AUDITOR'S REPORT

Note: This is a convenience translation of the German original. Solely the original text in the German language is authoritative.

INDEPENDENT AUDITOR'S REPORT

To the ZF Finance GmbH, Friedrichshafen

Report on the audit of the annual financial statements and of the management report

Audit opinions

We have audited the annual financial statements of ZF Finance GmbH, Friedrichshafen, which comprise the balance sheet as at 31 December 2022, the statement of profit and loss, the cash flow statement and the statement of changes in equity, for the financial year from 1 January 2022 to 31 December 2022, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of ZF Finance GmbH for the financial year from 1 January 2022 to 31 December 2022.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2022 and of its financial performance for the financial year from 1 January 2022 to 31 December 2022in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the

EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2022 to 31 December 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In our opinion, the matter described below was the most significant in the context of our audit:

Recoverability of loans to affiliated companies

Reasons for designation as a key audit matter

In the annual financial statements of the company as of 31 December 2022, loans to affiliated companies amounting to EUR 3.0 billion (98% of total assets) are reported in the line item "Long-term financial assets". These relate to four loans issued to the sole shareholder ZF Friedrichshafen AG, Friedrichshafen (ZF AG), with nominal amounts of EUR 750 million, EUR 750 million, EUR 500 million and EUR 500 million with maturities ranging from September 2025 to September 2028 as well as a further loan in the amount of EUR 500 million to the sister company ZF Holdings B.V., Netherlands (ZF Holdings), which matures in May 2028. The terms and amounts of the loans correspond to the terms of the corresponding bonds, which are shown on the liabilities side under the balance sheet item "Bonds", amounting to EUR 3.0 billion. The measurement according to German commercial law of loans to affiliated companies is based on the acquisition cost or, if there are indications of impairment, on the lower fair value. Indicators for impairment of other loans exist if there are indications of a deterioration in the economic situation of ZF AG or ZF Holdings, which lead to a restriction of liquidity and the ability to repay the loans. The impairment test by the legal representatives is mainly based on the assessment of the operating business and the corporate planning of ZF AG or the ZF AG Group, which also includes ZF Holdings. Due to the assessments of the legal representatives required for the valuation of the loans as well as the material significance for the net assets and results of operations of the company, this matter was of particular importance within the scope of our audit.

Our approach to the audit

As a first step, our audit procedures included obtaining an understanding of the process steps and testing the internal controls implemented for the impairment testing of financial assets. In particular, we also assessed the information on which the assessment of the legal representatives was based. In their assessment, the legal representatives had at their disposal the corporate planning of the ZF AG Group approved by the Supervisory Board of ZF AG. The legal representatives also relied on the ZF AG Group's internal cash reporting, including the availability of unused credit lines, as well as the company rating from Standard & Poor's and Moody's, which has remained unchanged since fall 2020. In addition, we critically assessed the audited annual financial statements as of December 31, 2022, which were issued with an unqualified audit opinion, the management report for the fiscal year from January 1, 2022, to December 31, 2022, of ZF AG, as well as the annual financial statements as of December 31, 2022, and the management report for the fiscal year from January 1, 2022, to December 31, 2022, of the ZF AG Group, and checked the information used to assess impairment for consistency with the financial reports. Through the audit procedures we performed, we were able to satisfy ourselves that the information underlying the valuation assumptions of the legal representatives is, on the whole, suitable for making the assessment on the existence of impairment indicators of the loans to affiliated companies in an appropriate manner.

Reference to related disclosures

For information on the accounting policies applied, please refer to the notes to the financial statements, which contain disclosures on financial assets in sections "I. General information on the financial statements and accounting policies" and "II. Notes to the balance sheet".

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der

Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the Audit on the Electronic Rendering, of the Annual financial statements and the Management report, Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

Audit Opinion

We have performed audit work in accordance with Section 317 (3a) HGB to obtain rea-sonable audit as to whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file ZF_Finance_GmbH_JAuLB_ESEF-2022-12-31.xhtml (SHA256-Hashvalue: 580c386c7eb76b6126edd16a6ef6315f54ab8f6156cc30098cb47d5a33aed7dd) made available, and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this audit opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January 2022 to 31 December 2022 contained in the "Report on the Audit of the Annual financial statements and of the Management report" above, we do not express any audit opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the Audit Opinion

We conducted our audit work on the rendering, of the annual financial statements and the management report, contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Audit Standard: Audit on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410) (06.2022). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Audit Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the company are responsible for the preparation of the ESEF documents with the electronic rendering of the annual financial statements and the management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the company are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Audit Work on the ESEF Documents

Our objective is to obtain reasonable audit about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- Obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited annual financial statements and of the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 15 November 2022. We were engaged by the supervisory board on 20 December 2022. We have been the auditor of the ZF Finance GmbH, Friedrichshafen without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

We have performed the following service, which was not disclosed in the annual financial statements or the management report, in addition to the audit of the financial statements:

- Issuance of a comfort letter in connection with the update of the debt issuance program of ZF Friedrichshafen AG and ZF Finance GmbH.

Other matter – use of the auditor's report

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Markus Selk.

Nuremberg, 27 March 2023

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

signed Landgraf	signed Selk
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

ZF Finance GmbH, Friedrichshafen
Balance sheet as of December 31, 2022

in € k

Assets		31.12.2022	31.12.2021
A. Non-current assets			
Financial assets			
Loans to affiliated companies		3.000.000	3.000.000
B. Current assets			
I. Receivables and other assets			
Receivables from affiliated companies	37.266		31.504
II. Cash, Bundesbank balances, bank balances and checks			
Bank balances	5		5
		37.271	31.509
C. Prepaid expenses		21.189	25.973
		3.058.460	3.057.482

Liabilities and equity		31.12.2022	31.12.2021
A. Equity			
Subscribed capital		100	100
B. Provisions			
Other provisions		49	26
C. Liabilities			
1. Bonds	3.000.000		3.000.000
2. Trade payables	57		64
3. Liabilities to affiliated companies	527		656
4. Other liabilities	36.538		30.663
		3.037.122	3.031.383
D. Deferred income		21.189	25.973
		3.058.460	3.057.482

ZF Finance GmbH, Friedrichshafen
Statement of profit or loss for the fiscal year from January 1 to December 31, 2022

in € k

		2022	2021
1.	Other operating income	709	1.716
2.	Other operating expenses	182	1.739
3.	Income from loans held as financial assets thereof relating to affiliated companies €90,613 k (2021: €75,543 k)	90.613	75.543
4.	Interest and similar expenses thereof to affiliated companies €1 k (2021: €1 k)	90.613	76.376
5.	Earnings before/after taxes on income	527	-857
6.	Income based on a profit transfer agreement	0	857
7.	Expenses based on a profit transfer agreement	527	0
8.	Net income/loss	0	0

ZF Finance GmbH, Friedrichshafen
Cash flow statement for the fiscal year from January 1 to December 31, 2022

in € k

		2022	2021
	Profit or loss for the period before profit transfer	527	-857
±	Increase/decrease in other provisions	23	1
±	Decrease/increase in inventories, trade receivables and other assets not assigned to investment or financing activities	88	747
±	Increase/decrease in trade payables and other liabilities not related to investment or financing activities	-663	-750
+	Interest expenses	90.613	76.376
-	Interest income	-90.613	-75.543
=	**Cash flow from operating activities**	**-25**	**-27**
-	Expenditures for investments in financial assets	0	-992.510
+	Interest received	79.122	57.444
=	**Cash flow from investing activities**	**79.122**	**-935.067**
±	Payments made by/to parent company	857	27
+	Proceeds from the issuing of bonds	0	992.510
-	Interest paid	-79.954	-57.444
=	**Cash flow from financing activities**	**-79.096**	**935.093**
	Net change in cash	0	0
+	Cash and cash equivalents at the beginning of the period	5	5
=	**Cash and cash equivalents at the end of the period**	**5**	**5**

ZF Finance GmbH, Friedrichshafen
Statement of changes in equity for the fiscal year from January 1 to December 31, 2022

in € k	Subscribed capital	Capital reserve	Net income /loss	Total
as at January 1, 2021	100	0	0	100
Earnings before/after taxes on income			-857	-857
Income based on a profit transfer agreement			857	857
as at December 31, 2021	**100**	**0**	**0**	**100**
as at January 1, 2022	100	0	0	100
Earnings before/after taxes on income			527	527
Expenses based on a profit transfer agreement			-527	-527
as at December 31, 2022	**100**	**0**	**0**	**100**

ZF Finance GmbH, Friedrichshafen

Notes to the financial statements for the fiscal year from January 1 to December 31, 2022

I. General information on the annual financial statements and accounting policies

General information

ZF Finance GmbH was established by a notarized agreement dated July 14, 2020, for the purpose of raising funds and financing ZF Friedrichshafen AG, Friedrichshafen, and its affiliated companies. The entry into the Commercial Register was effected on July 16, 2020.

