation quota of 50%, as the company is not jointly controlled.

The Group's share of net income of ZF PWK Mécacentre S.A.S. amounts to € 0 million (2013: € 1 million). The equity attributable to the Group remains at € 0 million.

# **14 Intangible assets**

in € million	Goodwill	Patents, licenses, software, and similar rights and assets	Development costs	Payments in advance	Total
<b>Cost as of Jan. 1, 2013</b>	<b>452</b>	<b>707</b>	<b>43</b>	<b>17</b>	<b>1,219</b>
Changes in the basis of consolidation	0	12	0	0	12
Net exchange differences	0	-11	0	-1	-12
Additions	0	201	7	24	232
Reclassifications	0	22	0	-12	10
Disposals	0	100	11	0	111
Reclassification of disposal groups	0	-14	0	-1	-15
<b>Cost as of Dec. 31, 2013</b>	<b>452</b>	<b>817</b>	<b>39</b>	<b>27</b>	<b>1,335</b>
<b>Accumulated amortization as of Jan. 1, 2013</b>	<b>47</b>	<b>323</b>	<b>35</b>	<b>0</b>	<b>405</b>
Changes in the basis of consolidation	0	12	0	0	12
Net exchange differences	0	-9	0	0	-9
Additions (amortization)	0	182	1	0	183
Disposals	0	94	11	0	105
Reclassifications	0	1	0	0	1
Reclassification of disposal groups	0	-8	0	0	-8
<b>Accumulated amortization as of Dec. 31, 2013</b>	<b>47</b>	<b>407</b>	<b>25</b>	<b>0</b>	<b>479</b>
<b>Carrying amount as of Dec. 31, 2013</b>	<b>405</b>	<b>410</b>	<b>14</b>	<b>27</b>	<b>856</b>
<b>Cost as of Jan. 1, 2014</b>	<b>452</b>	<b>817</b>	<b>39</b>	<b>27</b>	<b>1,335</b>
Company acquisitions	0	21	0	0	21
Changes in the basis of consolidation	-6	1	0	0	-5
Net exchange differences	0	21	0	1	22
Additions	0	223	7	10	240
Reclassifications	0	32	0	-25	7
Disposals	0	141	0	0	141
<b>Cost as of Dec. 31, 2014</b>	<b>446</b>	<b>974</b>	<b>46</b>	<b>13</b>	<b>1,479</b>
<b>Accumulated amortization as of Jan. 1, 2014</b>	<b>47</b>	<b>407</b>	<b>25</b>	<b>0</b>	<b>479</b>
Changes in the basis of consolidation	-6	1	0	0	-5
Net exchange differences	0	15	0	0	15
Additions (amortization)	0	193	1	0	194
Additions (impairments)	0	4	0	0	4
Disposals	0	116	0	0	116
Reclassifications	0	3	0	0	3
<b>Accumulated amortization as of Dec. 31, 2014</b>	<b>41</b>	<b>507</b>	<b>26</b>	<b>0</b>	<b>574</b>
<b>Carrying amount as of Dec. 31, 2014</b>	<b>405</b>	<b>467</b>	<b>20</b>	<b>13</b>	<b>905</b>



In addition to EDP software acquired in return for payment, tooling subsidies paid to suppliers, and capitalized development costs, intangible assets primarily comprise goodwill from the acquisition of companies.

Trademarks included at € 10 million (2013: € 8 million) are classified as intangible assets with indefinite useful lives since there is no foreseeable delimitation of the period during which the trademarks will presumably generate cash inflows. They are completely allocated to the Industrial Technology division.

### Goodwill

Goodwill from the consolidation of investments in subsidiaries and from the individual financial statements is shown below:

<b>in € million</b>	<b>Dec. 31, 2014</b>	<b>Dec. 31, 2013</b>
Car Powertrain Technology	57	57
Car Chassis Technology	65	65
Commercial Vehicle Technology	139	139
Industrial Technology	12	12
ZF Services	132	132
	<b>405</b>	<b>405</b>

**15 Property, plant, and equipment**

in € million	Land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Payments in advance and con- struction in progress	Total
<b>Cost as of Jan. 1, 2013</b>	<b>1,898</b>	<b>5,602</b>	<b>1,995</b>	<b>527</b>	<b>10,022</b>
Net exchange differences	-25	-99	-29	-15	-168
Additions	40	339	171	404	954
Reclassifications	42	289	64	-405	-10
Disposals	10	133	62	4	209
Reclassification of disposal groups	-127	-289	-105	-12	-533
<b>Cost as of Dec. 31, 2013</b>	<b>1,818</b>	<b>5,709</b>	<b>2,034</b>	<b>495</b>	<b>10,056</b>
<b>Accumulated depreciation as of Jan. 1, 2013</b>	<b>810</b>	<b>4,064</b>	<b>1,478</b>	<b>0</b>	<b>6,352</b>
Net exchange differences	-8	-66	-23	0	-97
Additions (depreciation)	55	489	169	0	713
Additions (impairments)	0	3	2	0	5
Reclassifications	0	-7	6	0	-1
Disposals	3	127	50	0	180
Reversals of impairments	4	3	0	0	7
Reclassification of disposal groups	-71	-244	-84	0	-399
<b>Accumulated depreciation as of Dec. 31, 2013</b>	<b>779</b>	<b>4,109</b>	<b>1,498</b>	<b>0</b>	<b>6,386</b>
<b>Carrying amount as of Dec. 31, 2013</b>	<b>1,039</b>	<b>1,600</b>	<b>536</b>	<b>495</b>	<b>3,670</b>
<b>Cost as of Jan. 1, 2014</b>	<b>1,818</b>	<b>5,709</b>	<b>2,034</b>	<b>495</b>	<b>10,056</b>
Company acquisitions	5	10	2	1	18
Changes in the basis of consolidation	3	1	1	0	5
Net exchange differences	31	110	28	17	186
Additions	57	344	163	441	1,005
Reclassifications	47	302	62	-403	8
Disposals	17	169	82	4	272
<b>Cost as of Dec. 31, 2014</b>	<b>1,944</b>	<b>6,307</b>	<b>2,208</b>	<b>547</b>	<b>11,006</b>
<b>Accumulated depreciation as of Jan. 1, 2014</b>	<b>779</b>	<b>4,109</b>	<b>1,498</b>	<b>0</b>	<b>6,386</b>
Changes in the basis of consolidation	1	1	1	0	3
Net exchange differences	7	70	18	0	95
Additions (depreciation)	54	516	174	0	744
Additions (impairments)	0	1	3	0	4
Reclassifications	0	2	1	0	3
Disposals	6	155	74	0	235
<b>Accumulated depreciation as of Dec. 31, 2014</b>	<b>835</b>	<b>4,544</b>	<b>1,621</b>	<b>0</b>	<b>7,000</b>
<b>Carrying amount as of Dec. 31, 2014</b>	<b>1,109</b>	<b>1,763</b>	<b>587</b>	<b>547</b>	<b>4,006</b>

Property, plant, and equipment includes rented buildings in the amount of € 11 million (2013: € 6 million) that, due to the content of the leasing contracts (finance lease), are considered the economic property of the Group. The leasing contracts for plant and office buildings include purchase options and pre-emption rights at the end of the

term of the contracts. Two contracts provide for the possibility of adjusting or correcting the leasing rates on the basis of the current calculation parameters.

The details on the minimum lease payments under the respective leasing contracts are as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
<b>Total future minimum lease payments</b>		
due within a year	3	1
due between one and five years	9	2
due after more than five years	20	2
	<b>32</b>	<b>5</b>
<b>Interest portion included in the future minimum lease payments</b>		
due within a year	1	0
due between one and five years	2	0
due after more than five years	12	0
	<b>15</b>	<b>0</b>
<b>Present value of the future minimum lease payments</b>		
due within a year	2	1
due between one and five years	7	2
due after more than five years	8	2
	<b>17</b>	<b>5</b>

#### 16 Impairment tests

In the fourth quarter of 2014, the consolidated ZF Group performed impairment tests to assess the impairment of its assets. The reason for these impairment tests was a negative profit development in individual reporting units. The causes in this context were e.g. unfavorable prices as well as reduced quantity growth in individual operating segments.

For technical equipment and machines, factory and office equipment, as well as buildings, impairment losses were recorded in the following divisions:

in € million	2014	2013
Car Powertrain Technology	3	0
Car Chassis Technology	1	2
Industrial Technology	0	3
	<b>4</b>	<b>5</b>

As part of the process, the assets of individual cash-generating units were measured at fair value less costs to sell.

The impairment losses are distributed by regions as follows:

in € million	2014	2013
Europe	3	0
North America	0	1
Asia-Pacific	1	4
	<b>4</b>	<b>5</b>

In the previous year, the Car Chassis Technology division recorded reversals of impairment losses in property, plant, and equipment in the amount of € 3 million and a non-operational unit recorded an impairment reversal for a building in the amount of € 4 million. No reversals of impairment losses were recorded in the current business year.

For intangible assets, an impairment loss of € 4 million was recorded for capitalized software developments (2013: € 0 million) by the Industrial Technology division.

The annual impairment tests of goodwill and intangible assets with indefinite useful lives (trademark) led to no impairments as in the previous year. An increase of the discount rate by 10% would not have led to goodwill impairments.

