Condensed Interim Consolidated Financial Statements

as of June 30, 2018

Consolidated Statement of Profit or Loss

ZF Friedrichshafen AG for the period dating January 1 to June 30, 2018

in € million	Notes	2018 unaudited	2017 unaudited
Sales	1	18,654	18,327
Cost of sales		15,573	15,072
Gross profit on sales		**3,081**	**3,255**
Research and development costs		1,110	1,087
Selling expenses		645	632
General administrative expenses		633	637
Other income		373	206
Other expenses		284	234
Result from associates	2	24	24
Other net result from participations	2	81	0
EBIT		**887**	**895**
Financial income	3	115	181
Financial expenses	3	258	329
Net profit or loss before tax		**744**	**747**
Income taxes		176	188
Net profit or loss after tax		**568**	**559**
thereof shareholders of ZF Friedrichshafen AG		542	509
thereof non-controlling interests		26	50

Consolidated Statement of Comprehensive Income

ZF Friedrichshafen AG for the period dating January 1 to June 30, 2018

in € million	Notes	2018 unaudited	2017 unaudited
Net profit or loss after tax		**568**	**559**
Line items that will be reclassified in the consolidated statement of profit or loss			
Foreign currency translation differences			
Gains arising during the year (2017: losses)		71	−441
Amounts reclassified through profit or loss		−16	0
Mark-to-market of securities			
Losses arising during the year		–	−11
Mark-to-market of cash flow hedges			
Losses arising during the year (2017: gains)		−33	76
Amounts reclassified through profit or loss		5	13
Amounts reclassified to acquisition costs through comprehensive income		1	3
Income taxes		8	−25
		36	**−385**
Line items that will not be reclassified in the consolidated statement of profit or loss			
Mark-to-market of securities		−3	–
Actuarial gains from pension obligations		42	380
Income taxes		−2	−52
		37	**328**
Other comprehensive income after tax	10	**73**	**−57**
Total comprehensive income		**641**	**502**
thereof shareholders of ZF Friedrichshafen AG		614	451
thereof non-controlling interests		27	51

Consolidated Statement of Financial Position
ZF Friedrichshafen AG as of June 30, 2018

Assets in € million	Notes	June 30, 2018 unaudited	Dec. 31, 2017
Current assets			
Cash and cash equivalents		1,240	1,315
Financial assets		81	66
Trade receivables	4	5,996	5,303
Other assets		653	531
Contract assets		47	–
Income tax receivables		53	28
Inventories	5	4,189	3,058
		12,259	**10,301**
Assets held for sale and disposal groups		0	904
		12,259	**11,205**
Non-current assets			
Financial assets		1,100	960
Associates		427	417
Other assets		120	246
Contract assets		80	–
Intangible assets	6	7,351	8,039
Property, plant and equipment		6,205	6,194
Deferred taxes		765	772
		16,048	**16,628**
		28,307	**27,833**

Liabilities and equity in € million	Notes	June 30, 2018 unaudited	Dec. 31, 2017
Current liabilities			
Financial liabilities	9	1,548	1,396
Trade payables		5,803	5,936
Other liabilities		1,804	1,867
Contract liabilities	8	767	–
Income tax provisions		345	338
Other provisions		648	690
		10,915	**10,227**
Liabilities of disposal groups		0	215
		10,915	**10,442**
Non-current liabilities			
Financial liabilities	9	4,456	5,050
Trade payables		75	74
Other liabilities		83	396
Contract liabilities		328	–
Provisions for pensions		3,898	3,851
Other provisions		622	613
Deferred taxes		627	622
		10,089	**10,606**
Equity			
Subscribed capital		500	500
Capital reserve		386	386
Retained earnings[1)]		6,130	5,600
Equity attributable to shareholders of ZF Friedrichshafen AG		**7,016**	**6,486**
Non-controlling interests		287	299
	10	**7,303**	**6,785**
		28,307	**27,833**