The annual financial statements of ZF Finance GmbH are prepared in accordance with the accounting principles applicable to large corporations as per Section 264 of the German Commercial Code (HGB) and the provisions of the German Limited Liability Companies Act (GmbHG). Figures are given in € k.

Since issuing bonds on the regulated market of the Luxembourg Stock Exchange, the company is considered a large corporation in accordance with Section 264d in conjunction with Section 267 (3) of the German Commercial Code (HGB).

The statement of profit or loss is structured in accordance with the nature of expense method.

The registered office of ZF Finance GmbH is in Friedrichshafen. The company is registered under number HRB 740352 in the Commercial Register of the municipal court of Ulm.

On September 14, 2020, the company entered into a profit and loss transfer agreement with its parent company ZF Friedrichshafen AG. The agreement became effective upon entry into the Commercial Register on November 10, 2020.

On September 7, 2020, the company, together with ZF Friedrichshafen AG, launched a bond program with a total volume of €7.5 billion.

As part of this bond program, the company issued the following tranches on the regulated market of the Luxembourg Stock Exchange:

Date of issue	Nominal amount €	Runtime until	Interest rate
Nov. 3, 2021	500,000,000.00	05/03/2028	2.25%
May 6, 2021	500,000,000.00	05/06/2027	2.00%
Nov. 25, 2020	500,000,000.00	05/25/2027	2.75%
Sept. 21, 2020	750,000,000.00	09/21/2025	3.00%
Sept. 21, 2020	750,000,000.00	09/21/2028	3.75%

The funds from the issue proceeds were passed on by way of loans to ZF Friedrichshafen AG and ZF Holdings B.V., the Netherlands, respectively. The loans reflect the corresponding conditions of the underlying bonds.

Based on an agency agreement, ZF Friedrichshafen AG and ZF Holdings B.V. reimburse ZF Finance GmbH for all costs incurred in connection with issuing bonds.

Furthermore, ZF Finance GmbH receives:

a placement fee from ZF Friedrichshafen AG. The placement fee is calculated from the actually incurred full costs in connection with the services plus a profit markup of 5%.

remuneration customary in the market from ZF Holdings B.V. for the services rendered in connection with the implementation of the financing operations in favor of ZF Holdings B.V. The remuneration is 0.125% per annum of the loan.

Accounting policies

The following accounting policies were applied in the preparation of the annual financial statements.

Loans are recognized at nominal value or if there is an expected permanent impairment at the lower fair value. If the reasons that lead to the impairment do not exist anymore, the impairment loss is reversed.

Receivables and other assets are recognized at nominal value and – to the extent that there is a recognizable default risk – are reduced by an adequate amount through specific allowances.

Bank balances are recognized at nominal values.

Differences between the issue amount and the settlement amount of liabilities are recognized in **prepaid expenses** and released over the residual term of the liability.

The **subscribed capital** is recognized at nominal value.

Other provisions take into account all uncertain liabilities and imminent losses from pending transactions. They are measured at the expected settlement amount as per business judgement, taking into account future cost trends. Provisions with a residual term of more than one year are discounted at the interest rate appropriate to the residual term in accordance with the German Regulation on the Discounting of Provisions.

Liabilities are recognized at their expected settlement amounts.

The differences between the nominal value of the loans and the payment amount are recognized under **deferred income**. The reversal takes place over the residual term of the loans.

Due to its integration in the tax group of ZF Friedrichshafen AG, ZF Finance GmbH does not recognize any deferred taxes.

II. Notes to the balance sheet

1) Financial assets

Loans to affiliated companies exist in the form of loans to the shareholder of €2.5 billion (2021: €2.5 billion) and loans to its affiliated companies of €0.5 billion (2021: €0.5 billion). These loans have the same terms and conditions as the issued bonds. As in the previous year, the maturity period of the loans is more than one year.

Loans have developed as follows:

	Loans to affiliated companies € k
Cost	
Jan. 01, 2022	3,000,000
Additions	0
Disposals	0
Dec. 31, 2022	3,000,000
Accumulated depreciation	
Jan. 01 – Dec. 31, 2022	0
Carrying amount as of Dec. 31, 2022	**3,000,000**

Loans developed as follows in the previous year:

	Loans to affiliated companies € k
Cost	
Jan. 01, 2021	2,000,000
Additions	1,000,000
Disposals	0
Dec. 31, 2021	3,000,000
Accumulated depreciation	
Jan. 01 - Dec. 31, 2021	0
Carrying amount as of Dec. 31, 2021	**3,000,000**

2) Receivables and other assets

Receivables from affiliated companies are entirely other receivables like in the previous year. They relate to interest receivables in the amount of €36,538 k (2021: €29,830 k), receivables from the Agency Agreement with ZF Holdings B.V. amounting to €625 k (2021: €52 k) as well as other receivables in the amount of €103 k (2021: €1,621 k). In the previous year, there were also receivables from loss assumption in the amount of €857 k. The receivables concern the shareholder with €29,151 k (2021: 29,713 k) and its affiliated companies with €8,115 k (2021: €1,791 k) and, as in the previous year, have a residual term of less than one year.

3) Prepaid expenses

The prepaid expenses reflect the difference between the higher settlement amount of the bonds (nominal value) and the issue amount. The differences are amortized using the straight-line method over the maturity period of the bonds. The prepaid expenses amount to €21,189 k (2021: €25,973 k).

4) Subscribed capital

The subscribed capital of ZF Finance GmbH amounts to €100 k (100,000 shares with a nominal value of €1.00 each). The shares are held by ZF Friedrichshafen AG as the sole shareholder.

5) Other provisions

As in the previous year, other provisions relate to liabilities from outstanding invoices.

6) Liabilities

The maturities of the liabilities are as follows:

	Overall	Thereof with a residual term of		
		up to 1 year	1 to 5 years	more than 5 years
	€ k	€ k	€ k	€ k
1. Bonds	3,000,000	0	1,750,000	1,250,000
2. Trade payables	57	57	0	0
3. Liabilities to affiliated companies	527	527	0	0
4. Other liabilities	36,538	36,538	0	0
Total	**3,037,122**	**37,122**	**1,750,000**	**1,250,000**

Previous year:

	Overall	Thereof with a residual term of		
	€ k	up to 1 year € k	1 to 5 years € k	more than 5 years € k
1. Bonds	3,000,000	0	750,000	2,250,000
2. Trade payables	64	64	0	0
3. Liabilities to affiliated companies	656	656	0	0
4. Other liabilities	30,663	30,663	0	0
Total	**3,031,383**	**31,383**	**750,000**	**2,250,000**

All bonds issued by ZF Finance GmbH are collateralized by a negative covenant and an unconditional and irrevocable guarantee from ZF Friedrichshafen AG.

Trade payables relate to the auditor's fees.

As in the previous year, liabilities to affiliated companies are other liabilities. They relate to the profit transfer to the shareholder ZF Friedrichshafen AG in the amount of €527 k (2021: €0 k). In the previous year, this included other liabilities to the shareholder of €656 k. As in the previous year, liabilities to affiliated companies entirely concern liabilities to the shareholder.

Other liabilities relate to deferred interest on bonds issued.

7) Deferred income

The deferred income reflects the difference between the higher settlement amount of the loans (nominal value) and amounts paid. The differences are amortized using the straight-line method over the maturity period of the loans. Deferred income amounts to €21,189 k (2021: €25,973 k).

III. Notes to the statement of profit or loss

Other operating income / expenses

Other operating income results from the corresponding reallocation of costs to the shareholder and its affiliated companies as well as remuneration from the Agency Agreement with ZF Holdings B.V. Other operating expenses mainly result from purchased services related to the issue of bonds and costs of the annual audit.

Net financial result

	Overall	Thereof relating to affiliated companies
	€ k	€ k
Income from loans		
Income from loans held as financial assets	90,613	90,613
Total	**90,613**	**90,613**
Interest and similar expenses		
Interest expenses	90,613	1
Total	**90,613**	**1**

Previous year:

	Overall	Thereof relating to affiliated companies
	€ k	€ k
Income from loans		
Income from loans held as financial assets	75,543	75,543
Total	**75,543**	**75,543**
Interest and similar expenses		
Interest expenses	76,376	1
Total	**76,376**	**1**

Interest and similar expenses result from the interest on bonds as well as the pro-rata reversal of the corresponding prepaid expenses.

The income from loans from financial assets is the result of loans, corresponding to the bonds, to the shareholder and its affiliated companies, as well as the reversal of the deferred income.

IV. Notes to the cash flow statement

Major movements in the cash flow statement result from the interest received (€79,122 k; 2021: €57,444 k) and interest paid (€79,954 k; 2021: €57,444 k). Cash comprises the balance of cash and cash equivalents reported on the balance sheet in the form of balances at financial institutions.