Inter alia, assumptions were made with regard to the development of sales in order to calculate the impairment tests. The assumptions made for the average sales increase in the three-year planning period are as follows:

in %	2014	2013
Car Powertrain Technology	12	15
Car Chassis Technology	2	6
Commercial Vehicle Technology	5	3
Industrial Technology	9 to 11	6 to 12
Electronic Systems	13	8
ZF Services	10	12

## 17 Investment property

In the previous year, the office and commercial properties included in this item were presented under disposal groups in the consolidated statement of financial position. The planned sale was not concluded, instead, the land and buildings will be rented out to the acquirer in future. A report on the determination of the fair value was not obtained by the reporting date. The disposal of the property is difficult as there is no own access road. It is assumed that the fair value is within a range of 10% compared to its carrying amount.

in € million	2014
Cost as of Jan. 1	0
Additions	0
Reclassification	13
Disposals	0
<b>Cost as of Dec. 31</b>	<b>13</b>
Accumulated depreciation as of Jan. 1	0
Additions (depreciation)	0
Reclassification	8
<b>Accumulated depreciation as of Dec. 31</b>	<b>8</b>
<b>Carrying amount as of Dec. 31</b>	<b>5</b>



## 18 Financial liabilities

in € million

	Carrying amount as of Dec. 31, 2014		Carrying amount as of Dec. 31, 2013	
	Total	Thereof current	Total	Thereof current
Liabilities to banks	691	431	1,123	158
Liabilities from finance leases	17	2	5	1
Other financial liabilities	32	31	28	26
Derivative financial instruments	31	28	0	0
	<b>771</b>	<b>492</b>	<b>1,156</b>	<b>185</b>

Under current financial liabilities, non-current loans are recognized with their amortization installments due throughout one year. Moreover, current liabilities which serve short-term financing purposes are included under this item. The country-specific interest rates on these short-term loans fluctuate between 0.4 % (2013: 0.4 %) and 10.4 % (2013: 6.4 %).

The country-specific interest rate on the loans reported in non-current financial liabilities is between 0.6 % (2013: 0.9 %) and 10.0 % (2013: 9.0 %). Just over half of these loans has a fixed interest rate. Most of the loans are due at the end of the contractual term.

The loan contracts partly contain an obligation to fulfill a specific financial key figure (financial covenant); non-fulfillment represents an infringement of the loan agreements. This debt-equity ratio is defined as the ratio between the net financial position and the EBITDA. For some of the loans, a change in the debt-equity ratio has an effect on the risk premium which is determined annually. The agreed covenant was met in the fiscal year 2014.

Assets from property, plant, and equipment in the amount of € 26 million (2013: € 27 million) have been pledged as collateral for financial liabilities as well as for possible obligations from finance court cases.

## 19 Other liabilities

in € million

	Dec. 31, 2014		Dec. 31, 2013	
	Total	Thereof current	Total	Thereof current
Liabilities to employees	396	396	397	397
Social contributions	18	18	19	19
Other tax liabilities	82	80	77	74
Tooling subsidies received	279	107	215	94
Prepayments received	41	41	35	35
Professional association	6	6	6	6
Deferred income	33	12	35	15
Sundry liabilities	230	192	180	139
	<b>1,085</b>	<b>852</b>	<b>964</b>	<b>779</b>

Other tax liabilities are mainly sales tax liabilities. Sundry liabilities include, among others, outstanding charges,

deferred liabilities for legal costs and costs of litigation, as well as liabilities for licenses and commissions.

## 20 Other provisions

in € million	Dec. 31, 2014		Dec. 31, 2013	
	Total	Thereof current	Total	Thereof current
Obligations from sales	461	298	459	315
Obligations from personnel	149	12	234	53
Other obligations	81	66	55	45
	<b>691</b>	<b>376</b>	<b>748</b>	<b>413</b>

in € million	Jan. 1, 2014	Net exchange differences	Addition	Unwinding of the discount	Reclassifications	Utilization	Reversals	Dec. 31, 2014
Obligations from sales	459	4	234	1	0	177	60	461
Obligations from personnel	234	0	70	5	-98	54	8	149
Other obligations	55	2	39	0	0	8	7	81
	<b>748</b>	<b>6</b>	<b>343</b>	<b>6</b>	<b>-98</b>	<b>239</b>	<b>75</b>	<b>691</b>

The provisions for obligations from sales primarily include provisions for warranty, product liability, and punitive damages, as well as for potential losses from delivery obligations.

The provisions for obligations from personnel mainly include profit sharing, restructuring measures, long-service expenses. Provisions for restructuring measures, above all, contain expenses for severance pay which will arise within the context of plant closures and relocations.

Other obligations include, among other things, provisions for litigation risks and risks of participation, environmental protection measures, other punitive damages, as well as other tax risks.

Utilization of all current provisions is expected for the following fiscal year.

Non-current obligations from sales are expected to be utilized within the next five years. Also, about 59% of the provisions contained in the non-current obligations from personnel and about 79% of other non-current obligations will presumably be utilized in the next five years.

Expected reimbursements as of December 31, 2014, amount to € 7 million (2013: € 13 million), of which € 2 million (2013: € 8 million) was capitalized as assets.

## 21 Provisions for pensions

Provisions for pensions are set up for obligations from vested benefits and current pensions for entitled current and former employees of the consolidated ZF Group and their surviving dependents. Various retirement pension fund systems exist that depend on the legal, economic, and tax situation in the respective country, which – as a regular rule – are based on the length of service and emoluments of the employees. A distinction has to be made in connection with company pension schemes between defined contribution plans and defined benefit plans.

Under defined contribution plans, the consolidated ZF Group does not enter into any obligations apart from the payment of contributions into earmarked funds and private pension insurance carriers.

Under defined benefit plans, the obligation of the consolidated ZF Group consists of fulfilling promised benefits to current and former employees, whereby a distinction is made between unfunded and funded pension systems.

The obligation is based nearly exclusively on the contribution plans for active and former employees at the German locations (approximately 97% related to the net obligation). Until December 31, 1993, defined benefit obligations depending on time of service and salary were granted. These were frozen and since then, they have been further developed according to the cost of living index. As of January 1, 1997, so-called pension modules were promised to pay-scale employees; the amount depends on the pensionable income in relation to the social security contribution ceiling of the statutory pension insurance. Since January 1, 2005, the annual pension modules have been decoupled from the social security contribution ceiling. Since then, its determination has been dependent upon the salary, the respective classification of the position within the company hierarchy, and the employee's age.

In Germany, there are no legal or regulatory minimum funding requirements.

The essential risks for the company lie with the actuarial parameters, in particular interest rate and pension trend, the longevity risk, and the development of general cost of living (inflation).

Changes in the present value of the defined benefit obligation and the fair value of the plan assets can be based on actuarial gains and losses. These can be caused, among other things, by changes in the calculation parameters, changes in estimates with regard to the risk trend of the pension obligations, and differences between the actual and the expected return on plan assets.

The amount of the pension obligations (present value of the defined benefit obligation) was calculated in accordance with actuarial methods for which estimates are unavoidable. In addition to assumptions on life expectancy, fluctuation, and expected salary increases, the following premises have a material effect on the amount of the obligation:

in %	2014	2013
Discount rate	2.1	3.8
Pension increases	1.3	1.3

The pension obligations resulting under the projected unit credit method are netted in the case of a funded pension system with the plan assets measured at fair value. As soon as the pension obligations exceed the plan assets, a liability is created, which is recognized in the provisions for pensions.

The funding status of the pension obligations is as follows:

in € million	2014	2013
Present value of unfunded defined benefit obligations	3,707	2,686
Present value of funded defined benefit obligations	235	172
<b>Present value of the defined benefit obligations</b>	<b>3,942</b>	<b>2,858</b>
Plan assets	139	129
<b>Net liabilities</b>	<b>3,803</b>	<b>2,729</b>

The plan assets consist of the following items:

in € million	Dec. 31, 2014	Dec. 31, 2013
Cash	47	34
Securities		
Equity instruments	28	26
Debt instruments	35	34
Fund shares	44	46
Other	– 15	– 11
	<b>139</b>	<b>129</b>

Securities are measured at prices quoted on active markets.

In Germany, unfunded defined benefit obligations are financed in part via special funds. The fair value amounts to € 987 million (2013: € 1,008 million). The assets are shown under non-current securities and financial receivables in the consolidated statement of financial position.

The development of the present value of the defined benefit obligations and the plan assets at fair value is presented as follows:

in € million	2014	2013
<b>Present value of the defined benefit obligations as of Jan. 1</b>	<b>2,858</b>	<b>2,738</b>
Net exchange differences from plans abroad	7	– 2
Current service cost	70	62
Past service costs	16	13
Settlements	– 3	0
Interest expenses	109	106
Contributions by plan participants	15	10
Actuarial gains (–) and losses (+) from the change in demographic assumptions	3	0
Actuarial gains (–) and losses (+) from the change in financial assumptions	992	101
Actuarial gains (–) and losses (+) due to experience adjustments	9	0
Pension payments	134	114
Reclassification as liabilities of disposal groups	0	– 56
<b>Present value of the defined benefit obligations as of Dec. 31</b>	<b>3,942</b>	<b>2,858</b>
<b>Plan assets at fair value as of Jan. 1</b>	<b>129</b>	<b>126</b>
Net exchange differences from plans abroad	7	– 2
Settlements	– 1	0
Expected return on plan assets	5	5
Actuarial gains (–) and losses (+) from the change in financial assumptions	2	1
Employer contributions to the plan assets	5	7
Pension payments	8	8
<b>Plan assets at fair value as of Dec. 31</b>	<b>139</b>	<b>129</b>
<b>Provisions for pensions as of Jan. 1</b>	<b>2,729</b>	<b>2,612</b>
<b>Provisions for pensions as of Dec. 31</b>	<b>3,803</b>	<b>2,729</b>



The pension obligations result in expenses recognized through profit or loss from pension obligations of € 188 million (2013: € 176 million), which are made up of the following components:

in € million	2014	2013
Current service costs	70	62
Past service costs	16	13
Curtailments and settlements	-2	0
Unwinding the discount on net liabilities	104	101
	<b>188</b>	<b>176</b>

All components of the pension expenses recognized in profit or loss, with the exception of the interest portion, are reported in the functional areas.

The actuarial losses amounting to € 1,002 million (2013: € 100 million) are considered in retained earnings with no effect on profit or loss.

The actual returns on plan assets amount to € 7 million (2013: € 6 million). The difference between the actual and the expected return on external pension funds is recognized in retained earnings with no effect on profit or loss within the framework of the actuarial gains and losses.

According to the best possible estimate, contributions to external pension funds will amount to € 3 million for the next year. The 2013 estimate for the fiscal year 2014 was € 3 million.