[1)] Assets held for sale and disposal groups account for €0 million (2017: €8 million)

Consolidated Statement of Cash Flows
ZF Friedrichshafen AG for the period dating January 1 to June 30, 2018

in € million	Notes	2018 unaudited	2017 unaudited
Net profit or loss before income tax		744	747
Depreciation/Reversal of impairments for intangible assets and property, plant and equipment		892	1,084
Results from deconsolidation		–83	0
Changes in non-current provisions made through profit or loss		43	57
Income taxes paid		–242	–300
Results from the disposal of intangible assets and property, plant and equipment		–7	3
Net result from participations and net financial result		38	124
Increase in inventories		–546	–281
Increase in trade receivables		–727	–688
Increase in other assets		–133	–36
Increase in trade payables		64	143
Increase (2017: decrease) in other liabilities		435	–20
Cash flow from operating activities		**478**	**833**
Expenditures for investments in			
intangible assets		–28	–103
property, plant and equipment		–499	–466
associates and other participations		–5	–31
financial receivables		–15	–4
Proceeds from the disposal of			
intangible assets		7	3
property, plant and equipment		21	25
associates and other participations		4	1
financial receivables		1	12
Cash inflow from the sale of consolidated companies	12	766	0
Dividends received		22	8
Interest received		18	13
Cash flow from investing activities		**292**	**–542**

in € million	Notes	2018 unaudited	2017 unaudited
Dividends paid to ZF Friedrichshafen AG shareholders		–195	–50
Dividends paid to holders of non-controlling interests		–36	–74
Repayments of borrowings		–1,256	–557
Proceeds from borrowings		793	181
Interest paid and transaction costs		–163	–210
Cash flow from financing activities		**–857**	**–710**
Net change in cash		**–87**	**–419**
Cash position at the beginning of the fiscal year		1,315	1,627
Effects of changes in the basis of consolidation on cash		12	0
Effects of exchange rate changes on cash		0	–91
Cash position at the end of the fiscal year	11	**1,240**	**1,117**

Consolidated Statement of Changes in Equity
ZF Friedrichshafen AG for the period dating January 1 to June 30, 2018

in € million	Subscribed capital	Capital reserve
Jan. 1, 2017	**500**	**386**
Net profit or loss after tax		
Other comprehensive income after tax		
Total comprehensive income	**0**	**0**
Dividends paid		
Changes in the basis of consolidation		
June 30, 2017 (unaudited)	**500**	**386**
Jan. 1, 2018	**500**	**386**
First-time application effect IFRS 9 and IFRS 15		
Jan. 1, 2018 (adjusted)	**500**	**386**
Net profit or loss after tax		
Other comprehensive income after tax		
Total comprehensive income	**0**	**0**
Dividends paid		
Acquisition of non-controlling interests		
Capital increase in exchange for company shares		
June 30, 2018 (unaudited)	**500**	**386**

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			
5,887	**280**	**−2**	**−69**	**−1,166**	**5,816**	**299**	**6,115**
509					509	50	559
	−442	−11	67	328	−58	1	−57
509	**−442**	**−11**	**67**	**328**	**451**	**51**	**502**
−50					−50	−74	−124
4					4	3	7
6,350	**−162**	**−13**	**−2**	**−838**	**6,221**	**279**	**6,500**
6,924	**−422**	**−31**	**−13**	**−858**	**6,486**	**299**	**6,785**
103					103	−2	101
7,027	**−422**	**−31**	**−13**	**−858**	**6,589**	**297**	**6,886**
541					541	27	568
	55	−3	−19	40	73		73
541	**55**	**−3**	**−19**	**40**	**614**	**27**	**641**
−195					−195	−36	−231
8					8	−8	0
						7	7
7,381	**−367**	**−34**	**−32**	**−818**	**7,016**	**287**	**7,303**

Notes to the Condensed Interim Consolidated Financial Statements
ZF Friedrichshafen AG as of June 30, 2018

Fundamental Principles

Corporate structure

ZF Friedrichshafen AG (ZF) 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, Löwentaler Straße 20.