V. Appropriation of profits

On December 31, 2022, the profit of €527 k (2021 loss assumption of –€857 k) is payable to the shareholder ZF Friedrichshafen AG due to the profit and loss transfer agreement concluded on September 14, 2020.

VI. Other disclosures

No contingent liabilities, off-balance sheet transactions and other financial obligations exist as of the balance sheet date.

In the fiscal year, there were no transactions with related companies and persons that were not carried out at arm’s length.

The total fee of the auditor calculated for the fiscal year for the following services amounts to:

	€ k
Annual financial statement audit services	96
Other attestation services	75
Tax advisory services	0
Other services	0
	171

The other consulting services are the creation of a comfort letter.

ZF Finance GmbH did not employ staff during the fiscal year.

Executive Management: Herbert Uwe Hertnagel, Bankkaufmann (banker)
Ulrich Brändle, Dipl. Finanzwirt (graduate in Finance)

The general managers do not receive any remuneration from the company for their services rendered in the fiscal year.

Supervisory Board: Ingrid Strassburger, Dipl. Betriebswirtin (graduate in Business Administration) (Chairwoman)
Ingo Hartmann, Dipl. Betriebswirt (graduate in Business Administration) until June 30, 2022 (Deputy Chairman)
Maximilian Schrepfer, Master of Science
(Deputy Chairman as of July 01, 2022)
Burkhard Kesting, Master of Science as of July 01, 2022

The members of the Supervisory Board do not receive any remuneration from the company for their activities in the fiscal year.

The annual financial statements of ZF Finance GmbH are included in the consolidated financial statements of ZF Friedrichshafen AG, Friedrichshafen. ZF Friedrichshafen AG is the parent company that draws up the consolidated financial statements and the Group management report for the largest and concurrently smallest group of companies. It is published in the German company register at www.unternehmensregister.de.

VII. Transactions of particular importance after the balance sheet date

In February 2023, ZF Finance GmbH issued another bond with a nominal volume of €650,000 k, a fixed interest rate of 5.875% and a term of 3.5 years, and transferred it to a Group company under identical conditions. Net assets and financial position have increased by €650 million. Due to the identical conditions, no effect is expected on earnings before taxes from income and revenue. Due to the planned issuing of further bonds and the corresponding loans within the Group, interest expenses and the associated interest income will further increase considerably in fiscal year 2023 compared to 2022.

Friedrichshafen, March 27, 2023

Executive Management

Herbert Uwe Hertnagel Ulrich Brändle

ZF Finance GmbH, Friedrichshafen
Management Report for 2022

CLASSIFICATION WITHIN THE ZF GROUP

ZF Finance GmbH (hereinafter referred to as “the company”) is a wholly-owned subsidiary of ZF Friedrichshafen AG (hereinafter referred to as “ZF AG”) and is included in the latter’s consolidated financial statements (hereinafter referred to as “ZF Group” or “ZF”). The company is directly tied to ZF Friedrichshafen AG through a profit and loss transfer agreement and is included in the latter’s tax group. The company was founded in July 2020 and is headquartered in Friedrichshafen.

ZF Finance GmbH performs financing activities for the ZF Group on the capital market by issuing bonds. Currently, all bonds are issued on the Luxembourg Stock Exchange. The issue proceeds are internally transferred to ZF Friedrichshafen AG or other companies of the Group in the form of loans under identical conditions. All expenses arising in connection with financing activities are passed on within the Group. ZF Friedrichshafen AG guarantees all bonds issued by ZF Finance GmbH.

ZF Finance GmbH is integrated in the structures of the ZF Group and assigned to the Corporate Functions.

Therefore, the company’s business development and ability to cover claims becoming due from the bonds issued depend primarily on the economic success of ZF AG and its Group companies.

CORPORATE MANAGEMENT

Executive management and Supervisory Board

According to the company’s purpose as a financing vehicle, it is strategically controlled by the ZF Group and its Board of Management. The operational management of ZF Finance GmbH is carried out by its executive management, which consists of two members. They conduct the business in close coordination with the responsible corporate functions.

In May 2021, a Supervisory Board consisting of three members was established. The Supervisory Board monitors the executive management’s activities and receives regular management updates concerning business performance, strategy and opportunities and risks.

The members of executive management and the Supervisory Board are listed in the Notes to the annual financial statements.

Employees

ZF Finance GmbH has no own employees. Its general managers are employed by ZF Friedrichshafen AG and receive no remuneration from ZF Finance GmbH. The operational activities are carried out by employees of ZF Friedrichshafen AG or its subsidiaries upon instruction by the executive management. These activities primarily consist of carrying out financing activities in connection with issuing bonds and transferring these within the Group, the associated monitoring of risk profiles and day-to-day accounting. Here, the focus is on putting ZF Finance GmbH in a position to meet its financial obligations at all times by always ensuring the recoverability of loan receivables within the Group as well as of interest claims.

Risk management and internal control system

As the assessment of the recoverability of ZF Finance GmbH's loans and the servicing of debt is based on the financial stability of ZF Friedrichshafen AG (warrantor), the principles of ZF Friedrichshafen AG's Internal Control System (ICS) and risk management ("Enterprise Risk Management" or "ERM" for short) are presented and explained below. These processes and findings serve as an important basis for the general managers to assess the overall economic and financial circumstances of ZF Friedrichshafen AG.

The risk management standardized throughout the Group is implemented as part of an integrated Governance, Risk and Compliance (GRC) approach.

The ICS aims to guarantee that the organization achieves its objectives in terms of relevant business activities, reliable reporting of financial as well as non-financial key figures and compliance. The ICS' direct reference to the ZF risk catalog enables the organization to ensure and further develop the ICS coverage in a targeted manner. The standardized ICS method applies company-wide and has been implemented throughout the Group. Control procedures and documentation as well as the prompt elimination of identified weaknesses are monitored.

Through regular analysis and reporting to ZF AG's Board of Management and Supervisory Board as part of the integrated GRC report, ZF's Corporate Function "Risk & Control Management" helps to monitor control procedures and documentation and takes prompt corrective action if weaknesses come to light.

As part of central financial risk management, ZF monitors and controls liquidity, foreign currency, interest rate and counterparty risks as well as credit risks in order to safeguard the Group's financial stability. Guidelines and provisions regarding the individual risk types have been put in place which determine how to assess and manage the particular risk. Where required, ZF externally hedges financial risks using appropriate instruments.

In addition to the accounting-related internal controls, which apply to the correctness and completeness of the information in the annual financial statements, ZF Finance GmbH's opportunity and risk management focuses on controlling for the optimum placement of financing and monitoring the maturity profile. This is carried out via Group-wide liquidity management, using appropriate tools and taking planning information into consideration. Before the proceeds from issuing bonds are passed on, the beneficiary within the Group is audited regarding its financial capacity to service the debt to secure the return payments.

ECONOMIC AND BUSINESS REPORT

Due to its operating activities as the financing company of the ZF Group and the close integration in its strategy and processes, the major economic framework conditions of the ZF Group have a direct effect on ZF Finance GmbH. These conditions are as follows:

MARKET AND INDUSTRY ENVIRONMENT

Economic recovery not as expected

The world market suffered from the negative effects of the Covid-19 pandemic in the third year, from raw material and semiconductor bottlenecks and the Russia-Ukraine war since February. In the wake of rising geopolitical tensions and massive inflationary pressures in recent months, the global economy did not regain momentum as originally expected. On the contrary – it entered a new phase of weakness after initial recovery tendencies. While further recovery in global economic growth of 4% was expected for 2022 at the beginning of the year, an increase of just over 3% was all that could be achieved by the end of the previous year. Practically all countries recorded growth that was lower than that of 2021.

In the second half of 2022, global economic development continued to diminish, especially in industrialized countries. A downturn in consumer spending, particularly in the United States and Western Europe, continues to put a strain on large parts of the production and service sectors. Overall economic demand was negatively affected by the sharp rise in inflation. The partly overstretched supply chains continue to restrict the offer of the overall economy, which has been reflected in rising prices. The decline in the supply of fossil fuels caused by a reduction in deliveries from Russia is also driving inflation in Europe. China is showing the first signs of recovery following the recent coronavirus waves, although the strict restrictions in some economic centers as well as the partially extensive lockdowns have slowed down the growth potential. Towards the end of the year, the tight supply chain situation had eased to a certain degree, as manifested in decreased logistics costs, among other things. Over the course of the year, developed economies experienced moderate growth: 2.0% in the United States, 3.2% in the eurozone and 1.8% in Germany, while China's growth of 3.0% was significantly below the average of recent years. All in all, the economic recovery fell significantly short of expectations following the weak previous years.