Pension payments until 2060 are as follows:

in € million	2014
within the upcoming fiscal year	130
between 2 and 5 years	507
between 5 and 10 years	699
due after more than 10 years	6,193

The calculation presents the actual pension payments and not just the pension modules earned by employee service rendered as of the closing date, i.e. pension modules that are to be allocated in future are also considered. In addition, it was assumed that the number of active employees remains constant. For the other calculation assumptions, the same parameters were used as for the determination of the defined benefit obligations.

The average maturity period of the defined benefit obligations is 19 years.

The effect of a change in significant assumptions on the defined benefit obligations is shown in the following:

Dec. 31, 2014 in € million	Changes of the present value
Discount rate	
- 0.25 %	+ 174
0.25 %	- 162
Pension increases	
- 0.25 %	- 106
0.25 %	+ 112
Life expectancy	
- 1 year	- 141
+ 1 year	+ 140

For the sensitivity analysis, pension obligations were re-measured. It was assumed that all other factors remain unchanged. For calculating the sensitivity of life expectancy, it was assumed that the average life expectancy of a 65-year-old individual will be increased and/or reduced by one year.

## 22 Assets held for sale and disposal groups

In the previous year, the assets and liabilities of the disposal groups affected the Rubber & Plastics business unit which was sold to Zhuzhou Times New Material Technology Co., Ltd. (TMT). The transfer took place on September 1, 2014. In addition, the assets and liabilities of ZF Auto Industrial Brake and Chassis Investment Holdings (Pty) Ltd., including its subsidiaries headquartered in South Africa, that were sold to a foreign investor in February 2014, were recognized under this item. A gain on deconsolidation in the amount of € 104 million results from the two disposal groups and is recorded in other income.

On September 15, 2014, an agreement was made with Robert Bosch GmbH, Stuttgart (Germany), to sell ZF's 50 % shareholding in ZF Lenksysteme GmbH. ZF Lenksysteme GmbH develops and produces steering systems for passenger cars and commercial vehicles. The shareholding put up for sale was presented as an asset held for sale in accordance with IFRS 5 and the equity method accounting was discontinued in September 2014. The investment in the joint venture was recognized in accordance with the equity method until the reclassification. The sale became legally effective on January 30, 2015.

## 23 Equity

### Subscribed capital

At the end of the fiscal year, the subscribed capital still amounts to € 500 million. In the previous year, the subscribed capital was increased from € 300 million to € 500 million. As of December 31, 2014, the subscribed capital is divided into 500,000,000 registered shares. All shares are fully paid in.

### Capital reserve

At the end of the fiscal year, the capital reserve still amounts to € 386 million. In the prior year, the capital reserve decreased from € 586 million to € 386 million due to the capital increase from reserves. The capital reserve comprises the premium on the issuance of shares. It is subject to the restrictions of § 150 AktG (German Stock Corporation Law).

### Other retained earnings

Other retained earnings contain the legal reserve of ZF Friedrichshafen AG and the accumulated earnings of the companies included in the consolidated financial statements to the extent not distributed. Asset and liability differences resulting from the capital consolidation in accordance with the book value method and the previously used accounting policies are also accounted for in this line item. Other components include the reserves from the first-time adoption of IFRS and the cumulative currency translation adjustments, which were reclassified when changing over to IFRS.

### Foreign currency translation differences

The line item contains amounts not affecting profit or loss that result from the currency translation of the financial statements from foreign subsidiaries (non-euro area) recognized starting from the date of the first-time adoption of IFRS.

The change in equity resulting from foreign currency translation differences amounting to € 195 million (2013: € - 134 million) is attributed to non-controlling interests with € 7 million (2013: € - 4 million).

### Mark-to-market of securities and cash flow hedges

This line item includes the post-tax effects of the financial instruments valuation that do not affect profit or loss.

### Actuarial gains and losses

This line item contains the actuarial gains and losses from employer pension plans after tax, with no effect on profit or loss.

### Deferred taxes on equity items not affecting profit or loss

in € million	2014			2013		
	Before income tax	Income tax	After tax	Before income tax	Income tax	After tax
Foreign currency translation differences	172	0	172	-124	0	-124
Mark-to-market of securities	-11	3	-8	1	1	2
Mark-to-market of cash flow hedges	357	-113	244	2	0	2
Actuarial gains and losses	-1,002	278	-724	-100	28	-72
Other comprehensive income from associates	23	0	23	-17	2	-15
<b>Other comprehensive income</b>	<b>-461</b>	<b>168</b>	<b>-293</b>	<b>-238</b>	<b>31</b>	<b>-207</b>

### Dividends

ZF Friedrichshafen AG has proposed a dividend payout of € 50 million for the fiscal year 2014 (€ 0.10 per share). In the fiscal year, a dividend of € 30 million (€ 0.06 per share) for 2013 was paid.

### 24 Disclosures on capital management

The primary objective of capital management at the consolidated ZF Group is to ensure a stable equity ratio in order to support the continued business activities and to protect shareholder interests. In order to determine the equity ratio, the equity disclosed in the consolidated statement of financial position is used.

	Dec. 31, 2014	Dec. 31, 2013
Equity in € million	4,519	4,165
Equity ratio in %	34	35

ZF Friedrichshafen AG is not subject to by-laws-based capital requirements.

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### 25 General

The consolidated statement of cash flows shows how the cash position of the consolidated ZF Group changed during the fiscal year due to the inflow and outflow of funds. A distinction is drawn between cash flows from operating, investing and financing activities.

The cash position presented in the consolidated statement of cash flows covers all cash reported in the consolidated statement of financial position, i.e. cash on hand and cash at banks, available at any time for use by the consolidated ZF Group.

The cash flows from investing and financing activities are determined on the basis of payments. The cash flow from operating activities, on the other hand, is indirectly derived from the net profit or loss before income tax.

Dividends and interest received are assigned to the cash flow from investing activities. Interest and transaction costs paid for borrowings are included in cash flow from financing activities. To this end, the net profit or loss before income tax is adjusted by the financial result (2013: net interest result and net result from participations) in the cash flow from operating activities.

As part of the indirect calculation, the changes in financial line items taken into account in conjunction with the operating activities are adjusted for effects from the translation of foreign currencies and changes in the basis of consolidation. Changes in the respective financial line items can therefore not be reconciled to the corresponding values on the basis of the published consolidated statement of financial position.

### 26 Acquisitions of shares in consolidated companies

The acquisitions of shares in consolidated companies, which are recognized in the cash flow from investing activities, are composed as follows:

in € million	2014
Current assets	46
thereof cash and cash equivalents	16
Non-current assets	38
Current liabilities	33
Non-current liabilities	8

### 27 Proceeds from the sale of consolidated companies

The divestments in assets and liabilities from the share deals and asset deals in the period under review relate to the following:

in € million	2014
Current assets	158
thereof cash and cash equivalents	24
Non-current assets	166
Current liabilities	98
Non-current liabilities	111

The purchase price for the shares amounted to € 261 million and was paid by the purchasers in cash in 2014.



## OTHER DISCLOSURES

### 28 Contingent liabilities

No provisions were set up for the following contingent liabilities, which are recognized at nominal values, because the probability of a claim is deemed to be low:

in € million	Dec. 31, 2014	Dec. 31, 2013
Guarantees	40	71
thereof for participations	6	8
Other	98	51
	<b>138</b>	<b>122</b>

The guarantees are due within a year when fully utilized. The other contingent liabilities essentially refer to potential liabilities from procurement and personnel as well as from litigation and other taxes. There is collateral for contingent liabilities amounting to € 5 million (2013: € 6 million) which, when fully utilized, are due within a year.

### 29 Other financial obligations

In addition to liabilities, provisions, and contingent liabilities, other financial obligations result in particular from rental and leasing agreements, investment projects launched, and procurement agreements initiated.

in € million	Dec. 31, 2014	Dec. 31, 2013
Rental and leasing payments	292	268
Purchase commitments	594	581
Payment obligations on participations	6	8
	<b>892</b>	<b>857</b>

The purchase commitments account for € 144 million (2013: € 134 million) for intangible assets and € 450 million (2013: € 447 million) for property, plant, and equipment.

The total future minimum lease payments from non-cancelable rental agreements and operating leases by maturities are as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
<b>Nominal total future minimum lease payments</b>		
due within a year	84	73
due between one and five years	156	131
due after more than five years	52	64
	<b>292</b>	<b>268</b>

The major rental agreements refer to production, warehousing, and office buildings with terms of up to 27 years. Besides price adjustment clauses that provide for an annual fixed percentage increase, some contracts also contain agreements that are aligned with a change in the defined consumer price indexes. Most agreements include extension options or automatic contract extensions. For some leased assets, the option to acquire them is part of the agreement. Additional leasing contracts refer to fleet, machines, hardware, and software as well as other factory and office equipment with terms of up to seven years.

For some of these contracts, extension options or automatic contract extensions are available, as well as options to acquire the leased asset at the end of the contractual period at market value.

### 30 Litigation

In connection with an ongoing antitrust investigation procedure, the premises of a subsidiary were searched in September. The reason for the investigation was the suspected involvement of the subsidiary in illegal antitrust

price agreements. ZF fully cooperated with the investigating authorities. The duration and outcome of the procedure are uncertain.

Apart from that, neither ZF Friedrichshafen AG nor any of its Group companies are engaged in current or foreseeable court or arbitration proceedings, which have had in the past or could have a significant impact on the economic situation of the consolidated ZF Group. Adequate provisions have been set up by the respective Group companies for probable financial exposure from other court or arbitration proceedings.

### 31 Disclosures on financial instruments

#### Carrying amounts of the financial instruments by categories

The following table shows the recognized financial assets and liabilities by measurement categories:

in € million	Dec. 31, 2014	Dec. 31, 2013
<b>Assets</b>		
Loans and receivables	3,781	3,521
Available-for-sale financial assets	950	937
Financial assets at fair value through profit or loss	78	82
Financial assets held for trading	11	3
Derivative financial instruments (hedge accounting) <sup>1)</sup>	386	17
	<b>5,206</b>	<b>4,560</b>
<b>Liabilities</b>		
Financial liabilities at amortized cost	3,163	3,126
Liabilities from finance leases <sup>1)</sup>	17	5
Financial assets held for trading	3	0
Derivative financial instruments (hedge accounting) <sup>1)</sup>	28	0
	<b>3,211</b>	<b>3,131</b>

<sup>1)</sup> No IAS 39 measurement categories.