As a global leader in driveline and chassis technology as well as active and passive safety technology, ZF operates in particular in the passenger car and commercial vehicle industry. 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 business units are assigned to the following seven divisions: Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, Industrial Technology, E-Mobility, ZF Aftermarket, Active & Passive Safety Technology. Further explanations on the corporate structure can be found in the group management report as of December 31, 2017.

General

The interim consolidated financial statements of ZF Friedrichshafen AG as of June 30, 2018 were prepared as a condensed interim report in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting”, as adopted by the European Union. It includes the following components:

- Consolidated statement of profit or loss from January 1 to June 30, 2018
- Consolidated statement of comprehensive income from January 1 to June 30, 2018
- Consolidated statement of financial position as of June 30, 2018
- Consolidated statement of cash flows from January 1 to June 30, 2018
- Consolidated statement of changes in equity from January 1 to June 30, 2018
- Notes to the condensed interim consolidated financial statements

The condensed interim consolidated financial statements do not include all the pieces of information and disclosures that are required for the consolidated financial statements at the end of a fiscal year and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2017.

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

The interim consolidated financial statements were not subject to any audit or review.

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 § 315e Section 3 HGB (German Commercial Code).

The condensed interim consolidated financial statements were prepared on the basis of the accounting policies applied for the preparation of the consolidated financial statements as of December 31, 2017, with the following exception:

Income taxes are recognized in the interim consolidated financial statements on the basis of the income tax rate expected for the full year.

ZF has implemented all standards and interpretations adopted by the International Accounting Standards Board (IASB), London (Great Britain), and by the EU that are mandatory as of January 1, 2018.

ZF is applying the new IFRS 15 standard "Revenue from Contracts with Customers" to the fiscal year beginning on January 1, 2018, for the first time. The first-time application of the standard follows the modified retrospective method, meaning that the cumulative effect from the first-time application as of January 1, 2018, is reported in retained earnings. Earlier years are not adjusted.

The objective of IFRS 15 is to aggregate the revenue recognition rules included in various standards and interpretations and, on the basis of a uniform five-step revenue recognition model, define 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.

ZF provides services for its customers over the life cycle of its products, with such services being typical for the respective term. At the beginning of the term, prior to the start of volume production, ZF normally provides development services that define the specifications of the products and their production. Within the framework of activities of volume production preparation, tools required for volume production are developed and manufactured. Within the framework of volume production, variable remuneration components may have an impact on the amount of sales. In the aftermarket and service area, goods and services are provided to customers over the entire volume production runtime and thereafter.

The first-time application of IFRS 15 basically results in the following effects:

- The separation of performance obligations, which is required under IFRS 15 if certain prerequisites are met, and the resulting allocation of the transaction price affect the timing of revenue recognition.
- The capitalization of costs of obtaining a contract, which is mandatory under IFRS 15 if certain prerequisites are met, results in an increase in total assets. Total assets also increase due to the recognition of contract assets, i.e. from customer receivables for which there is no legal title yet.
- The application of the control concept leads to a reduction of total assets and to an earlier revenue recognition at a specific point in time in relation to tool revenue.
- The development reimbursements received from customers that were previously included in sales continue to be reported in sales. However, the corresponding development expenses will be reported in future under cost of sales, rather than research and development expenses. The amended procedure in the realization of expenses from which revenue can be generated will lead to an increase in inventories and total assets.

- The warranty obligations incurred towards vehicle manufacturers generally do not represent a separate performance obligation and therefore will continue to be accounted for in accordance with IAS 37.
- Contract assets and contract liabilities that must be recognized in connection with IFRS 15 are presented separately in the consolidated statement of financial position.