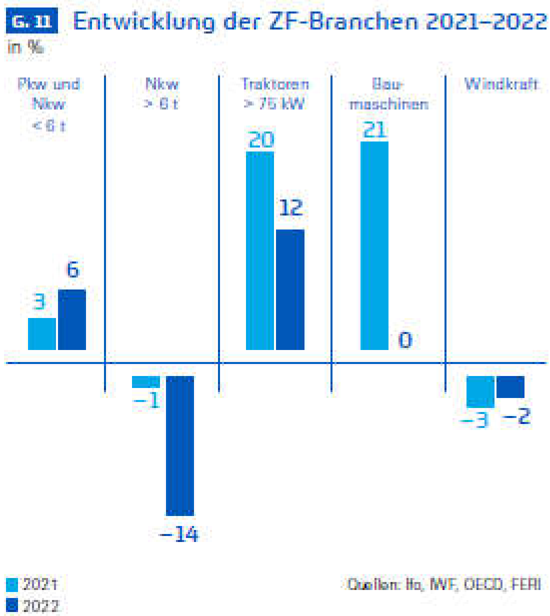
Successive crises hindering the sustained recovery of ZF markets

The aftermath of the Covid-19 pandemic, resource bottlenecks, the Russia-Ukraine war and the associated incipient energy crisis, especially in Europe, coupled with a massive increase in inflationary pressure since the middle of the year, prevented a substantial improvement in the demand and production situation of the ZF Group's major industries.

In the past fiscal year 2022, production of passenger cars and light commercial vehicles increased by 6% to 82 million vehicles but also remained 13% below the record of almost 95 million units in 2017. Despite two years of recovery that included +3% in 2021 and +6% in 2022, the crisis years of 2019 with –6% and 2020 with –16% were still far from being offset. With the exception of Russia, which experienced a drop in vehicle production by two-thirds due to war, all major markets were able to report at least moderate gains. Europe (excluding Russia) recovered by +5%, North America by +10%, South America by +7%, and China by +6%. All markets thus continued to be well below the pre-crisis levels. The primary sales market, Europe (excluding Russia), is facing a reduction of almost –30% compared to the production level achieved in 2017.

In the market for heavy commercial vehicles, the global production level recorded a sharp –14% drop due to an extraordinary effect in China. After the decline of –20% in the previous year, Chinese vehicle production had to be cut by nearly half. China was producing 1.9 million commercial vehicles in 2020, while just 810,000 were manufactured in 2022. Apart from the impact of the strict zero-Covid policy, the backdrop to these massive cuts in production included advance purchases in 2020 and 2021 due to stricter emission regulations. The markets in Europe and North America experienced stable positive development with growth rates of +12% and +10%, respectively. After a quite significant increase of nearly 60% in 2021, South America was again able to increase production by 10%. India performed very well: After an increase of 80% in the previous year, production was again expanded by nearly 30% in 2022.

The industrial sectors were characterized by a variety of different developments in 2022. The agricultural machinery industry saw a 12% increase in production worldwide. China supported the positive trend with growth of more than 30%, North America reached +8% and South America +10%, while Europe experienced a stable development at the level of the previous year. In the construction machinery industry, the global volume remained the same as in the previous year. The decline in China of –15% was offset by growth in Europe of +5%, North America of +8% and South America of +25%. The global market for wind turbines exhibited a slight decline. While Europe recorded weaker trends with –3%, China achieved a strong growth of +16%. By contrast, the North American market experienced a significant downward correction with a reduction of nearly 40% after the corresponding subsidy programs expired.



OVERALL DEVELOPMENT OF THE ZF GROUP

Overview of the business trend and Board of Management overall statement on business performance

The year 2022 was once again marked by challenges. The Covid-19 pandemic, the semiconductor shortage and disrupted supply chains have been weighing on us for three years now. Special measures such as the comprehensive lockdowns in China in spring also had an impact on the global economy. Furthermore, as a result of the Russia-Ukraine war, international sanctions were imposed on Russia, which had significant political, social and economic implications that also affected the ZF Group's business activities.

In Germany, we are experiencing an inflation, which at times was in a double-digit percentage range – not least due to scarcity of materials and high prices for energy and precursors. This is a new situation for the business relations of ZF with its customers and suppliers. The ZF Group therefore remains in constant dialogue with all partners in the supply chain in order to find good solutions even in times of difficulty.

In the past fiscal year, the ZF Group achieved the sales forecast from the beginning of the year of more than €40 billion in a market environment that remained difficult for the automotive supplier industry. In total, sales increased by around 14% from €38.3 billion to €43.8 billion.

The adjusted EBIT margin of 4.7% (2021: 5.0%) is within the forecast range of between 4.5% and 5.5%. The adjusted EBIT of €2.0 billion (2021: €1.9 billion) is primarily influenced by the increased procurement costs as well as costs associated with production start-up due to capacities expanded especially for electric mobility.

The adjusted free cash flow amounted to roughly €0.5 billion, putting it outside the forecast range between €1.0 billion and €1.5 billion.

The increase in equity based on the net profit after tax as well as positive valuation effects, which had reduced equity in recent years, led to an increase in the equity ratio by about three percentage points to 22% at the end of the fiscal year.

Against the backdrop of increased costs for energy and precursors, focus was placed on safeguarding the income situation in the past fiscal year. Furthermore, the ZF Group invested in pioneering technologies in a targeted manner and at a rate greater than average. This was especially true in terms of the further digitalization and the development of software expertise. It is the most important prerequisite for ZF as a company and its products to be fit for the future of mobility and to be able to keep up with the modern business environment.

The focus was also placed on actively shaping the maturity profile of the financial liabilities of the ZF Group. The company increased its existing revolving credit facility (RCF) from €3.0 billion to €3.5 billion, thus securing attractive and long-term, predictable financing conditions one year before maturity. By simultaneously expanding the group of core banks, the ZF Group is underscoring its strong position on the capital market. ZF also successfully issued a bonded loan in the amount of €700 million. The bonded loan is linked to an EcoVadis sustainability rating for the first time.

Against the backdrop of the corporate goal of achieving financial independence, ZF aspires to be assigned a stable investment grade rating. As of the reporting date, the ZF Group had company and bond ratings of Ba1 with a stable outlook from Moody's and BB+ from Standard and Poor's, also with a stable outlook. Both rating agencies gave ZF a stable outlook in 2022.

The ZF Group rests on a solid financial foundation thanks to its long-term oriented and diversified financing, as well as cash and cash equivalents of more than €2.5 billion and an unused credit line at Group level of €3.5 billion.

Against the backdrop of a stable liquidity and financing basis as well as a positive business performance, the Board of Management is confident with regard to the future economic situation of the ZF Group.

Overall statement on the business performance of ZF Finance GmbH

In order to increase the flexibility of borrowing funds on the capital market, ZF Finance GmbH, together with ZF Friedrichshafen AG, launched a Debt Issuance Program (DIP) for the first time in September 2020. Potential issuers are ZF Friedrichshafen AG and ZF Finance GmbH. The DIP has a potential total volume of €7.5 billion. In September 2020, ZF completed an issuance under the DIP for the first time. The bonds issued are divided into two fixed-interest tranches with a volume of €750 million each and have maturity periods of five and eight years. In November 2020, another transaction followed with a fixed-rate individual tranche of €500 million and a maturity period of six and a half years.

ZF Finance GmbH and consequently the ZF Group was the first automotive supplier in Germany to issue a green bond under the Debt Issuance Program (DIP) in April 2021. It is based on ZF's Green Finance Framework. The fixed-interest green bond has a nominal volume of €500 million and a maturity period of six years. ZF Finance GmbH passed the proceeds on to the parent company ZF Friedrichshafen under the same conditions. They are used on the one hand for the development, production and sale of products for battery electric vehicles (clean transportation) and on the other hand for the development, production and sale of gearboxes for wind turbines (renewable energy). In November 2021, another transaction followed with a fixed-rate individual tranche of €500 million and a maturity period of six and a half years. This was also passed on to the co-subsidiary ZF Holdings B.V. Netherlands, under identical conditions. In April 2022, ZF published a ZF Green Finance Report for the first time, which included the use of funds and the avoided emissions in impact reporting.

In the fiscal year 2022, no new issues were made and no existing bonds were due for repayment. The 2022 business development of ZF Finance GmbH was correspondingly stable, which is reflected in the results of operations, financial position and net assets being at the prior-year level.

Results of operations, financial position and net assets

Results of operations

As it is purely a financing company, ZF Finance GmbH does not generate any sales and does not have any staff-related expenses. The results of operations are characterized by interest expenses from the issuing of bonds on the Luxembourg Stock Exchange (€90,613 k; previous year: €76,376 k) as well as the corresponding interest income from affiliated companies that is generated as part of the transfer to ZF Friedrichshafen AG or ZF Holdings B.V. (€90,613 k; previous year: €75,543 k).