#### Fair values

The fair values of the financial assets and liabilities are presented below. Provided that financial assets and liabilities are recognized at amortized cost, the fair value is compared to the carrying amount.

Furthermore, the fair values of the financial assets and liabilities are allocated to the three levels of the fair value hierarchy based on the input parameters drawn on for the valuation. The classification as well as the need to perform reclassifications is reviewed on the reporting date. Level 1 covers those financial instruments for which prices for identical assets and liabilities quoted on active markets are available. Allocation to level 2 occurs if input parameters are drawn on for valuating the financial instruments that are directly (e.g. prices) or indirectly (e.g. derived from prices) observable on the market. In level 3, financial instruments are accounted for whose valuation is based on information that is not observable on the market.

The following table shows the carrying amounts and the fair values of the non-current financial assets and liabilities recognized at amortized cost. Due to short maturities, the carrying amounts of the current financial instruments

recognized at cost approximate the fair values and are thus not recorded. The fair value of the investments in participations in the amount of € 67 million cannot be determined reliably.

in € million	Dec. 31, 2014		Dec. 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Loans and receivables				
Financial receivables	120	120	161	161
Trade receivables	13	13	50	50
	<b>133</b>	<b>133</b>	<b>211</b>	<b>211</b>
<b>Liabilities</b>				
Financial liabilities at amortized cost				
Liabilities to banks	260	254	965	997
Other financial liabilities	1	1	2	2
Liabilities from finance leases <sup>1)</sup>	15	16	4	4
	<b>276</b>	<b>271</b>	<b>971</b>	<b>1,003</b>

<sup>1)</sup> No IAS 39 measurement categories.

The following table shows the allocation of the fair values of the non-current financial instruments recognized at amortized cost to the three levels of the fair value hierarchy:

in € million	Dec. 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial receivables	0	120	0	120
Trade receivables	0	13	0	13
<b>Liabilities</b>				
Liabilities to banks	0	254	0	254
Other financial liabilities	0	1	0	1
Liabilities from finance leases <sup>1)</sup>	0	16	0	16

<sup>1)</sup> No IAS 39 measurement categories.

in € million

	Dec. 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial receivables	0	161	0	161
Trade receivables	0	50	0	50
<b>Liabilities</b>				
Liabilities to banks	0	997	0	997
Other financial liabilities	0	2	0	2
Liabilities from finance leases <sup>1)</sup>	0	4	0	4

<sup>1)</sup> No IAS 39 measurement categories.

The market values of financial receivables, trade receivables, liabilities to banks, and other financial liabilities are calculated using the net present value method. Here, the future cash flows were discounted with the current risk-free interest rates matching the maturities plus a credit risk markup common in the industry.

Financial liabilities from finance lease contracts are recognized considering the contractually agreed interest rate. The fair value was determined according to the standard market interest rate.

The following table shows the financial instruments recognized at fair value:

in € million	Dec. 31, 2014	Dec. 31, 2013
<b>Assets</b>		
Available-for-sale financial assets		
Securities	881	868
Investments in participations	2	1
Financial assets at fair value through profit or loss		
Securities	78	82
Financial assets held for trading		
Derivative financial instruments	11	3
Derivative financial instruments (hedge accounting) <sup>1)</sup>	386	17
	<b>1,358</b>	<b>971</b>
<b>Liabilities</b>		
Financial liabilities held for trading		
Derivative financial instruments	3	0
Derivative financial instruments (hedge accounting) <sup>1)</sup>	28	0
	<b>31</b>	<b>0</b>

<sup>1)</sup> No IAS 39 measurement categories.



The allocation of the financial instruments recognized at fair value to the three levels of the fair value hierarchy is as follows:

in € million	Dec. 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Securities				
Shares	114	0	2	116
Fixed-interest securities	322	3	0	325
Fund shares	395	0	16	411
Alternative investments	35	57	15	107
Investments in participations	2	0	0	2
Derivative financial instruments	0	242	155	397
	<b>868</b>	<b>302</b>	<b>188</b>	<b>1,358</b>
<b>Liabilities</b>				
Derivative financial instruments	4	27	0	31

in € million	Dec. 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Securities				
Shares	62	1	0	63
Fixed-interest securities	106	297	11	414
Fund shares	331	0	0	331
Alternative participations	92	37	13	142
Investments in participations	1	0	0	1
Derivative financial instruments	2	18	0	20
	<b>594</b>	<b>353</b>	<b>24</b>	<b>971</b>
<b>Liabilities</b>				
Derivative financial instruments	0	0	0	0

For level 1 securities, the fair value is recognized directly as the quoted price on an always active market. The active market is either the stock exchange of the respective country or a comparable trading platform offering the liquidity and transparency of the underlying asset.

An active market is characterized by the fact that mainly homogeneous assets are traded at publicly available prices and that there are usually willing buyers and sellers at any time, e.g. stock exchanges or commodity exchanges.

Level 2 includes classes whose prices can be derived or modeled from parameters which can be observed on the market. Some examples are observable interest rates, exchange rates, or comparable instruments. Interest-bearing securities with slightly delayed direct quotation are also included in level 2. For real estate funds contained in level 2, the continued ability for redemption on an active market is contractually ensured.

From level 2 of the fair value hierarchy, securities amounting to € 39 million were reclassified to level 1 as a result of the improved market liquidity of the relevant securities on the stock exchange during the current fiscal year compared to the prior year.

The level 3 securities involve interests in private equity funds and direct lending funds. The private equity umbrella funds hold shares in non-listed companies. The direct lending fund contains financial receivables toward mid-size companies from German-speaking countries or Great Britain. The market values of level 3 securities are determined on the basis of currently available information from the funds' managers. A significant change of the underlying future cash flows and the interest rate, which implies a change of the discount factor, would influence the market values of these securities.

The following table illustrates the development of securities assigned to level 3 of the fair value hierarchy:

in € million	2014	2013
As of Jan. 1	24	14
Fair value changes recognized through other comprehensive income	1	-2
Fair value gains/losses	3	0
Purchases	11	12
Sales	-2	0
Reclassification of plan assets	-4	0
As of Dec. 31	33	24

Other gains and losses are recognized in other financial income and financial expenses.

Investments in participations which are traded on an active market are recognized at share prices of the stock exchange of the respective country.

Derivative financial instruments of level 1 concern tradable derivatives, such as futures. Their fair value corresponds to the value traded on the futures exchange.

The level 2 derivative financial instruments concern non-tradable derivatives. Fair values are determined on the basis of fixed prices quoted on approved stock exchanges discounted for the remaining term (foreign currency exchange rates, interest rates, and raw material price indexes).

With respect to hedging a material portion of the purchase price of the TRW transaction (underlying transaction) in the amount of USD 12.4 billion against currency fluctuations, ZF concluded several option contracts and transaction-related forward contracts. As the forward contracts are bound to the execution of the underlying transaction, these contracts were classified as level 3. The fair value of these forward contracts is determined by the two components of a premium paid only in case of execution of the underlying transaction and the market value of the forward contract. The value of the premium was ascertained on the basis of the futures price observable on the market at the time of conclusion and the tender price agreed on with the contracting party at the time of maturity of the underlying transaction. The premium is recognized and consequently amortized over the maturity period. The market value of the forward contract was determined in line with market standards from parameters observable on the market.

## Net gains and losses by measurement categories

in € million

	Interests	Impairments	Other net gains and losses	Total net gains and losses
<b>2014</b>				
Loans and receivables	20	-41	56	<b>35</b>
Available-for-sale financial assets				
recognized at fair value	14	2	41	<b>57</b>
recognized at cost	0	0	152	<b>152</b>
Financial assets at fair value through profit or loss	1	0	2	<b>3</b>
Financial instruments held for trading	0	0	-109	<b>-109</b>
Financial liabilities at amortized cost	-62	0	-17	<b>-79</b>
<b>2013</b>				
Loans and receivables	25	-11	20	<b>34</b>
Available-for-sale financial assets				
recognized at fair value	8	0	9	<b>17</b>
recognized at cost	0	-2	5	<b>3</b>
Financial assets at fair value through profit or loss	1	0	2	<b>3</b>
Financial instruments held for trading	0	0	16	<b>16</b>
Financial liabilities at amortized cost	-46	0	-39	<b>-85</b>

Other net gains and losses related to “Loans and receivables” primarily contain exchange rate gains and losses from foreign currency receivables as well as income derived from reversals of impairments on trade receivables.

The other net gains and losses from the “Available-for-sale financial assets (recognized at fair value)” measurement category are the balance of the realized gains and losses from the disposal of such assets, reduced by the unrealized changes recognized in equity in the prior year and by the unrealized gains or losses of existing assets, which were recognized in equity during the fiscal year. Furthermore, this also contains exchange rate gains and losses.

The other net gains and losses in the “Available-for-sale financial assets (recognized at cost)” measurement category essentially include the dividend income from participations.

The other net gains and losses of the “Financial assets recognized at fair value through profit or loss” measurement category include, in particular, the unrealized fair value gains from securities in this category as well as exchange rate gains and losses.

The other net gains and losses of “Financial instruments held for trading” mainly include exchange rate gains and losses as well as unrealized income and expenses from the valuation of derivative financial instruments.

The other net gains and losses from the “Financial liabilities at amortized cost” measurement category primarily contain all exchange rate gains and losses from foreign currency liabilities as well as income from derecognized liabilities.