The first-time application of IFRS 15 resulted in a 0.5% increase in the equity ratio in the opening statement of financial position for the fiscal year 2018. The decrease in sales from the modified accounting of tooling subsidies was compensated by the counter-effect from the modified accounting of development services. The capitalization of the development costs from which revenue can be created in the inventories and the recording of development expenses in the further offsetting of development costs in the cost of sales leads to a reduction in research and development costs and to a smaller gross margin in relation to sales.

ZF is applying the new IFRS 9 standard "Financial Instruments" to the fiscal year beginning on January 1, 2018, for the first time. The first-time application of the new standard follows the modified retrospective method, meaning that the cumulative effect from the first-time application as of January 1, 2018, is reported in retained earnings. Earlier years are not adjusted. The rules set out in IAS 39 in relation to the accounting of hedging relationships will continue to be applied.

IFRS 9 contains new provisions for the classification and measurement of financial assets and liabilities and replaces the provisions of IAS 39. According to this, financial assets are to be recognized depending on their respective characteristics and considering the business model or business models and their cash flow characteristics, either at amortized cost or at fair value through profit or loss (FVtPL) or at fair value through other comprehensive income (FVtOCI). Contrary to IAS 39, equity instruments are generally to be measured at fair value. Changes in the fair value of the equity instruments may also be recorded in other comprehensive income without affecting profit or loss. To the extent that changes in the fair value are recognized through other comprehensive income without affecting profit or loss, they will, starting from the present fiscal year, no longer be reclassified to the statement of profit or loss upon the disposal of these instruments. ZF uses the opportunity to decide on a case-by-case basis whether equity instruments are recognized at fair value through profit or loss or as not affecting profit or loss.

The previous provisions of IAS 39 were adopted to a large extent with regard to the classification and measurement of financial liabilities. A new rule refers to the accounting of financial liabilities. In case the fair value option is applied, the part of the fair value change resulting from the change of one's own credit risk is to be recorded, in future, in other comprehensive income and not in the consolidated statement of profit or loss. The first-time application of the standard did not have any material effects on the accounting of financial liabilities.

In addition, IFRS 9 comprises new rules for hedge accounting. Changes to the previous accounting principles can mainly result from new provisions regarding the designation of instruments and risks, requirements for hedge effectiveness, the adjustment and discontinuation of hedging relationships and, partly, their recognition in the consolidated statement of financial position. After an analysis of the effects arising from the introduction of the standard, the existing hedging relationships continue to be classified as hedging relationships under the new hedge accounting rules.

IFRS 9 comprises revised provisions regarding impairment of financial instruments. The new model of taking into account expected credit losses replaces the previously used incurred loss model and leads to an earlier recognition of losses by recognizing both losses already incurred and losses expected in the future. In order to implement the new rules on impairment, ZF has developed a rating-based model to determine the expected loss rates of receivables and contract assets. ZF applies the simplified impairment model provided for under IFRS 9 and recognizes the lifetime expected credit losses from all trade receivables and contract assets. The recognition of expected losses under the new allowance model results in an earlier recognition of allowances. The first-time application of IFRS 9 results in an equity ratio decrease of 0.2% in the opening statement of financial position for the fiscal year 2018. There were no effects from financial instrument reclassification.

The ZF Group did not apply early any new or amended standards and interpretations whose application is not yet mandatory even though they have been published. No other standards applicable for the first time in the fiscal year 2018 resulted in any effects on ZF Group accounting.

Basis of consolidation

In addition to ZF Friedrichshafen AG, 33 domestic and 231 foreign subsidiaries controlled by ZF Friedrichshafen AG are included in the interim consolidated financial statements.