The increase in interest income and expenses is as expected and is due to the time of issue of new bonds in the previous year. The bonds were issued in April 2021 and November 2021 with €500 million each, which significantly shortened the interest-bearing time period in the previous year.

After a balanced net interest result, earnings before taxes on income mainly result from other income for the provision of financing activities in the Group.

The fiscal year 2022 was closed with a balanced net result for the year as expected. The net profit after tax of €527 k (2021: –€857 k) is transferred to ZF Friedrichshafen AG on the basis of the profit and loss transfer agreement.

Capital structure and financing

ZF Finance GmbH's equity, which consists exclusively of the subscribed capital, amounts to €100 k (2021: €100 k).

In the fiscal year 2022, no new bonds were issued and no existing bonds were due for repayment, so the liabilities from bonds remain unchanged at €3 billion.

In accordance with the increased issue volume, the outstanding liabilities from accrued interest as of the balance sheet date also increased by €5,875 k to €36,538 k.

The differences between the nominal value of the loans and the payment amount are recognized under deferred income. As no new bonds were issued in the current year, the amount decreased by €4,784 k to €21,189 k due to the planned cancellation.

The negative cash flow from operating activities amounting to €25 k results from costs not passed on which are borne by ZF AG as part of the profit and loss transfer agreement. In accordance with ZF Finance GmbH's concept, the cash flow from investing activities and the cash flow from financing activities nearly balance each other out. The cash inflow of €79,122 k generated from interest payments received from companies of the Group as part of financing activities almost covers the outflow of €79,954 k from payments to lenders.

In the year under review, the company was able to meet its payment obligations at any time.

Net assets

ZF Finance GmbH's total assets of €3,058 million correspond to the previous year's level. In the fiscal year 2022, no new bonds were issued and accordingly no further loans were granted to ZF Friedrichshafen AG or its Group companies, so that the financial investments from loans to affiliated companies remain unchanged at €3,000 million.

Receivables from affiliated companies increased by €5,762 k to €37,266 k, mainly due to the higher interest receivables compared to the previous year.

Differences between the issue amount and the settlement amount of bonds are recognized in prepaid expenses. As no new bonds were issued in the fiscal year, the amount decreased by €4,784 k to €21,189 k due to the planned cancellation.

Cash in the form of balances at financial institutions amounts to €5 k, also unchanged from the previous year.

OPPORTUNITIES AND RISKS

OPPORTUNITY AND RISK MANAGEMENT

ZF Finance GmbH is limited to the role of financing the ZF Group by issuing bonds on the Luxembourg Stock Exchange, supported by ZF Friedrichshafen AG's guarantee as the parent company of the Group. Thus, the major and direct risk for ZF Finance GmbH is the bad debt of the issue proceeds passed on to ZF AG and ZF Holdings B.V. in the form of loans under identical conditions. The resulting impairment on the loans could have a significant impact on earnings and could consume the company's equity. Furthermore, in the event of default, the interest and redemption payments of the bonds could no longer be made, which would jeopardize the company's continued existence. For this reason, the executive management of ZF Finance GmbH continuously monitors the development of ZF AG, ZF Holdings B.V. and the ZF Group.

To analyze the financial circumstances of the ZF Group, the general managers use, among other things, the results from the regular updates of the publicly available ratings for ZF from various rating agencies. ZF AG's Treasury also regularly provides the general managers of ZF Finance GmbH with reporting on the liquidity development of the ZF Group. It is analyzed for possible liquidity bottlenecks. For the borrower ZF Holdings B.V., at least once a year, the general managers carry out an independent analysis of the financial capacity to service the debt on the basis of current balance sheet and interim figures for the development of the company and document the results accordingly.

As in the previous year, the risk of default is assessed as very low.

Since the opportunities and risks of ZF Finance GmbH depend directly on the opportunities and risks of the ZF Group, the following section presents the opportunity and risk management system of the ZF Group, as well as its main opportunities and risks. As mentioned above, the following principles form the basic foundation for executive management's risks assessment of the loans granted.

Opportunity and risk management system of the ZF Group

ZF defines risks as any internally and externally occurring event or development that may result in a negative deviation from the business plan, whereas opportunities may result in a positive target deviation.

Through established processes and responsibilities, ZF's risk management system involves all pillars of the ZF Group matrix organization, consisting of corporate functions, divisions and regions. The objective is to identify and analyze opportunities and risks early on and to take measures to manage risks and seize the opportunities associated with them.

Group Risk Management coordinates the ERM process at Group level and provides the structures, methods and processes for its implementation as a governance and assurance function. There is an ERM Directive in place which addresses all employees.

Risk management process

At least every three months and ad hoc, if required, the operational and strategic risks within the matrix organization are identified, assessed and reported. The Group-wide ZF risk catalog, which is subject to an annual review by the GRC community, supports risk identification. Risks are chiefly assessed using quantitative criteria, differentiated according to their gross risk value (before risk treatment) and net risk value (after risk treatment), and the indication of a probability of occurrence range (%). The possibility of qualitative risk assessment using our GRC consequence matrix enables us to also consider and manage not (yet) quantifiable or difficult-to-quantify risks in the risk landscape.

KEY RISKS COMMENTARY

Based on our current assessment, the risks classed as significant to the future development of the company are described below. Risk reporting generally covers a whole year. Risks that are subject to regular reporting essentially arise in the areas of quality, procurement, finance and cybersecurity. Risks that arise out of transactions relevant under taxation law and other legislation are also reported.

Industry environment risks

As a global player, ZF faces location-, country- and region-specific risks arising, among other things, from overall economic and geopolitical changes as well as epidemiological and pandemic developments.

The conflict between Russia and Ukraine intensified massively at the beginning of the fiscal year 2022 with the outbreak of the war. Since March 2022, all business activities with Belarus, Russia and the Ukrainian regions of Donetsk, Luhansk, Crimea and Sevastopol have been suspended until further notice. Due to the war in Ukraine, we continue to expect significant political, social and economic impacts on our business activities, such as high energy and raw material prices as well as potential supply chain disruptions. Group-wide and cross-divisional working groups monitor the situation and derive appropriate measures in order to continue to ensure the protection of employees and the security of IT systems, as well as to ensure compliant business activities and compliance with international sanctions.

In this context, the focus is also on the energy security of ZF's plants. In order to adequately take account of the uncertainty of possible gas supply cuts on the part of Russia, Group-wide and local, plant-level teams closely monitored developments in 2022. Preventive and reactive measures were derived and implemented along the value chain. This is to reduce the risk of production interruptions at ZF locations in Europe, especially in Germany, also for the upcoming winter 2023/2024.

Rising geopolitical tensions and violent conflicts between individual countries and regions may lead to further strains for the ZF Group. In particular, seeing the potential economic and security conflicts between the USA and China as well as the potential deterioration of the situation in East Asia, ZF uses scenarios as a basis to develop measures for robust supply chains and the avoidance of critical dependencies. ZF also sees continued protectionist trends in individual countries trying to protect and/or improve their competitiveness on the global markets, such as the expansion of firm market access barriers. The increasing number of competitors, in particular from Asia, may have a strong effect on sales prices, especially in the key sales markets in Europe, the USA, China and India.

In addition to activities in the traditional markets, ZF wants to continue to proactively position itself in growth markets and previously underrepresented markets. Changing political conditions, structural deficits and economic downturns in some countries may lead to declining sales and payment defaults. ZF counteracts market slowdowns in individual regions by volume shifts to other markets. Its global presence, the expansion of its product portfolio in the area of electric and automated or autonomous driving as well as its organically and inorganically strengthened power of innovation enable ZF to limit market risks.

In the macroeconomic environment, ZF sees clear signs of a global economic slowdown. There is still the risk of a recession in Europe and Germany, although the economic outlook improved in the first months of 2023. The low-interest rate environment and the expansive monetary policy of the previous years are replaced by rising interest rates and a more cautious monetary policy worldwide, combined with high inflation rates. ZF expects immediate consequences for its business performance. Furthermore, the already visible impacts of climate change present new, uncertain challenges for economies.

Sales risks

Demand for ZF Group products and services is affected by macroeconomic developments, such as inflation and interest rates, geopolitical events, legislation and end customer behavior, which may lead to unexpected market reactions in the short and medium term. Worldwide production is thus still subject to high volatility. Furthermore, there are risks on the procurement side with respect to purchased parts and transport logistics. This makes it more difficult to predict sales volumes and there is a risk that production facilities are underutilized. ZF responds to this with a logistics early-warning system and requirements-oriented production planning in order to respond flexibly to fluctuations in demand. Also, mergers of OEMs can lead to increased margin pressure due to transparency regarding prices and costs as well as the bundling of purchasing volumes. Through market research activities and continuous monitoring of sales markets, ZF strives to identify changes in market structures and customer behavior at an early stage to proactively combat the associated sales risks.