#### Offsetting financial assets and financial liabilities

Financial assets and liabilities which are subject to settlement agreements, enforceable master netting arrangements, and similar agreements:

in € million	Dec. 31, 2014		
	Gross amount	Offsetting	Net amount
Trade receivables (current)	2,446	43	2,403
Trade payables	2,483	43	2,440

in € million	Dec. 31, 2013		
	Gross amount	Offsetting	Net amount
Trade receivables (current)	2,184	52	2,132
Trade payables	2,027	52	1,975

The framework contracts concluded with our banks for financial futures regulate, among other things, that in the event of insolvency of a contracting party, existing contracts will have to be terminated and settled at the respective market value. Provided that several transactions are settled for a contracting party, positive and negative market values are offset and only the remaining difference is settled. As of December 31, 2014, no risk arises from this regulation due to the excellent credit rating of our banks. In addition, there were no amounts eligible for netting as of the reporting date.

#### 32 Risks from financial instruments

##### Management of financial risks

The risk management system of ZF's Finance department covers counterparty and credit risks with customers and suppliers, liquidity and interest rate risks, as well as currency and raw material price risks.

Reports on the essential risk positions of the consolidated ZF Group are presented to the Board of Management and the Supervisory Board on a regular basis. Compliance with the guidelines is audited by the internal auditors. The market price risk from securities as well as the foreign currency risk is measured based on a value-at-risk analysis. The value-at-risk indicates only the potential risk of loss, which with defined probability will not be exceeded within a specifically determined time frame (holding period). However, the method does not provide any information as to the time such a threshold might be crossed or the amount of the expected loss in case the value-at-risk is exceeded. As a result, the actual development may deviate from the result of the value-at-risk analysis.



The companies of the consolidated ZF Group hedge their interest rate, foreign currency, and raw material price risks at prevailing market conditions either through ZF Cash Management at ZF Friedrichshafen AG or directly with banks. Derivative financial instruments with plain vanilla character are used. These are used exclusively to hedge existing underlying or forecast transactions.

Risk items of ZF Cash Management are hedged externally at banks with excellent credit rating taking into account prescribed risk limits. Hedging transactions are concluded in accordance with uniform corporate policies and in line with bank regulations on the operating of trading business. They are subject to stringent monitoring, which is ensured in particular by the strict separation of duties between trading, settlement, and control.

#### **Credit and counterparty risk**

Credit risk is the risk that contractual partners in the areas of financial investments, financial receivables, and trade receivables will not meet their payment obligations.

In order to reduce the counterparty risk for financial investments, all financial transactions are carried out only with banks with a first-class credit rating within the framework of defined limits.

The financial assets of the consolidated group lead to a maximum credit risk if one counterparty defaults, amounting to the carrying amount of the respective financial line item without considering collateral received (plus the maximum utilization for financial guarantees as well as loan commitments to third parties).

The amount of outstanding trade receivables mainly concerns passenger car, commercial vehicle, and off-road machinery manufacturers worldwide.

In order to reduce the credit risk, the credit worthiness of customers with whom business is conducted on a credit basis as well as our receivables are subject to continuous monitoring. In some instances, credit risks are reduced by appropriate hedging measures such as trade credit insurances. The carrying amount of trade receivables covered by trade credit insurances is € 301 million (2013: € 262 million).

Part of the financial receivables is collateralized with pledged machines and equipment in the amount of € 7 million (2013: € 9 million). In the previous year, there were financial receivables that were collateralized with mortgages in the amount of € 7 million and guarantees. These financial receivables were fully repaid in the fiscal year.

The creditworthiness of our strategic suppliers is constantly monitored in order to secure our value added chain. By concentrating new contract awarding decisions on creditworthy suppliers, the portfolio quality of our suppliers is continuously improved.

#### **Liquidity risk**

The expected future outflow of funds due to principal and interest payments for liabilities to banks, liabilities from finance leases, and other financial liabilities is contained in the medium-term liquidity planning.

The following table lists the maturity structure of principal and interest payments for the financial liabilities and trade payables:

in € million	Carrying amount as of Dec. 31, 2014	Cash outflow		
	Total	2015	2016 to 2020	2021 and beyond
Liabilities to banks	691	444	255	29
Liabilities from finance leases	17	3	9	20
Other financial liabilities	32	32	1	0
Trade payables	2,440	2,440	0	0
	<b>3,180</b>	<b>2,919</b>	<b>265</b>	<b>49</b>

in € million	Carrying amount as of Dec. 31, 2013	Cash outflow		
	Total	2014	2015 to 2019	2020 and beyond
Liabilities to banks	1,123	173	885	142
Liabilities from finance leases	5	1	2	2
Other financial liabilities	28	33	1	1
Trade payables	1,975	1,975	0	0
	<b>3,131</b>	<b>2,182</b>	<b>888</b>	<b>145</b>

In the context of the acquisition of TRW, syndicated financing of € 12.5 billion was agreed with 23 banks. This financing including working capital financing is divided into bank loans in the amount of € 5 billion and bridge financing in the amount of € 7.5 billion. As of December 31, 2014, these loans had not been utilized. The bridge financing will be replaced through the capital market in the medium term. The first step in this regard was the issuance of a bonded loan of € 2.2 billion in January 2015. The existing bonded loan of € 400 million was largely repaid with the proceeds from this new bonded loan and thus the financing structure was adjusted to the future requirements.

In the context of a project, ZF assumed contingent financial commitments in the amount of € 25 million (2013: € 55 million) to the benefit of a business partner which in case of utilization would lead to an immediate cash outflow. We still rate the probability as very low that this results in financial claims which must be recognized in the consolidated statement of financial position.

### Market price risk from securities

The market price risk is the risk that the fair value of securities decreases.

Securities investments are basically investments in interest-bearing securities, shares, fund shares, and alternative investments. The alternative investments comprise shares in raw material and private equity funds, as well as an open real estate fund and a direct lending fund. Diversification reduces risk, which constitutes the prerequisite for the best possible continuous increase in value resistant to fluctuation.

A sound optimization procedure was used for the generation of the strategic asset allocation to reliably achieve the strategic return targets even if the forecast is incorrect. In this context, besides the investment risk which is measured via the portfolio volatility, the forecasting risk with regard to expected returns is included in modeling the asset allocation. This procedure results in a significantly more diversified portfolio which, even in the case of an overestimation of the long-term return potential of the considered asset classes, can achieve the strategic return target.

A body (investment committee) created especially for this purpose is responsible for the final decision on the strategic asset allocation and for monitoring all investment results and risk budgets. The bases for investment decisions by external portfolio managers are the investment guidelines specified by the investor. In formulating these guidelines, the main focus is i.a. on a reliable credit rating of the issuer (rating minimum requirements), an appropriate funds benchmark, high marketability of the securities, a wide spread among industries, as well as a selection of suitable segment currencies to achieve further risk reduction.

The investment committee is informed monthly about trends in current market values and about the performance of the individual asset classes. Performance is evaluated i.a. based on absolute and relative benchmark values, risk indicators, and on-site visits by the portfolio managers.

In addition to qualitative management and controlling instruments for risk minimization, like diversification of investments in different asset classes, systematic selection process of the portfolio managers, risk-based arrangement of investment guidelines, analysis of investment results, and evaluation of changes at the capital markets, mathematical-statistical models are used as quantitative management and controlling instruments, in particular, for reporting. The data validity is ensured by an independent, external data provider. Stress tests and defined risk limits are further management and controlling instruments. The non-current securities for hedging pension obligations contained in the special fund are classified in three risk categories depending on their volatility. In case of an assumed reduction in the fair values of the securities due to negative financial market data by 20 % for high, 10 % for medium, and 2.5 % for low volatility, the equity of the consolidated ZF Group would be reduced by € 90 million (2013: € 97 million) without accounting for income taxes. Thereof, € 83 million (2013: € 89 million) would be recognized under equity of the consolidated ZF Group with no effect on profit or loss, and € 7 million (2013: € 8 million) under other financial results with effect on profit or loss.

Based on a value-at-risk calculation, however, it can be assumed that in 95 % of the cases with a holding time of twelve months and an average market price volatility of 3.7 % (2013: 3.7 %), the market value reduction will not exceed € 15 million (2013: € 18 million). The calculations were drawn up under the assumption that asset allocation will not change and no additions are made during the fiscal year that would then have to be reallocated. The historical correlations of the corresponding funds and securities were considered. The maximum loss limit approved for 2014 was € 48 million (2013: € 36 million).

#### Foreign currency risk

The foreign currency risk is the risk that the fair values or future cash flows of monetary items are negatively influenced due to exchange rate changes.

Hedging measures for planned foreign currency sales from the volume production business are carried out in the consolidated ZF Group within the framework of prescribed hedging ranges and within defined maximum limits. The net principle applies to foreign currency hedging, i.e. hedging takes place for the net items from bilateral cash flows. Foreign currency hedging is carried out mainly via forward exchange options. At the end of the fiscal year 2014, more than 95 % of the hedging volume was allocated to the U.S. dollar.

Individual hedging is carried out for the project business (gross principle).

The translation risk from the measurement of financial line items is not hedged – the risks thereof will be controlled and gradually reduced via consistent localization of our main activities.

The expected cash outflow from derivative financial instruments results from the following presentation:

in € million	Market value	Cash outflow		
		Total	Within a year	1 to 5 years
Dec. 31, 2014				
Foreign currency hedging contracts				
Assets	397	6,291	6,291	0
Liabilities	− 31	811	328	483
Dec. 31, 2013				
Foreign currency hedging contracts				
Assets	20	731	249	482
Liabilities	0	0	0	0



The hedged cash flows will come into effect between 2015 and 2017. If the prerequisites of hedge accounting are met, market value changes recognized with no effect on profit or loss are reclassified to profit or loss for the period and/or are recognized in the acquisition costs.

For fair value hedges, changes in value from hedging transactions amount to € – 16 million (2013: € 5 million) and changes in value from underlying transactions to € 16 million (2013: € – 5 million).

As a result of its international orientation, the consolidated ZF Group does transactions in different currencies. From the viewpoint of the consolidated group, the exchange rate fluctuations of the U.S. dollar represent a substantial currency risk, which is being monitored using a value-at-risk analysis.

With no change in relation to the prior year, the value-at-risk in the consolidated ZF Group is calculated based on a variance-covariance method under the assumption of a confidence level of 84.1 % with a holding period of twelve months.