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

	Jan. 1, 2018	First-time consolidations	Legal changes	Deconsolidations	June 30, 2018
Subsidiaries	289	1	−1	−25	264
of which domestic	35	0	0	−2	33
of which foreign	254	1	−1	−23	231
Joint ventures	10	0	0	0	10
Associates	10	2	0	−1	11

In the fiscal year 2018, the following companies have been included in the interim consolidated financial statements of ZF Friedrichshafen AG for the first time:

	Share in capital in %
Consolidated subsidiaries	
ZF E-Mobility SRB d.o.o., Pancevo, Serbia	100
Consolidated companies accounted for using the equity method	
e.GO MOOVE GmbH, Aachen, Germany	40
Sachs Micro Mobility Solutions GmbH, Tübingen, Germany	60

In the fiscal year 2018, 27 companies left the Consolidated Group. Apart from the disposals in connection with the sale of the Global Body Control Systems Business Unit, these deconsolidations mainly resulted from liquidations or mergers.

Company disposals

On August 30, 2017, ZF concluded an agreement with Luxshare Limited to sell its Body Control Systems Business Unit after the Supervisory Board of ZF Friedrichshafen AG had granted its consent. The full transfer of the business activity was successfully completed on April 27, 2018. The transfer was implemented partly as a share deal and partly as an asset deal. In connection with the share deal, five companies left the Consolidated Group. The disposal led to a deconsolidation income of €83 million that was recognized under other income. The Global Body Control Systems Business Unit with its headquarters in Radolfzell (Germany) employs 6,000 people worldwide at 16 locations in eleven countries.

Consolidation principles and foreign currency translation

The consolidation methods and the methods for foreign currency translation have not changed compared to the consolidated financial statements as of December 31, 2017.

The exchange rates used for foreign currency translation with a significant influence on the consolidated financial statements changed as follows in relation to €1:

	Closing rate		Average rate	
	June 30, 2018	**Dec. 31, 2017**	**Jan.–June, 2018**	**Jan.–June, 2017**
US dollar	1.1658	1.1993	1.2108	1.0823
British pound	0.8861	0.8872	0.8799	0.8604
Chinese renminbi	7.710	7.8044	7.710	7.4408
Brazilian real	4.4876	3.9729	4.1332	3.4382
Mexican peso	22.8817	23.6612	23.0754	21.0452

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 the following tables, the sales based on contracts with customers are broken down into sales categories and geographical regions:

in € million	Jan.–June, 2018
Volume production business sales	16,359
Aftermarket and service sales	1,633
Other sales	662
	18,654

in € million	Jan.–June, 2018	Jan.–June, 2017
Domestic	3,785	3,814
Western Europe	3,913	3,791
Eastern Europe	1,365	1,210
North America	5,022	5,170
South America	519	516
Asia-Pacific	3,955	3,734
Africa	95	92
	18,654	**18,327**

2 Net result from participations

in € million	Jan.–June, 2018	Jan.–June, 2017
Result from associates	**24**	**24**
Income from participations	13	0
Income from the measurement of participations	65	0
Income from the disposal of participations	4	0
Expenses from the disposal of participations	−1	0
Other net result from participations	**81**	**0**
Net result from participations	**105**	**24**

3 Net financial result

in € million	Jan.–June, 2018	Jan.–June, 2017
Interest from current financial investments	12	12
Interest from non-current financial investments	1	3
Other interest	7	37
Return on plan assets	0	6
Interest income	**20**	**58**
Foreign exchange gains	49	44
Income from derivative financial instruments	46	79
Other financial income	**95**	**123**
Financial income	**115**	**181**
Interest on financial liabilities	–107	–158
Other interest	–3	0
Interest from pension provisions	–33	–34
Unwinding the discount on other non-current items	–3	0
Interest expenses	**–146**	**–192**
Foreign exchange losses	–49	–79
Expenses from derivative financial instruments	–55	–45
Write-downs of financial receivables	0	–2
Transaction costs and incidental expenses	–8	–11
Other financial expenses	**–112**	**–137**
Financial expenses	**–258**	**–329**
Net financial result	**–143**	**–148**

Notes to the Consolidated Statement of Financial Position

4 Current trade receivables

Compared to the end of fiscal year 2017, trade receivables have increased due to the applicable key date.