Risks may ensue also from the ramp-up of new products and the breakthrough of disruptive technologies. As a supplier, ZF is facing high investment requirements and intensive price pressure from its customers, but also limited internal resources. The portfolio management approach enables ZF's divisions to strategically manage their product portfolios and distribute resources in the best possible way.

In the area of mobility, stricter regulations on exhaust gas and consumption values of vehicles in the EU and Asia lead to changes in consumer behavior. ZF expects the share of hybrid and battery electric vehicles to continue to increase, which will have a negative impact on the sales of combustion vehicles and their components. As announced in 2020, ZF no longer develops driveline components for pure combustion engine vehicles.

Moreover, by means of structural changes, ZF continues to adapt capacities worldwide to adjust to weaker demand and to anticipate the rapid transformation to electric mobility. Through a network of partnerships and alliances, ZF continuously adapts its product range to market conditions and expands its activities in pioneering fields.

Quality risks

ZF takes responsibility for its products and thus for their impact on society, its business partners and the environment. Non-compliant internal or external components or functions can lead to time and cost-intensive corrective measures as well as recalls, associated reputation damage and customer churn. This is especially true in light of the fact that many ZF products are important components that contribute to the overall safety, durability and performance of its customers' final products. For products that do not comply with customer specifications or (supposedly) exhibit malfunctions, ZF may incur significant costs due to warranty and product liability claims.

ZF established a certified quality management system according to IATF 16949 with standardized and consistent quality controls as well as regularly optimized process workflows in order to maintain its product quality at the highest level despite the increasing product complexity and connectivity. The close cooperation between the Product Safety and Regulatory Office, Quality Assurance of the divisions and Corporate Research and Development is to ensure that quality problems are identified as early as possible and the associated risks can be promptly addressed and mitigated. Through a Product Compliance Management System, ZF ensures that products entering the market meet all legal and contractual requirements in all regions.

Procurement risks

According to ZF's purchasing strategy, raw materials are to be procured from a variety of different suppliers in different regions. Nonetheless, ZF cannot always avoid being dependent on individual suppliers, and consequently on their financial stability. Delays in delivery and cancellations (e.g., due to force majeure, capacity bottlenecks with forwarding agents, financial problems and even insolvency of subcontractors) as well as the consequences of strikes or insufficient quality can lead to negative effects on production. This could in turn cause delays in deliveries to customers.

On the procurement side, 2022 was characterized by the continued fight against the pandemic, the shortage of semiconductors and other electronic components, as well as sharply rising prices for raw materials, freight, logistics and energy. Indeed, ZF expects that the peak of inflation for raw materials and other relevant purchasing groups (e.g., electronic components, freight or indirect production material) has been reached, but there will be no tangible decrease before 2024. ZF responds to these challenges by continuously tracking the procurement situation, staying in close contact with customers and suppliers, and adapting the supply chains. Energy and semiconductor procurement are monitored by specialized task forces due to the tense supply situation. A suitable bottleneck control system is intended to minimize or ideally prevent negative impacts. Increasing costs for products and components, including additional or higher customs duties, must be compensated for by improving productivity, establishing synergies, or distribution to the upstream and downstream supply chains. If this does not succeed, demand for ZF products may decline for price reasons and profitability may be reduced.

ZF’s Supplier Risk Management systematically works to avoid interruptions in deliveries due to financial instability or market introduction, quality and logistics problems at suppliers and to reduce the procurement risk position to a minimum by identifying supply alternatives. Moreover, continuous market investigation and a regular review of key suppliers enable us to respond adequately and early to unfavorable developments on the raw materials and energy markets. The expected commercial risks were evaluated with regard to customer, market and legal aspects, taking into account the required assumptions, and were recognized accordingly in the planning.

Research and development risks

The automotive industry in particular and, with it, the business with OEM customers are currently subject to market trends and technical developments to which ZF must react. This entails operational and strategic development and technology risks for ZF. Risks and opportunities also arise from the increasing awareness of sustainability and environmental aspects in the markets as well as from new and stricter regulations on the reduction of emissions. ZF is currently achieving a significant share of its sales with products based on the combustion engine driveline. The extensive discussions about an end date for the combustion engine as well as driving bans that have been announced locally, regionally and nationally, or have already been imposed, are major factors of uncertainty for the entire automotive industry, especially in Europe. The resulting advancing electrification in the field of passenger car and commercial vehicle drives as well as other technological changes could jeopardize ZF's market position if ZF is not successful in expanding its expertise accordingly.

Moreover, ZF sees an increasing demand for active driver assistance functions up to and including automated driving and the associated future mobility concepts. Due to the transition from hardware to software-defined technologies, electronic architectures are currently subject to a significant change. Both product development and product optimization processes generally involve a number of risks. These include possible delays due to increasingly interconnected supply chains and cost overruns, especially in long-term development projects. Furthermore, risks arise from possible intellectual property violations as well as (cyber) risks within the context of networked products and the increased use of the artificial intelligence of things (AIoT) and cloud solutions. In order to address development and technology risks, ZF relies on a modular design concept, the establishment of strategic partnerships and the acquisition of company participations in the area of future technologies. At the same time, ZF is operating cross-divisionally via agile Competence Centers, Tech Centers and System Houses. This allows ZF to provide both external and internal customers with system solutions for any application according to their needs and market requirements. Despite the currently tense economic environment, ZF is keeping research and development expenditure at a high level.

Risks in the field of sustainability
Sustainability is of strategic importance to ZF. ZF proactively assumes responsibility for sustainable management in all three dimensions: environmental, economic and social. Sustainability is defined as a binding target in ZF's Next Generation Mobility corporate strategy. ZF will make appropriate investments that are required to improve its sustainability performance and prepare for new regulations, such as the supply chain legislation, or customer expectations. ZF has been collecting and reporting non-financial information in detail for years and actively involves different stakeholders. Developments are recorded systematically and early on and taken into account when coping with the associated risks.

The worldwide consequences of global warming include more frequent and intense extreme weather events such as floods, cyclones and droughts, which have so far only affected ZF locations in individual cases. Natural disasters such as the one in the German Ahrtal valley in the summer of 2021 can cause manifold problems for the ZF Group, e.g., disrupted supply chains. For example, economic activity in an entire region can be negatively affected. This would result in loss of income for consumers and would have a negative impact on their purchasing behavior. ZF manages the associated risks with an established environmental management system. ZF also accesses global systems to obtain real-time (risk) information about global safety-related events such as natural disasters, geopolitical developments and violent incidents. In this way, ZF can initiate appropriate measures proactively and reactively.

Cyber and information technology risks
ZF’s comprehensive cybersecurity strategy aims at protecting people, business and personal information and data as well as its tangible and intangible assets in cyberspace. The progressing digitalization of processes and products as well as the increasing technical interconnection of machines, products, systems, services and partners lead to risks in the area of information processing and technology.

An integrated Information Security Management System (ISMS) based on ISO 27001 covers not only IT but also development, production, staff security, compliance, physical safety and legal and customer requirements. The ISMS is regularly checked by independent authorities. Technical and organizational measures protect data streams and processing in production, development and IT infrastructures, both on-premise (on-site operation) and off-premise (e.g., in the cloud). Alongside these measures, ZF's security culture plays a key role in the company's resilience. Consequently, ZF performs regular, mandatory awareness-raising measures with its workforce worldwide, such as Security Awareness Weeks and Information Security Training. Partners and suppliers handling ZF information are committed to comply with the ZF Group's security policy and to provide proof of an effective ISMS. ZF uses internal and external sources of information to monitor the global cybersecurity situation. Alarm and emergency systems are in place for security incidents, enabling ZF to react immediately with corresponding contingency plans and clearly identified crisis response teams. The functioning of these processes is checked regularly. A cross-divisional and Group-wide Cybersecurity Advisory and Decision Panel monitors and manages ZF's cyber risk situation across all risk categories.

Substantial risks can arise from the product cybersecurity area. In product development, a particular focus is therefore given to the implementation of ISO/SAE 21434. The cybersecurity development processes meet this standard and thus form a cybersecurity management system that enables the ZF Group customers to homologate their vehicles according to UNECE R 155. A central team of cybersecurity assessors has been set up to support product releases. In addition, a Red Team monitors the automotive-specific threat situation and initiates reactions to possible security incidents. In parallel, a Blue Team is working centrally on advance development for emerging technologies. In the ZF Group, data protection has the highest priority in all (application) areas: The aim is to effectively and comprehensibly protect the personal data of employees and partners in company-internal processes as well as in our products.

Legal and other risks

Due to the complexity of its business model with economic activities on all continents, the ZF Group is generally exposed to the risk of legal disputes in areas such as product liability, competition law, environmental protection and taxation.

