Investor and Analyst Call FY 2017

Dr. Konstantin Sauer | CFO
ZF Friedrichshafen AG
Highlights 2017

One Company

Investment Grade

Change in Leadership

Sale of Body Control Systems

Strategic Positioning

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The Future is Electric – in all Sectors

AVe -130 System

CeTrax

TraXon Hybrid

8-speed hybrid transmission (8HP Hybrid)

8-speed dual clutch transmission (8DT Hybrid)

EVD2

ZF-ERGOPOWER (5-speed)
mSTARS

Modular axle system with integrated electric drive
Intelligent Mechanical Systems – Powertrain

2.9 million 8-speed automatic transmission 2017

Automatic Transmissions with more efficiency and hybrid options
Financial Figures 2017
Financial Overview 2017

- **146,148 Employees**
- **€36.4 billion Sales**
- **€1.4 billion Investments in property, plant and equipment**
- **€2.3 billion Adjusted EBIT**
- **€2.2 billion Research & Development**
- **€2.3 billion Investments in property, plant and equipment**
- **€1.9 billion Reduction of Gross Debt**
Organic Sales Growth at 6%

Sales in € million

- 2016: 35,166
- 2017: 36,444

Sales growth at 3.6%
- Thereof organic: + 6.0%
- Thereof FX effects: - 1.5%
- Thereof M&A effects: - 0.9%
Sales by Regions

Sales in € million and in % of sales

North America:
- Sales: 10,010
- Growth: +2%
- Regional Sales: 27%

South America:
- Sales: 1,066
- Growth: +23%
- Regional Sales: 3%

Asia-Pacific:
- Sales: 7,775
- Growth: +8%
- Regional Sales: 21%

Europe:
- Sales: 17,394
- Growth: +7%
- Regional Sales: 48%

Africa:
- Sales: 199
- Growth: -2%
- Regional Sales: 1%

Organic growth in 2017
Sales by Divisions

Sales in € million

- **Car Powertrain Technology**
  - 2016: 7,981
  - 2017: 8,725

- **Car Chassis Technology**
  - 2016: 6,447
  - 2017: 6,484

- **Commercial Vehicle Technology**
  - 2016: 2,960
  - 2017: 3,172

- **Industrial Technology**
  - 2016: 2,552
  - 2017: 2,530

- **E-Mobility**
  - 2016: 862
  - 2017: 924

- **Active & Passive Safety Technology**
  - 2016: 13,645
  - 2017: 13,970

- **ZF Aftermarket**
  - 2016: 2,815
  - 2017: 3,007

- **Business with automatic transmissions was the strongest growth driver**
- **Overproportional growth in Asia-Pacific, negatively affected by exchange rate effects and sales development in North America**
- **Growth through market development in China as well as the positive turnaround in Russia and Brazil**
- **Increased sales in the business unit “Off-Highway Systems” could nearly offset the sales decrease in the wind power sector**
- **Organic growth above 9% due to high demand for hybrid modules and control systems**
- **Sales increase despite the disposal of business units in 2016**
- **Sales increase of approx. 7%**
R&D Budget and Investments in PP&E

R&D Expenses
in € million and in % of sales

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,948</td>
<td>2,230</td>
</tr>
<tr>
<td>%</td>
<td>5.5%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Change</td>
<td>+14%</td>
<td></td>
</tr>
</tbody>
</table>

Investments in PP&E
in € million and in % of sales

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,185</td>
<td>1,350</td>
</tr>
<tr>
<td>%</td>
<td>3.4%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td>+14%</td>
</tr>
</tbody>
</table>
## Increased R&D Expenses Compensated by Operational Performance

### Adjusted EBIT margin in %

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>17.3%</td>
<td>18.0%</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>-5.5%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-7.3%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Adjustments (PPA) and others</td>
<td>1.9%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

### Developments

- Stable adjusted EBIT margin
- Improvement of gross margin driven by higher operational performance
- Increased R&D expenses to strengthen ZF’s technological position
- Negatively affected by FX effects
Stable Adjusted EBIT Margin

Adjusted EBIT in € million and margin in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted EBIT</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,239</td>
<td>6.4%</td>
</tr>
<tr>
<td>2017</td>
<td>2,339</td>
<td>6.4%</td>
</tr>
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Developments

- Stable adjusted EBIT margin
- Improvement of gross margin driven by higher operational performance
- Increased R&D expenses to strengthen ZF’s technological position
- Negatively affected by FX effects
Stable Adjusted EBIT Margin

EBIT and Adjusted EBIT 2016
in € million and margin in %

- EBIT: 1,678
  - Margin: 4.8%
- Purchase price allocation: 598
- Book gain from disposals: -37
- Adjusted EBIT: 2,239
  - Margin: 6.4%

EBIT and Adjusted EBIT 2017
in € million and margin in %

- EBIT: 1,771
  - Margin: 4.9%
- Purchase price allocation: 568
- Adjusted EBIT: 2,339
  - Margin: 6.4%
Net Profit Positively Influenced by Tax Effects

Net Profit After Tax
in € million

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit After Tax (in € million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>924</td>
</tr>
<tr>
<td>2017</td>
<td>1,167</td>
</tr>
</tbody>
</table>

+26% increase from 2016 to 2017.