5 Inventories

The increase in inventories is mainly the result of the first-time application of IFRS 15 in the fiscal year 2018.

6 Intangible assets

The change in this line item results from both the first-time application of IFRS 15 and from the continuously high level of amortization, depreciation and impairment of intangible assets that exceeded investments in the first half of 2018.

7 Impairment tests

As of June 30, 2018, there were no indications for required impairment in the cash-generating units of ZF. Both in the first half of 2018 and the comparative period, neither impairments nor reversals of impairments were recognized.

8 Current contract liabilities

This line item mainly includes liabilities from the volume production business and reimbursements received in connection with research and development services.

9 Financial liabilities

The increase in current financial liabilities and the decrease in non-current financial liabilities reflect the reclassification of the euro bond due in 2019 from non-current to current financial liabilities. The taking out of a long-term loan from the European Investment Bank and exchange rate effects due to the depreciation of the euro compared to the US dollar resulted in a counter-effect on non-current financial liabilities.

In the category of current financial liabilities, a bond tranche totaling €325 million and a current bank loan in the amount of $700 million that had been taken out in connection with the buy-back of USD bonds in December 2017 were repaid.

10 Equity

Dividends

In the fiscal year, a dividend of €195 million (€0.39 per share) for 2017 was paid to the shareholders of ZF Friedrichshafen AG.

Deferred taxes on equity items not affecting profit or loss

	June 30, 2018			June 30, 2017		
in € million	**Before income tax**	**Income tax**	**After tax**	**Before income tax**	**Income tax**	**After tax**
Foreign currency translation differences	55	0	55	−441	0	−441
Mark-to-market of securities	−3	0	−3	−11	0	−11
Mark-to-market of cash flow hedges	−27	8	−19	92	−25	67
Actuarial gains and losses	42	−2	40	380	−52	328
Other comprehensive income	**67**	**6**	**73**	**20**	**−77**	**−57**

Notes to the Consolidated Statement of Cash Flows

11 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 and cash equivalents 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 in the cash flow from operating activities is adjusted by the financial result and the net result from participations.

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.

12 Proceeds from the sale of consolidated companies

The divestments in assets and liabilities from the share deals relate to the following:

in € million	2018	2017
Current assets	208	0
thereof cash and cash equivalents	12	0
Non-current assets	724	0
Current liabilities	163	0
Non-current liabilities	74	0

The sales price in the amount of €778 million was paid in full.

Other Disclosures

13 Litigation

For a pending antitrust case at a subsidiary of the Active & Passive Safety Technology Division, a provision for the risk of an antitrust penalty existing in this context has been recorded. The point of time at which the suit will be completed as well as the outcome of the procedure are uncertain.

In the fiscal year 2014, the premises of a ZF subsidiary were searched in connection with an ongoing antitrust investigation procedure. The reason for the investigation was the suspected involvement of the subsidiary in illegal antitrust price agreements. ZF is fully cooperating with the investigating authorities in this and another procedure at one of its subsidiaries. The duration and outcome of the procedures are uncertain.

In addition, the premises of ZF were searched in 2016 in connection with another antitrust investigation procedure. The reason for this investigation was the suspicion of the Bundeskartellamt [Federal Cartel Office] that ZF was involved in agreements regarding steel purchasing that violate antitrust law. In this case, ZF again fully cooperates with the investigating authorities. The duration and outcome of the procedure are uncertain.

In a pending action in the USA against several companies from the automotive industry, ZF is mentioned together with other OEMs and suppliers. The pending action is not directed against ZF, though.

In the arbitration proceedings that had been ongoing since 2016, the current fiscal year 2018 saw an agreement regarding the economic cornerstones of a settlement. The result of this agreement was taken into account in the Group interim financial statement as of June 30, 2018.