Particularly in the USA, ZF is involved in proceedings whose outcome may have a substantial negative impact on earnings. Accounting provisions for legal risks are made in accordance with the applicable accounting regulations. Furthermore, it cannot be completely ruled out that individual employees harm the company by violating applicable law in connection with their work activities, resulting in damage, e.g., to the company's reputation or earnings, due to payment or other obligations.In the event of investigations, ZF cooperates fully with the relevant authorities. However, ZF has created corresponding structures in order to ensure as far as possible that the different country-specific legal provisions are complied with and to control and minimize legal risks.

Key elements are the global Compliance Organization, the ZF Code of Conduct, the anonymous notification system for internal and external compliance notifications, and a comprehensive mandatory training concept. Membership in the Responsible Supply Chain Initiative (RSCI) association supports ZF's efforts to fulfill its supply chain obligations and thus contributes to reducing potential legal risks.

ZF is subject to high pension obligations, particularly in Germany. These pension obligations are covered to a varying extent completely or in part by plan assets. The plan assets are invested in a variety of asset classes that are exposed to corresponding fluctuations in value. A change in key parameters, such as interest rates of pension obligations, could lead to negative effects on the ZF Group's earnings and equity.

In the course of audits, tax laws and relevant contracts or events could be interpreted and assessed in a different manner by local tax authorities than by ZF. This poses the risk of additional tax claims based on an adjustment to the tax base. Furthermore, tax law initiatives, to the extent that they have been transposed into national law, can influence future tax expenses or tax payments.

If company participations do not develop in accordance with the underlying business plan, the ZF Group could be forced to make essential balance sheet depreciations.

Financial risks

The ZF Group’s financial risks are of particular importance to ZF Finance GmbH, and are as follows:

As part of central financial risk management, ZF monitors and controls liquidity, foreign currency, interest rate and counterparty risks as well as credit risks in order to safeguard the Group’s financial stability. Provisions regarding the individual risk types have been put in place which determine how to assess and manage the particular risk. Where required, ZF hedges financial risks using appropriate instruments. Wherever possible and expedient, ZF uses derivative financial instruments to manage interest and currency risks in particular. ZF controls and hedges currency risks with a standardized model to hedge underlying transactions in foreign currencies and a uniform system landscape.

Higher interest rates in the relevant currencies euro and US dollar as well as expected further interest rate increases combined with higher credit spreads lead to higher (re-)financing costs for ongoing variable financing. The development of alternative financing sources with attractive conditions is intended to mitigate potential burdens. Variable-rate financial liabilities are partially hedged against rising interest rates by means of interest rate derivatives as of the balance sheet date.

Active cash and cost management helps ZF to limit the financial impact of the war in Ukraine and the Covid-19 pandemic and stabilize liquidity. A revolving credit of €3.5 billion is still fully available to the ZF AG as a liquidity reserve. Central cash pooling with sufficient cash and committed credit lines with matching maturities guarantee the necessary financial flexibility.

Risks are also associated with various loan agreements, e.g., the syndicated loan agreement of ZF Friedrichshafen AG and the loan agreement with the European Investment Bank. These agreements comprise not only obligations but also a financial covenant which has to be complied with at all times. A breach of this financial covenant would mean that, in the event of a respective claim, the creditor could demand immediate repayment or terminate the credit line. It was possible to maintain the financial covenant at all times.

In order to reduce counterparty risks in the realm of finance, ZF only transacts with banks that have first-class financial stability and within stipulated limits. The credit rating of suppliers and customers is continually checked. In particular, there are risks to recognize impairments on financial assets.

KEY OPPORTUNITIES COMMENTARY

In the partly disruptive industries in which ZF operates as a global company, there are new opportunities that ZF directly takes into account for its plans and forecasts, provided they have a sufficient probability of occurrence. ZF uses systematic scenario analyses to record long-term market and technology trends. Using trend and environmental analyses and maintaining close contact with customers, ZF is continuously working on identifying opportunities and leeways with the potential to improve its products' innovative design, production efficiency, market performance and cost structure.

Company-specific opportunities

Despite the imminent recession, the order situation in the ZF Group improved in 2022 compared to the previous year. ZF was able to win a number of important contracts in the areas of electric mobility, including fully electric steering systems (steer-by-wire), advanced driver assistance systems and the relevant connected sensors and actuators. Order intake in the commercial vehicle sector is also developing positively. Due to the worldwide interest in hydrogen energy and fuel cell technology, new growth fields are opened up, and the Wind Power Business Unit is also benefiting from strong market growth.

Since January 2022, ZF has secured its position as a leading technology provider in the commercial vehicle sector with the new Commercial Vehicle Solutions Division. ZF can thus offer a comprehensive product and system portfolio from a single source to serve truck, bus and trailer manufacturers as well as fleet operators in all regions.

ZF also sees opportunities in the software sector. In this way, Group-wide synergies are to be used to increase the performance for internal and external customers, and to help ZF transform into a tech company.

Research and development opportunities

The Next Generation Mobility strategy aims at providing clean, safe, comfortable and affordable mobility for everyone and everywhere to fit people’s current and future lifestyles. This opens up sales opportunities for ZF. Customers are increasingly focusing on the core functions required for their mobility portfolio, and ZF is already developing these features with customers and end customers in mind.

ZF is systematically reducing its dependency on internal combustion engines. With a modular overall concept consisting of electric motor, inverter, transmission and software, the new ZF electric drives support vehicle manufacturers flexibly and individually in the comprehensive electrification of their model ranges. For end customers, the new ZF technologies offer greater efficiency – as they are smaller and lighter, while offering higher performance and shorter charging times. The great interest of manufacturers in ZF's products and the resulting opportunities for ZF in both the passenger car and commercial vehicle sectors are confirmed by corresponding orders in the high-voltage business. In the future, autonomous shuttle systems can be used as a supplement and expansion to relieve the burden on local public transportation, making it more flexible and also supporting urban areas in meeting climate targets. ZF is already one of the leading suppliers in this field and is continuously expanding its offer: ZF Mobility Solutions offers the setup, operation and service of such innovative, purely electric and autonomous transportation systems from a single source. Several projects are underway, partly funded by the federal and state governments, as well as cooperations, among others with DB Regio. Furthermore, EU projects such as the Joint Initiative for hydrogen Vehicles across Europe (JIVE) support the implementation of fuel cell buses and substantially push ahead their commercialization. Hydrogen may also be an alternative for transport companies in order to comply with the EU Clean Vehicles Directive, which stipulates a minimum quota for the new procurement of zero-emission vehicles. The ZF Group is therefore investigating further applications for the development of fuel cell solutions together with its partners. At the R&D Summit 2022, a clear guiding principle was announced for the global ZF engineering community: Software first. The DevOps platform from ZF offers a scalable solution for consistent and fast software development and enables international cooperation.

ZF's middleware can accelerate development processes and significantly reduce the complexity of integrating hardware and software. It acts as a standardized link between a vehicle's software applications and hardware components. This approach minimizes the number of interfaces, guarantees fast communication between all system parts and helps ZF's customers to significantly reduce the complexity of system integration. The powerful ZF middleware was also decisive for the successful implementation of a service-oriented software architecture (SOA). It offers enormous advantages with regard to reuse and flexibility and is thus an important component in ZF's portfolio in order to make the software-defined vehicle of tomorrow even more efficient.

Opportunities in the field of sustainability
With its Next Generation Mobility strategy, ZF has defined the Group's long-term orientation and formulated goals. Legislators around the world are continuously tightening environmental and climate protection requirements for the industry. ZF's competitiveness will be closely linked to CO_2 emissions. Accordingly, ZF has embedded the action plan to achieve carbon neutrality by 2040 in the corporate strategy. The target path is certified by the independent Science Based Targets initiative (SBTi) for conformity with the Paris Climate Agreement and the GHG Protocol. To this end, ZF not only focuses on its own plants and products, but takes the entire supply chain into account. This includes increasing the energy efficiency of its plants as well as fully switching to green energy, offering sustainable products with a small carbon footprint and simultaneously reducing emissions in the supply chain.

ZF sees itself well prepared for the further tightening of regulations on fuel consumption and emission standards for motor vehicles. The specifications will result in a higher demand for energy-efficient and low-emission drive solutions. Vehicle manufacturers are increasingly required to reduce fleet consumption through their mix of vehicles and drive systems. These factors are reinforcing the trend toward further electrification. With an extensive and continuously growing portfolio of systems and components for hybrid and electric drives as well as other products in the electric driveline, ZF is already providing solutions for passenger cars and commercial vehicles that enable customers to comply with such changes to the legal framework. ZF is continuously examining possible inorganic growth through acquisitions and participations in order to supplement organic growth and strengthen its activities in pioneering fields.

ZF perceives sustainability as a competitive advantage. ZF's customers have also set ambitious sustainability goals, especially with regard to their own CO_2 emissions and those of their suppliers. Improving the carbon footprint can thus represent a competitive advantage and be decisive for the future awarding of contracts. The consistent implementation of the sustainability strategy, e.g., by strengthening ZF's activities for an improved circular economy, also offers opportunities in terms of attracting and retaining employees. Sustainability-oriented companies are demonstrably more attractive employers; committing to sustainability also increases job satisfaction.