As of the reporting date and with a unilateral confidence level of 84.1 %, a potential risk of loss of € 39 million (2013: € 24 million) over the subsequent twelve months is not exceeded. The calculation was based on an average exchange rate volatility of 9.5 % (2013: 8.1 %). The method applied does not account for effects from favorable exchange rate changes and assumes a uniform open U.S. dollar position.

The maximum risk of loss is calculated taking into account the average exchange rate volatility of the past twelve months in relation to the open U.S. dollar position from operational business. The open U.S. dollar position is calculated based on the amount of cash and loans in U.S. dollars at the closing date that are administered by ZF Cash Management and net incoming payments

expected to be received in the following twelve months based on current corporate planning, taking into account the hedged amounts. To limit the risk of loss, an upper limit of € 50 million (2013: € 32 million) was agreed upon with the Board of Management. As soon as that limit is exceeded, additional exchange rate hedging measures are taken.

The currency risk resulting from the settlement of the purchase price payment for the TRW transaction totaling USD 12.4 billion was hedged with deal-based forward contracts and currency options in the amount of USD 8 billion when signing the purchasing contract. The remaining USD 4.4 billion come from drawing the syndicated financing in U.S. dollars.

#### **Raw material price risk**

The raw material price risk is the risk that the acquisition cost from the purchase of production equipment and operational materials will change.

Derivative financial instruments are used to a minor extent at the consolidated ZF Group to reduce raw material price risks. The risk from these hedging transactions can be rated as insignificant for the fiscal year. Therefore, a sensitivity analysis for such derivative financial instruments is dispensed with.

#### **Interest rate risk**

The interest rate risk is the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in the market interest rate.

The interest rate risk is hedged on a case-by-case basis. The market values of the interest swaps can be rated as insignificant for the fiscal year.

An increase by 10 (2013: 30) base points in the average interest rate for financial liabilities on a floating rate basis, which are not supported by interest hedging transactions, would influence the net profit or loss before income tax in the amount of € 1 million (2013: € 3 million). A decrease by 10 (2013: 30) base points would raise the net profit or loss before income tax by € – 1 million (2013: € – 3 million).

An increase by 10 (2013: 30) base points of the average interest rate on financial investments would raise the net profit or loss before income tax by € 1 million (2013: € 3 million). A decrease by 10 (2013: 30) base points would have an effect on the net profit or loss before income tax of € – 1 million (2013: € – 3 million).

The sensitivity analysis was drawn up under the assumption that the amount of loans from banks and of financial investments as well as the ratio of fixed and variable interest rates will remain at the same level. The base points used for the calculation were reduced due to the low interest rates that are still expected compared to the previous year.

### 33 Government grants

In the fiscal year 2014, € 15 million (2013: € 21 million) in government grants was received. They were divided as follows:

in € million	2014	2013
Investment grants	4	4
Expense subsidies	11	17

Investment grants were basically received for investments at various locations in Great Britain, Australia, China, and Russia.

Expense subsidies mainly comprise reimbursements from pre-retirement part-time work and research subsidies.

### 34 Related party transactions

In accordance with IAS 24, persons or companies that control or are controlled by the consolidated ZF Group have to be disclosed to the extent that they are not already included in the consolidated financial statements of ZF Friedrichshafen AG as a consolidated company. Here, control is exercised if a shareholder holds more than half of the voting rights or is able, by virtue of terms in the by-laws or contractual agreements, to govern management's financial and operating policies. In addition, the disclosure obligations under IAS 24 extend to transactions with associates and transactions with persons who exercise a significant influence over the financial and operating policies, including close members of the family or interposed companies. A significant influence on the financial and operating policies of the consolidated ZF Group can be based on a shareholding of 20% or more in ZF Friedrichshafen AG, a seat on ZF Friedrichshafen AG's Board of Management or Supervisory Board, or another key position in management.

Accordingly, the related parties of ZF Friedrichshafen AG include joint ventures, associates, and enterprises in which ZF Friedrichshafen AG holds at least 20% of the shares, the Zeppelin Foundation as a special fund of the City of Friedrichshafen, the Dr. Jürgen and Irmgard Ulderup Foundation, as well as the Luftschiffbau Zeppelin GmbH, and its subsidiaries.

Transactions with related companies and the receivables and liabilities existing on the reporting date result without exception from the ordinary business activities and are displayed as follows:

in € million

	Joint ventures	Associates	Other participations
<b>2014</b>			
Supplies and services rendered			
Sale of goods	54	2	27
Services	19	0	1
Other services	0	0	1
Supplies and services received			
Sale of goods	25	16	10
Services	1	0	34
Other services	0	0	0
Receivables	23	11	26
Liabilities	31	3	27
<b>2013</b>			
Supplies and services rendered			
Sale of goods	63	1	44
Services	16	2	2
Other services	0	0	1
Supplies and services received			
Sale of goods	28	30	15
Services	1	0	36
Other services	0	0	0
Receivables	19	9	22
Liabilities	30	2	45

A transaction beyond ordinary business activities as of the reporting date includes a loan of € 8 million (2013: € 9 million) granted by ZF Friedrichshafen AG to Internationale Bodensee-Messe Friedrichshafen GmbH, Friedrichshafen (Germany). This loan bears an interest rate of 4.0% p.a. (2013: 4.0%).

### **35 Board of Management and Supervisory Board compensation**

The current emoluments of the active members of the Board of Management for the fiscal year 2014 amount to € 9.0 million (2013: € 8.3 million). Payments for pensions rights acquired in the fiscal year for the active members of the Board of Management total € 1.8 million (2013: € 1.2 million). The claim to contingent other long-term benefits attributable to the fiscal year amounts to € 7.1 million (2013: € 4.8 million).

Total emoluments thus amount to € 17.9 million (2013: € 14.3 million).

The emoluments of former members of the Board of Management and their surviving dependents amount to € 7.6 million (2013: € 7.8 million). The pension provisions for former members of the Board of Management and their surviving dependents amount to € 62.0 million (2013: € 51.9 million).

The emoluments of the Supervisory Board for the fiscal year 2014 amount to € 1.2 million (2013: € 1.3 million).

Moreover, the companies of the consolidated ZF Group have not carried out any reportable transactions whatsoever with members of the Board of Management or the Supervisory Board of ZF Friedrichshafen AG and other members of management in key positions, or with companies in whose management or supervisory bodies these persons are represented. This also applies to close family members of this group of persons.

### **36 Personnel**

The annual average number of employees was 72,125 (2013: 71,091), of whom 35,519 were direct employees (2013: 35,382) and 36,606 were indirect employees (2013: 35,709). At the end of the year, the consolidated ZF Group had 71,402 (2013: 72,643) employees. Direct employees are employees whose activities depend on the production volume and can be allocated directly to the products.

### **37 Appointed auditor fees**

Fees of the consolidated group's auditing firm, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, recorded in the consolidated statement of profit or loss amount to € 2 million for auditing services. The total consolidated Group-wide fees of Ernst & Young amount to € 6 million for auditing services, € 1 million for tax advisory services, and € 1 million for other advisory services. Apart from Ernst & Young, other auditing companies work for the consolidated group.



### 38 Listing of the shares held as of December 31, 2014

#### Consolidated subsidiaries

##### Domestic

	Share in capital in %
FTU Beteiligungsverwaltung GmbH, Auerbach i. d. Opf.	100.0 <sup>1)</sup>
Lemförder Electronic GmbH, Espelkamp	100.0 <sup>1) 2)</sup>
GAT – Gesellschaft für Antriebstechnik mbH, Alsdorf	100.0
ZF Gusstechnologie GmbH, Nuremberg	100.0 <sup>1) 3)</sup>
ZF Luftfahrttechnik GmbH, Kassel	100.0 <sup>1) 3)</sup>
ZF Race Engineering GmbH, Schweinfurt	100.0 <sup>1) 3)</sup>

##### Foreign

	Share in capital in %
Compagnie Financière de ZF S.A.S., Andrézieux-Bouthéon, France	100.0
Hansen Drives Ltd., Hong Kong, China	100.0 <sup>4)</sup>
Hansen Drives Pte. Ltd., Singapore, Singapore	100.0 <sup>4)</sup>
Liuzhou ZF Machinery Co., Ltd., Liuzhou, China	51.0 <sup>5)</sup>
Midwest Lemförder Ltd., Darlaston, Great Britain	100.0
MSNA, Inc., Wilmington, Delaware, USA	100.0 <sup>6)</sup>
OOO ZF Kama, Naberezhnye Chelny, Russia	51.0 <sup>7)</sup>
OOO ZF Russia, St. Petersburg, Russia	100.0 <sup>7)</sup>
Openmatics s.r.o., Plzeň, Czech Republic	100.0 <sup>8)</sup>
Pt. ZF Marine, Batam, Indonesia	100.0 <sup>9)</sup>
Sachs Automotive Components & Systems (Shanghai) Co., Ltd., Shanghai, China	100.0 <sup>5)</sup>
Shanghai Sachs Huizhong Shock Absorber Co., Ltd., Shanghai, China	60.0 <sup>5)</sup>
ZF (China) Investment Co., Ltd., Shanghai, China	100.0
ZF Ansa Lemförder S.L.U., Burgos, Spain	100.0 <sup>10)</sup>
ZF Argentina S.A., San Francisco, Argentina	100.0
ZF Asia Pacific Pte. Ltd., Singapore, Singapore	100.0
ZF Axle Drives Marysville LLC, Marysville, Michigan, USA	100.0 <sup>6)</sup>
ZF Beiben Drivtech (Chongqing) Co., Ltd., Chongqing, China	51.0 <sup>5)</sup>
ZF Boge Elastmetall España S.A., Barcelona, Spain	100.0 <sup>10)</sup>
ZF Bouthéon S.A., Andrézieux-Bouthéon, France	100.0 <sup>11)</sup>
ZF Chassis Components LLC, Newton, North Carolina, USA	100.0 <sup>12)</sup>
ZF Chassis Components Toluca S.A. de C.V., Toluca, Mexico	100.0 <sup>6)</sup>
ZF Chassis Systems (Beijing) Co., Ltd., Beijing, China	100.0 <sup>5)</sup>
ZF Chassis Systems Chicago LLC, Chicago, Illinois, USA	100.0 <sup>6) 17)</sup>
ZF Chassis Systems Duncan LLC, Duncan, South Carolina, USA	100.0 <sup>6) 17)</sup>
ZF Chassis Systems Sdn. Bhd., Kulim, Malaysia	100.0 <sup>13) 17)</sup>
ZF Chassis Systems Tuscaloosa LLC, Tuscaloosa, Alabama, USA	100.0 <sup>6) 17)</sup>
ZF Chassistech Commercial Vehicles (Shanghai) Co., Ltd., Shanghai, China	100.0 <sup>5)</sup>
ZF Components Investment Private Limited, Gurgaon, India	100.0 <sup>14)</sup>