In addition, neither ZF nor any of its Group companies are engaged in current or foreseeable court or arbitration proceedings, which, based on facts known today, have had in the past or could have a significant impact on the economic situation of the consolidated ZF Group.

14 Financial instruments

The following table compares the originally used measurement categories and carrying amounts of the financial assets and liabilities in accordance with IAS 39 to the new measurement categories and carrying amounts in accordance with IFRS 9:

in € million	Measurement categories in accordance with IAS 39[1]	Measurement categories in accordance with IFRS 9[2]	Carrying amounts in accordance with IAS 39 as of Dec. 31, 2017	Carrying amounts in accordance with IFRS 9 as of Jan. 1, 2018
Assets				
Cash and cash equivalents	LaR	AC	1,315	1,315
Financial receivables	LaR	AC	91	90
Investments in participations	AfS	FVtOCI	80	80
Investments in participations	AfS	FVtPL	58	58
Trade receivables	LaR	AC	5,285	5,233
Trade receivables	LaR	FVtOCI	18	18
Derivative financial instruments				
Excl. hedge accounting	HfT	FVtPL	24	24
Hedge accounting	No IAS 39 category	No IFRS 9 category	31	31
			6,902	**6,849**
Liabilities				
Financial liabilities				
Bonds	FLAC	AC	4,133	4,133
Bonded loans	FLAC	AC	1,249	1,249
Liabilities to banks	FLAC	AC	970	970
Other financial liabilities	FLAC	AC	14	14
Trade payables	FLAC	AC	6,010	6,010
Liabilities from finance leases	No IAS 39 category	No IFRS 9 category	25	25
Derivative financial instruments				
Excl. hedge accounting	HfT	FVtPL	25	25
Hedge accounting	No IAS 39 category	No IFRS 9 category	30	30
			12,456	**12,456**

[1] LaR: loans and receivables, AfS: available for sale, HfT: held for trading, FLAC: financial liabilities at amortized cost
[2] AC: at amortized cost, FVtOCI: fair value through other comprehensive income, FVtPL: fair value through profit or loss

Carrying amounts of the financial instruments by categories

The following table shows the recognized financial assets and liabilities by measurement categories:

Carrying amounts of the financial instruments by measurement categories in accordance with IFRS 9

in € million	June 30, 2018
Assets	
At amortized cost	7,135
At fair value through other comprehensive income	282
At fair value through profit or loss	149
Derivative financial instruments (hedge accounting)[1]	25
	7,591
Liabilities	
At amortized cost	11,801
Liabilities from finance leases[1]	22
At fair value through profit or loss	7
Derivative financial instruments (hedge accounting)[1]	52
	11,882

Carrying amounts of the financial instruments by measurement categories in accordance with IAS 39

in € million	Dec. 31, 2017
Assets	
Loans and receivables	6,709
Available for sale	138
Held for trading	24
Derivative financial instruments (hedge accounting)[1]	31
	6,902
Liabilities	
Financial liabilities at amortized cost	12,376
Liabilities from finance leases[1]	25
Held for trading	25
Derivative financial instruments (hedge accounting)[1]	30
	12,456

[1] No measurement category in accordance with IFRS 9 and/or IAS 39

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.

The following table shows the carrying amounts and the fair values of the 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.

Carrying amounts and fair values of the financial instruments recognized at amortized cost in accordance with IFRS 9

	June 30, 2018	
in € million	Carrying amount	Fair value
Assets		
At amortized cost		
Cash and cash equivalents	1,240	1,240
Financial receivables	104	104
Trade receivables	5,791	5,791
	7,135	**7,135**
Liabilities		
At amortized cost		
Bonds	4,167	4,286
Bonded loans	894	955
Liabilities to banks	844	846
Other financial liabilities	18	18
Trade payables	5,878	5,878
Liabilities from finance leases[1]	22	22
	11,823	**12,005**