Developments

- Decrease of financial expenses mainly driven by lower financing costs.
- Reduced tax expenses in 2017 mainly due to US tax reform and prior year effects leading to a tax rate of 17.2%.
Adjusted Free Cash Flow at €1.8 Billion

Adjusted Free Cash Flow in € million

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flow</th>
<th>Adjustments</th>
<th>Adjusted Free Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,000</td>
<td>-342</td>
<td>2,342</td>
</tr>
<tr>
<td>2017</td>
<td>1,787</td>
<td>31</td>
<td>1,818</td>
</tr>
</tbody>
</table>

Developments

- Free Cash Flow at €1,787 million in 2017
- Adjustments for M&A activities comprise
  - 2016: Sale of Cherry and Fasteners, acquisition of shares in Haldex, Ibeo and doubleSlash
  - 2017: Investments through Zukunft Ventures GmbH
- Strong Adjusted Free Cash Flow at €1,818 million in 2017
  - due to improved operating activities
  - higher investments
Debt Reduction Strategy Confirmed by Rating Agencies

Developments

- Gross debt reduced by €1.9 billion since December 31, 2016
- Net debt reduced by €1.6 billion
- Deleveraging strategy confirmed by rating agencies:
  - S&P: BBB– (stable outlook)
  - Moody’s: Baa3 (stable outlook)

Gross/Net Debt in € million

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Debt</th>
<th>Net Debt</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8,262</td>
<td>6,635</td>
<td>1,627</td>
</tr>
<tr>
<td>2017</td>
<td>6,391</td>
<td>5,076</td>
<td>1,315</td>
</tr>
</tbody>
</table>

Note: Gross debt = Financial liabilities / derivative financial instruments
Maturity Profile Further Smoothened in 2017

Maturity of Main Group Financings as of December 31, 2017
Nominal amounts in € million

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonded Loans</th>
<th>EUR Bonds</th>
<th>USD Bonds</th>
<th>Other</th>
<th>SynLoan RCF (undrawn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>908</td>
<td>583</td>
<td>325</td>
<td>14</td>
<td>898</td>
</tr>
<tr>
<td>2019</td>
<td>1,192</td>
<td>1,150</td>
<td>457</td>
<td>14</td>
<td>898</td>
</tr>
<tr>
<td>2020</td>
<td>964</td>
<td>507</td>
<td>14</td>
<td>518</td>
<td>898</td>
</tr>
<tr>
<td>2021</td>
<td>863</td>
<td>14</td>
<td>518</td>
<td>1,081</td>
<td>898</td>
</tr>
<tr>
<td>2022</td>
<td>1,075</td>
<td>0</td>
<td>898</td>
<td>1,075</td>
<td>898</td>
</tr>
<tr>
<td>2023</td>
<td>0</td>
<td>1,075</td>
<td>898</td>
<td>0</td>
<td>898</td>
</tr>
<tr>
<td>2024</td>
<td>0</td>
<td>898</td>
<td>898</td>
<td>0</td>
<td>898</td>
</tr>
<tr>
<td>2025</td>
<td>0</td>
<td>898</td>
<td>898</td>
<td>0</td>
<td>898</td>
</tr>
</tbody>
</table>

Note: Excluding bilaterals worldwide which are rolled in the ordinary course of business.
Equity Ratio Increased to 24 %

Liabilities and Equity
in € million and in % of balance sheet total

- Equity ratio increased by 3 percentage points to 24 % due to improved equity and reduced balance sheet total
- Equity increase by €670 million mainly due to positive net profit after tax
- Balance sheet total decrease by €1,295 million due to further debt pay-down and FX effects

2016 | 2017
---|---
Equity | 29,128 | 27,833
65% | 62%
Other liabilities/provisions | -1,295
Pension provisions | 27,833
14% | 14%
Equity | 65% | 62%
21% | 24%
## Financial Key Figures Improved

### Financial Key Figures

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<thead>
<tr>
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Outlook 2018
Market Development 2018

- **EUROPE**
  - Stable **positive economic** development in **Europe and Germany**

- **NORTH AMERICA**

- **SOUTH AMERICA**
  - **Economic crisis 2014-2017** (esp. Brazil and Argentina)
    Recovery has gradually started, only slowly accelerating

- **ASIA**
  - **China economy** fueled by Government investment growing in the defined corridor, expansive fiscal policy
    Emerging markets **without surprising impulses**
Outlook 2018

Sales: ~ €36.5 billion

EBIT margin*: ~ 6%

Free cash flow*: > €1 billion

* adjusted
see. think. act.
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