Foreign	Share in capital in %
ZF do Brasil Ltda., Sorocaba-SP, Brazil	100.0 <sup>15)</sup>
ZF Dongfeng Shock Absorber Shiyao Co., Ltd., Shiyao, China	51.0 <sup>5)</sup>
ZF Drivtech (Hangzhou) Co., Ltd., Hangzhou, China	100.0 <sup>5)</sup>
ZF Drivtech (Suzhou) Co., Ltd., Suzhou, China	100.0 <sup>5)</sup>
ZF Electronic Systems Juárez S.A. de C.V., Juárez, Mexico	100.0 <sup>16)</sup>
ZF Electronic Systems Pleasant Prairie LLC, Pleasant Prairie, Wisconsin, USA	100.0 <sup>6)</sup>
ZF Electronics (Zhuhai) Co., Ltd., Zhuhai, China	100.0 <sup>5)</sup>
ZF Electronics Asia Ltd., Hong Kong, China	100.0 <sup>13)</sup>
ZF Electronics Klášterec s.r.o., Klášterec, Czech Republic	100.0
ZF Engineering s.r.o., Plzeň, Czech Republic	100.0 <sup>7)</sup>
ZF Faster Propulsion Systems Co., Ltd., Kaohsiung Hsien, Taiwan	100.0 <sup>13)</sup>
ZF FAWER Chassis Technology (Changchun) Co., Ltd., Changchun, China	51.0 <sup>5)</sup> <sup>17)</sup>
ZF Fonderie Lorraine S.A.S., Grosbliederstroff, France	100.0 <sup>11)</sup>
ZF Gainesville LLC, Gainesville, Georgia, USA	100.0 <sup>6)</sup>
ZF Holding Austria Ges.m.b.H., Steyr, Austria	100.0
ZF Holding Dover, Inc., Dover, Delaware, USA	100.0 <sup>6)</sup>
ZF Holdings Australia Pty. Ltd., Melbourne, Australia	100.0 <sup>13)</sup>
ZF Hungária Kft., Eger, Hungary	100.0
ZF India Private Limited, Pune, India	100.0
ZF Inmobiliaria S.A. de C.V., Ramos Arizpe, Mexico	100.0 <sup>18)</sup>
ZF International B.V., Delfgauw, Netherlands	100.0
ZF Italia Holding S.p.A., Caselle di Selvazzano, Italy	100.0
ZF Italia S.r.l., Assago, Italy	100.0 <sup>19)</sup>
ZF Japan Co., Ltd., Tokyo, Japan	100.0 <sup>13)</sup>
ZF Lemforder (Thailand) Co., Ltd., Rayong, Thailand	100.0 <sup>13)</sup>
ZF Lemförder Achssysteme Ges.m.b.H, Graz, Austria	100.0 <sup>7)</sup> <sup>17)</sup>
ZF Lemförder AKS Modülleri Sanayi ve Ticaret A.S., Izmir, Turkey	100.0
ZF Lemforder Australia Pty. Ltd., Edinburgh, Australia	100.0 <sup>20)</sup> <sup>17)</sup>
ZF Lemförder Automotive Systems (Shenyang) Co., Ltd., Shenyang, China	100.0 <sup>5)</sup> <sup>17)</sup>
ZF Lemförder Chassis Technology Korea Co., Ltd., Seoul, South Korea	59.3 <sup>17)</sup>
ZF Lemförder Métal France S.A., Florange, France	100.0 <sup>11)</sup>
ZF Lemförder SA (Pty.) Ltd., Rosslyn, South Africa	100.0 <sup>17)</sup>
ZF Lemförder Shanghai Chassisteck Co., Ltd., Shanghai, China	76.0 <sup>5)</sup>
ZF Lemförder Sverige AB, Trollhättan, Sweden	100.0
ZF Lemförder TLM Dis Ticaret L.S., Izmir, Turkey	100.0 <sup>21)</sup>
ZF Lemförder TVA S.A., Ermua, Spain	100.0 <sup>10)</sup>
ZF Lemförder UK Ltd., Darlaston, Great Britain	100.0 <sup>22)</sup>
ZF Marine (Zhuhai) Co., Ltd., Zhuhai, China	100.0 <sup>5)</sup>
ZF Marine Krimpen B.V., Krimpen aan de Lek, Netherlands	100.0 <sup>23)</sup>
ZF Marine Middle East LLC, Sharjah, United Arab Emirates	100.0 <sup>24)</sup>
ZF Marine Propulsion Systems Miramar LLC, Miramar, Florida, USA	100.0 <sup>6)</sup>

Foreign	Share in capital in %
ZF Mexico S.A. de C.V., El Salto, Mexico	100.0 <sup>25)</sup>
ZF North America Inc., Northville, Michigan, USA	100.0
ZF Österreich Ges.m.b.H., Vienna, Austria	100.0 <sup>7)</sup>
ZF Padova S.r.l., Caselle di Selvazzano, Italy	100.0 <sup>19)</sup>
ZF Philippines Inc., Muntinlupa, Philippines	100.0 <sup>13)</sup>
ZF Powertrain Modules Saltillo S.A. de C.V., Ramos Arizpe, Mexico	100.0 <sup>26)</sup>
ZF Sachs España S.A., Bilbao, Spain	100.0 <sup>10)</sup>
ZF Sachs Italia S.p.A., Candiolo, Italy	100.0 <sup>19)</sup>
ZF Sachs Korea Co., Ltd., Changwon, South Korea	91.45
ZF Sachs South Africa (Pty.) Ltd., Alberton, South Africa	100.0
ZF Sachs Süspansiyon Sistemleri Sanayi ve Ticaret A.S., Gebze, Turkey	100.0
ZF Sachs Suspension France S.A.S., Mouy, France	100.0 <sup>11)</sup>
ZF Sales & Service (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0 <sup>13)</sup>
ZF Services (China) Co., Ltd., Shanghai, China	100.0 <sup>5)</sup>
ZF Services Australia Pty. Ltd., Sydney, Australia	100.0 <sup>20)</sup>
ZF Services Belgium N.V. – S.A., Brussels, Belgium	100.0
ZF Services España S.A.U., Sant Cugat del Vallès, Spain	100.0
ZF Services France S.A.S., Antony (Paris), France	100.0 <sup>11)</sup>
ZF Services Hong Kong Ltd., Hong Kong, China	100.0 <sup>13)</sup>
ZF Services Korea Co., Ltd., Seoul, South Korea	100.0
ZF Services Nederland B.V., Delfgauw, Netherlands	100.0 <sup>23)</sup>
ZF Services S.A. de C.V., Guadalajara, Mexico	100.0 <sup>27)</sup>
ZF Services Schweiz AG, Volketswil, Switzerland	100.0
ZF Services South Africa (Pty.) Ltd., Johannesburg, South Africa	100.0
ZF Services Türk Sanayi ve Ticaret A.S., Istanbul, Turkey	100.0 <sup>28)</sup>
ZF Services UK Ltd., Lenton-Nottingham, Great Britain	100.0
ZF Services LLC, Chicago, Illinois, USA	100.0 <sup>6)</sup>
ZF Slovakia a.s., Trnava, Slovakia	100.0 <sup>7)</sup>
ZF Stankov s.r.o., Plzeň, Czech Republic	100.0 <sup>7)</sup>
ZF Steyr Ges.m.b.H., Steyr, Austria	100.0 <sup>7)</sup>
ZF Steyr Präzisionstechnik Ges.m.b.H., Steyr, Austria	100.0 <sup>7)</sup>
ZF Suspension Technology Guadalajara S.A. de C.V., El Salto, Mexico	100.0 <sup>29)</sup>
ZF Thailand Ltd., Bangkok, Thailand	100.0 <sup>13)</sup>
ZF Transmissions Gray Court LLC, Gray Court, South Carolina, USA	100.0 <sup>6)</sup>
ZF Transmissions Shanghai Co., Ltd., Shanghai, China	51.0 <sup>5) 17)</sup>
ZF Wind Power (Tianjin) Co., Ltd., Tianjin, China	99.71 <sup>30)</sup>
ZF Wind Power Antwerpen N.V., Kontich, Belgium	100.0 <sup>23)</sup>
ZF Wind Power Coimbatore Ltd., Coimbatore, India	100.0 <sup>31)</sup>
ZF YTO (Luoyang) Axle Co., Ltd., Luoyang, China	51.0 <sup>5)</sup>