[1] No measurement category in accordance with IFRS 9 and/or IAS 39

Carrying amounts and fair values of the financial instruments recognized at amortized cost in accordance with IAS 39

in € million	Dec. 31, 2017 Carrying amount	Fair value
Assets		
Loans and receivables		
Cash and cash equivalents	1,315	1,315
Financial receivables	91	91
Trade receivables	5,303	5,303
	6,709	**6,709**
Liabilities		
Financial liabilities at amortized cost		
Bonds	4,133	4,412
Bonded loans	1,249	1,337
Liabilities to banks	970	970
Other financial liabilities	14	14
Trade payables	6,010	6,010
Liabilities from finance leases [1]	25	25
	12,401	**12,768**

[1] No measurement category in accordance with IFRS 9 and/or IAS 39

The following table shows the financial instruments recognized at fair value:

Fair values of the financial instruments by measurement categories in accordance with IFRS 9

in € million	June 30, 2018
Assets	
At fair value through other comprehensive income	
Investments in participations	77
Trade receivables	205
At fair value through profit or loss	
Investments in participations	125
Derivative financial instruments	24
Derivative financial instruments (hedge accounting) [1]	25
	456
Liabilities	
At fair value through profit or loss	
Derivative financial instruments	7
Derivative financial instruments (hedge accounting) [1]	52
	59

Fair values of the financial instruments by measurement categories in accordance with IAS 39

in € million	Dec. 31, 2017
Assets	
Available for sale	
Investments in participations	80
Held for trading	
Derivative financial instruments	24
Derivative financial instruments (hedge accounting) [1]	31
	135
Liabilities	
Held for trading	
Derivative financial instruments	25
Derivative financial instruments (hedge accounting) [1]	30
	55

[1] No measurement category in accordance with IFRS 9 and/or IAS 39

In the following, the financial instruments recognized at fair value 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.

	June 30, 2018			
in € million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments in participations	77	78	47	202
Trade receivables	0	205	0	205
Derivative financial instruments	0	49	0	49
	77	**332**	**47**	**456**
Liabilities				
Derivative financial instruments	0	59	0	59

	Dec. 31, 2017			
in € million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments in participations	80	0	0	80
Derivative financial instruments	0	55	0	55
	80	**55**	**0**	**135**
Liabilities				
Derivative financial instruments	0	55	0	55

Investments in participations which are traded on an active market are recognized at share prices of the stock exchange of the respective country.

With level 2 investments in participations measured at fair value, valuation is based on transactions that can be observed in the market. Furthermore, a part of the trade receivables whose valuation can be derived from parameters that can be observed in the market has been assigned to this category. 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).

The level 3 investments in participations concern investments in companies that are not listed on the stock exchange. In case of these investments in participations recognized at fair value through profit or loss, there is either not enough information available or the fair value can only be determined in a large bandwidth of possible values through a multiplier procedure. The acquisition costs are therefore used to appropriately estimate the fair value. In case of changes in the environment of the participations or in case of proof through external transactions, the estimate is adjusted accordingly.

A significant change regarding the future results or multipliers used for the multiplier procedure would affect the fair value of these investments in participations in the amount of −€20 million to +€17 million.

The following table illustrates the development of financial instruments assigned to level 3 of the fair value hierarchy:

Investments in participations

in € million	June 2018
As of January 1	**58**
Fair value changes recognized through profit or loss	65
Purchases	3
Sales	−1
Reclassifications from level 3 to level 2	−78
As of June 30	**47**

During the fiscal year, investments in participations from level 3 of the fair value hierarchy in the amount of €78 million were reclassified to level 2 as a result of the improved market liquidity of the relevant investments in participations in the current fiscal year compared to the prior year. The income from the measurement of participations was recognized through profit or loss in the net result from participations.

15 Related party transactions

The relationship between fully consolidated companies of the Group and related parties substantially affect joint ventures, associates and other participations. In the period under review, there were no reportable related party transactions other than the general business relationships.

Friedrichshafen, July 25, 2018

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The Board of Management

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