Moreover, sustainable actions are an important component of ZF's financing strategy in cooperation with banks and investors. The sustainability strategy has a direct effect on the valuation of the company by ESG rating agencies. Furthermore, sustainability criteria for financing in general as well as sustainable project financing can improve credit terms and broaden the investor base.

Digitalization and information technology opportunities

Digitalization, the Internet of Things (IoT) and artificial intelligence (AI) offer ZF numerous opportunities along the value chain. Therefore, ZF is continuously adding new digital products and services to its existing business model and transforming existing processes. This also applies to the area of production where the smart factory with Industry 4.0 processes is to become a reality. Several plants in all regions have already been connected to the cloud-based Digital Manufacturing Platform which can be used to transform production processes, and whose insights are to be used throughout the Group.

In view of the current challenges and possible disruptions in supply chains, inventory management has top priority in production. The objective is to develop best practice processes that can be quickly adapted to changed conditions and adopted by everyone. This also applies to other organizations. They will be able to use proven solutions that effectively reduce maintenance costs, predict failures and optimize material availability, among other things.

With the now.digital strategy launched in 2022, ZF is accelerating digital transformation. In doing so, ZF consistently relies on the ZF Cloud to develop new digital products, make internal Group processes more efficient or operate digital business models. Applications such as autonomous driving, predictive maintenance or mobility as a service (MaaS) require huge amounts of data, flexible computing capacities and smart algorithms that users must be able to access from anywhere. Development engineers can test new software in no time at all. Purchasing and logistics benefit from this because the cloud provides seamless end-to-end visibility across the supply chain and a faster response to challenging market developments. The successful cloud transformation is one of the top priorities in the Group, combined with a modernization of the application landscape at ZF.

Many challenges in the automotive industry can only be mastered by joining forces. Therefore, ZF is a founding member of Catena-X. Together with renowned partner companies, ZF launched the initiative as an open network for the automotive industry and adjacent industries. It focuses on secure, standardized information and data exchange between companies. Among other things, standardized data along the entire value chain allow components and software to be traced. It can also make supply chains more transparent and thus meet demanding sustainability criteria, such as reducing the carbon footprint in production and logistics.

Data is the future of mobility. ZF has founded the Data Venture Accelerator (DVACC) for this purpose. In close cooperation with its divisions, a model was developed that pools the technical and customer knowledge of the divisions and the digital competence of Corporate Development. The DVACC is focused, flexible and aims to achieve its goal quickly. The results-oriented approach of the globally distributed teams combines the traditional ZF strengths with the entrepreneurial spirit of a start-up.

OVERALL STATEMENT ON THE OPPORTUNITY AND RISK SITUATION OF THE ZF GROUP

The ZF Group works to counter the above risks using a risk management system that is embedded in an integrated GRC approach. It includes the global organization through a decentralized approach and equally covers divisions, cross-sectional functions and regions. The decentralized risk management approach stipulates that risks are managed where they occur to ensure that those who have the best overview and know-how with regard to the respective risk category take action. The risk management system is integrated in the operational and strategic business activities. The risk management method is subject to a continuous improvement process. The Opportunities Report represents a consolidated observation of significant opportunities in the period under review. Wherever cost-effective and within the Group's sphere of influence, it attempts to develop these.

Based on currently available information as well as the individual risks illustrated in the financial statements and set out in this report, ZF AG's Board of Management can identify no additional market-related opportunities and risks which could substantially influence the ZF Group's results of operations, net assets and financial position in fiscal year 2023. The Group's financial situation is stable; the need for financial means is covered by existing liquidity and available credit lines.

Given the market position and the precautions taken, the Board of Management of the ZF Group is confident in its ability to control these risks and meet the resulting challenges. When analyzing the overall picture of significant risks and opportunities, no risks can be identified which could jeopardize the company's continued existence, either alone or in combination with other risks.

FORECAST REPORT

The future development of ZF Finance GmbH as the financing company of the ZF Group is subject to the same framework conditions and expectations as the development of the ZF Group as a whole. Accordingly, the assessment of future development is based on the ZF Group's forecasts, which are summarized in the following section.

ZF Group industry environment trends

Markets remain under pressure with significant risk scenarios

The continuing challenges in the global fight against the pandemic, the effects of the Russia-Ukraine crisis and the only gradually decreasing burden on supply chains, combined with potential problems in energy supply, especially in Europe and Germany, lead to a recession risk in these markets. The first months of 2023 are characterized by risk scenarios. Based on the current indications and the countermeasures initiated by the central banks in the eurozone and the USA, the peak of inflation has already been exceeded at the beginning 2023. Nevertheless, inflation remains at a comparably high level. However, the monetary policy measures – taken so far and still to come – conflict with a robust, strong recovery in global economic growth. Furthermore, the already visible impacts of climate change present the global economies with new, sometimes unforeseeable challenges but also with opportunities. Global economic growth could also reach up to 2.5% this year. Here, slightly improved prospects for China, stating 4.3% growth, are facing zero growth in the eurozone and only slightly positive trends in the USA, but also in large emerging economies such as Brazil and Mexico. An exception is India, for which solid growth of more than 5% is forecast in 2023. However, the geopolitical situation can further aggravate the global economic situation.

The challenges in the global economy put a strain on the outlook of the industries ZF operates in

The rather slow alleviation of the effects from the supply bottlenecks as well as the expected weak economic development in the first months of 2023, especially in Europe and Germany, still intensified by potential energy bottlenecks, but in any case massively increased energy costs, are again slowing down the expectations regarding a thorough recovery of the core ZF industries.

The market for passenger cars and light commercial vehicles in particular would have enormous catch-up potential – after the massive declines caused by the crises and the resulting increased demand for replacement, especially in the established markets. Against the backdrop of the negative prospects described at the beginning of 2023, however, a further slight decline in vehicle production can be expected. While markets in Asia should stay close to the zero line, North and South America might show minor growth. The signs in Europe with the persistent buying restraint caused by the recession indicate a further decline in production.

The developments in China continue to dominate the heavy commercial vehicle market. After the correction effects of the previous two years with –20% and –48%, the Chinese market should again be able to show moderate growth of up to 10%. The accumulated demand in Europe also indicates slight growth potential. The situation in North America is different: After two years of double-digit growth, there is a stabilization at the level achieved, while South America could return to normal levels after +60% and +10% in the previous two years with a downward correction of –13%.

The forecast for the industrial markets ranges from moderate growth in the wind power market, especially in Asia, to stagnation in the global construction machinery market, to weaker expectations for the agricultural machinery markets, especially driven by a sharper decline in China.

Overall, it is a difficult environment, caused by geopolitical risks and fear of recession and inflation, which in particular affect private demand and subsequently also the demand for investment goods. Based on the gradually positive news which results in increasing consumer confidence, it could be possible to leave the trough in the course of 2023.

The general conditions in 2023 remain challenging. Effects on the forecast with regard to uncertainties due to the geopolitical situation and continued supply bottlenecks cannot be ruled out.

ZF on the right track

The speed of transformation in the automotive industry continues. This is mainly due to the development towards a sustainable economy with significantly reduced CO_2 emissions. The general conditions in 2023 remain challenging. Against this backdrop, ZF is pushing investments in future-oriented technologies. The organizational and corporate structures will be further adapted to market developments in order to sustainably improve the quality of the Group's results.

Development of ZF Finance GmbH

As the financing company of the ZF Group, the future development of ZF Finance GmbH is influenced by the economic development of the Group, its investment activities and the maturities of existing bonds. In addition, the issuing of further bonds under the DIP depends on the development of the financial markets, particularly given the current geopolitical and overall economic situation and its impact on interest terms. The timing and nominal volume of the issue of further bonds are subject to this reservation.

Due to the planned issuing of further bonds and the corresponding loans within the Group, interest expenses and the associated interest income will further increase considerably in fiscal year 2023 compared to 2022. This increase depends on the scope of the further utilization of capital markets and the associated interest terms. Already in February 2023, ZF Finance GmbH issued another bond with a nominal volume of €650,000 k, a fixed interest rate of 5.875% and a term of 3.5 years and transferred it to a Group company under identical conditions. Net assets and financial position have increased by €650 million. Due to the identical conditions, no effect is expected on earnings before taxes on income and revenue.

Due to the existing profit and loss transfer agreement, the fiscal year 2023 is also expected to generate a balanced net result for the year.

The financing requirements derived from this will have a significant influence on the further business development of ZF Finance GmbH in 2023.

Friedrichshafen, March 27, 2023

ZF Finance GmbH

Herbert Uwe Hertnagel	Ulrich Brändle
General Manager	General Manager