## Consolidated companies accounted for using the equity method

Domestic	Share in capital in %
ZF Lenksysteme GmbH, Schwäbisch Gmünd	50.0
ZF Lenksysteme Nacam GmbH, Bremen	100.0 <sup>1) 32)</sup>
Foreign	Share in capital in %
Shanghai Sachs Powertrain Component Systems Co., Ltd., Shanghai, China	50.0 <sup>5)</sup>
Somic ZF Components Ltd., Gurgaon, India	50.0 <sup>33)</sup>
ZF Commercial Vehicle Steering (Shandong) Co., Ltd., Jinan, China	100.0 <sup>32)</sup>
ZF Lenksysteme (Shanghai) Co., Ltd., Minhang, China	100.0 <sup>32)</sup>
ZF Lenksysteme Hungária Kft., Eger, Hungary	100.0 <sup>32)</sup>
ZF Lenksysteme (India) Pvt. Ltd., Pune, India	74.0 <sup>32)</sup>
ZF Lenksysteme (Nanjing) Co., Ltd., Nanjing, China	100.0 <sup>32)</sup>
ZF Liuzhou Axle Co., Ltd., Liuzhou, China	50.0 <sup>5)</sup>
ZF PWK Mécacentre S.A.S., St. Etienne, France	50.0 <sup>11)</sup>
ZF Shanghai Steering Systems Co., Ltd., Shanghai, China	51.0 <sup>32)</sup>
ZF Shanghai Steering Systems (Yantai) Co., Ltd., Yantai, China	51.0 <sup>34)</sup>
ZF Shanghai Steering Systems (Wuhan) Co., Ltd., Wuhan, China	51.0 <sup>34)</sup>
ZF Sistemas de Direção Ltda., Sorocaba-SP, Brazil	100.0 <sup>32)</sup>
ZF Steering Jincheng (Nanjing) Co., Ltd., Nanjing, China	70.0 <sup>32)</sup>
ZF Steering Systems LLC., Florence, Kentucky, USA	100.0 <sup>32)</sup>
ZF Steering (Malaysia) Sdn. Bhd., Penang, Malaysia	100.0 <sup>32)</sup>
ZF Systèmes de Directions France S.A.S., Marignier, France	100.0 <sup>32)</sup>
ZF Systèmes de Direction Nacam S.A.S., Vendôme, France	100.0 <sup>32)</sup>

Domestic: HGB (German Commercial Code) figures, Foreign: IFRS figures

<sup>1)</sup> The company lays claim to exemption from disclosing the annual financial statements according to § 264, Section 3, HGB (German Commercial Code).

<sup>2)</sup> 49 % interest held by ZF Friedrichshafen AG, 51 % interest held by FTU Beteiligungsverwaltung GmbH.

<sup>3)</sup> There is a profit and loss transfer agreement.

<sup>4)</sup> Held by ZF Wind Power Antwerpen N.V.

<sup>5)</sup> Held by ZF (China) Investment Co., Ltd.

<sup>6)</sup> Held by ZF North America Inc.

<sup>7)</sup> Held by ZF Holding Austria Ges.m.b.H.

<sup>8)</sup> 99 % interest held by ZF Holding Austria Ges.m.b.H., 1 % held by ZF Steyr Präzisionstechnik Ges.m.b.H.

<sup>9)</sup> 99 % interest held by ZF Marine Krimpen B.V. and 1 % held by ZF Asia Pacific Pte. Ltd.

<sup>10)</sup> Held by ZF Services España S.L.U.

<sup>11)</sup> Held by Compagnie Financière de ZF S.A.S.

<sup>12)</sup> Held by ZF Mexico S.A. de C.V.

<sup>13)</sup> Held by ZF Asia Pacific Pte. Ltd.

<sup>14)</sup> Held by ZF India Pvt. Ltd.

<sup>15)</sup> Consolidated financial statements with a subsidiary (Mercant Comercio e Serviços Ltda.).

<sup>16)</sup> 99.98 % interest held by ZF Mexico S.A. de C.V. and 0.02 % held by ZF International B.V.

<sup>17)</sup> Exemption claimed in accordance with § 286 Section 3, HGB (German Commercial Code).

<sup>18)</sup> 99.9985 % interest held by ZF Mexico S.A. de C.V. and 0.0015 % held by ZF International B.V.

<sup>19)</sup> Held by ZF Italia Holding S.p.A.

<sup>20)</sup> Held by ZF Holdings Australia Pty. Ltd.

<sup>21)</sup> 99 % interest held by ZF Lemförder AKS Modülleri Sanayi ve Ticaret A.S. and 1 % held by ZF Friedrichshafen AG.

<sup>22)</sup> 99.99999 % interest held by Midwest Lemförder Ltd. and 0.00001 % held by ZF Friedrichshafen AG.

<sup>23)</sup> Held by ZF International B.V.

<sup>24)</sup> Held by ZF Padova S.r.l.

<sup>25)</sup> 99.99994 % interest held by ZF International B.V. and 0.00006 % by ZF Friedrichshafen AG.

<sup>26)</sup> 99.9998 % interest held by ZF Mexico S.A. de C.V. and 0.0002 % held by ZF International B.V.

<sup>27)</sup> 99.9987 % interest held by ZF Mexico S.A. de C.V. and 0.0013 % held by ZF International B.V.

<sup>28)</sup> 89.79 % interest held by ZF Friedrichshafen AG and 7.56 % held by ZF International B.V., as well as 2.65 % held by Marine Krimpen B.V.

<sup>29)</sup> 99.99951 % interest held by ZF Mexico S.A. de C.V. and 0.00049 % held by ZF International B.V.

<sup>30)</sup> Held by Hansen Drives Ltd., Hong Kong.

<sup>31)</sup> Held by Hansen Drives Pte. Ltd.

<sup>32)</sup> Held by ZF Lenksysteme GmbH.

<sup>33)</sup> 26.13 % interest held by ZF India Private Limited, Pune and 23.87 % interest held by ZF Components Investment Private Limited.

<sup>34)</sup> Held by ZF Shanghai Steering Systems Co., Ltd.



**39 Company bodies**

The members of the Supervisory Board and the Board of Management are listed on page 9.

Friedrichshafen, February 20, 2015

ZF Friedrichshafen AG  
The Board of Management



Dr. Stefan Sommer



Dr. Konstantin Sauer



Jürgen Holeksa



Michael Hankel



Wilhelm Rehm



Rolf Lutz



Dr. Franz Kleiner

# AUDIT OPINION <sup>1)</sup>

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We have audited the consolidated financial statements prepared by ZF Friedrichshafen AG, Friedrichshafen, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB (“Handelsgesetzbuch”: “German Commercial Code”) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer e.V. (IDW)(Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Stuttgart, March 6, 2015

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Graf Waldersee	Bürkle
Wirtschaftsprüfer	Wirtschaftsprüfer

<sup>1)</sup> Translation of Audit Opinion issued on the consolidated financial statements in German language.

# 5-YEAR DEVELOPMENTS

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## Result structure, consolidated ZF Group

in € million	2010	2011	2012 adjusted <sup>1)</sup>	2013	2014
Sales development	12,907	15,509	15,526	16,837	18,415
Change from prior year in %	37.7	20.2	0.1	8.4	9.4
Employees at year's end <sup>2), 3)</sup>	64,600	71,488	68,406	68,236	71,402
Employees' annual average <sup>2)</sup>	62,558	68,164	67,561	71,091	72,125
Cost of materials	7,183	8,948	9,312	10,011	11,020
in % of sales	55.7	57.7	60.0	59.5	59.8
Personnel expenses	3,279	3,682	3,702	3,979	4,235
in % of sales	25.4	23.7	23.8	23.6	23.0
R & D expenses in % of sales	5.0	4.9	5.0	5.0	4.8
Capital expenditure	582	1,058	1,025	954	1,005
in % of sales	4.5	6.8	6.6	5.7	5.5
Depreciation on property, plant, and equipment	551	616	683	718	748
in % of sales	4.3	4.0	4.4	4.3	4.1
in % of capital expenditure	94.7	58.2	66.6	75.3	75.3
Free cash flow <sup>3)</sup>	-174	-112	252	288	696
in % of sales	-1.3	-0.7	1.6	1.7	3.8
Operating profit or loss	680	850	597	756	897
in % of sales	5.3	5.5	3.8	4.5	4.9
Net profit or loss before income tax	548	715	530	683	873
in % of sales	4.2	4.6	3.4	4.1	4.7
Net profit or loss after tax	443	540	330	462	672
in % of sales	3.4	3.5	2.1	2.7	3.6
Dividends paid					
Normal dividend	21.0	30.0	30.0	30.0	50.0
in % of subscribed capital	7.0	10.0	10.0	6.0	10.0
Extra dividend	3.0	-	-	-	-

<sup>1)</sup> As of 2012 adjusted by ZF Lenksysteme. Further explanations in the Notes to the Consolidated Financial Statements, "Changes in accounting policies."

<sup>2)</sup> Direct and indirect employees without temporary workers, apprentices, and holiday workers; starting from 2009, changed calculation method to determine number of part-time employees;

<sup>3)</sup> Starting 2013 without employees of the Rubber & Plastics business unit and without AIBC employees.

<sup>4)</sup> Cash flow from operating activities less cash flow from investing activities.

**Structure of the consolidated statement of financial position, consolidated ZF Group**

<b>in € million</b>	<b>2010</b>	<b>2011</b>	<b>2012 adjusted<sup>1)</sup></b>	<b>2013</b>	<b>2014</b>
Cash	974	826	888	1,143	1,114
Trade receivables	1,909	2,307	1,963	2,221	2,416
Inventories	1,430	1,745	1,596	1,800	1,870
Other current assets	712	402	299	257	1,275
Non-current assets	4,770	5,887	6,277	6,549	6,726
Liabilities to banks	681	967	1,038	1,123	691
Trade payables	1,358	1,621	1,513	2,019	2,440
Provisions for pensions	1,889	2,211	2,612	2,785	3,803
Other liabilities	2,195	2,268	1,910	1,878	1,935
Subscribed capital	300	300	300	500	500
Reserves	3,045	3,582	3,395	3,311	3,721
Non-controlling interests	127	155	115	126	159
Profit available for distribution	200	63	140	228	139
<b>Equity</b>	<b>3,672</b>	<b>4,100</b>	<b>3,951</b>	<b>4,165</b>	<b>4,519</b>
in % of balance sheet total	37	37	36	35	34
<b>Balance sheet total</b>	<b>9,795</b>	<b>11,167</b>	<b>11,023</b>	<b>11,970</b>	<b>13,388</b>

<sup>1)</sup> As of 2012 adjusted by ZF Lenksysteme.





The Annual Report is available in English and German;  
both versions can also be downloaded from the ZF Group website:  
[www.zf.com](http://www.zf.com). On request, we would be delighted to provide  
further ZF Group information material and additional copies of  
the Annual Report.

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