CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

CONTENT

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2019

in € million	Notes	2019 unaudited	2018 unaudited
Sales	1	18,366	18,654
Cost of sales	2	15,580	15,573
Gross profit on sales		**2,786**	**3,081**
Research and development costs		1,129	1,110
Selling expenses		636	645
General administrative expenses		665	633
Other income		261	373
Other expenses		260	284
Result from associates	3	16	24
Other net result from participations	3	5	81
EBIT		**378**	**887**
Financial income	4	112	115
Financial expenses	5	267	258
Net profit or loss before tax		**223**	**744**
Income taxes		57	176
Net profit or loss after tax		**166**	**568**
thereof shareholders of ZF Friedrichshafen AG		143	542
thereof non-controlling interests		23	26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2019

in € million	Notes	2019 unaudited	2018 unaudited
Net profit or loss after tax		**166**	**568**
Line items that will be reclassified in the consolidated statement of profit or loss			
Foreign currency translation differences			
Gains arising during the year		64	71
Reclassification adjustments for gains/losses included in profit or loss		0	−16
Mark-to-market of cash flow hedges			
Losses arising during the year		−30	−33
Reclassification adjustments for gains/losses included in profit or loss		9	5
Amounts reclassified to acquisition costs through comprehensive income		3	1
Income taxes		−4	8
		42	**36**
Line items that will not be reclassified in the consolidated statement of profit or loss			
Mark-to-market of securities		−12	−3
Actuarial losses (2018: gains) from pension obligations		−653	42
Income taxes		197	−2
		−468	**37**
Other comprehensive income after tax	14	**−426**	**73**
Total comprehensive income		**−260**	**641**
thereof shareholders of ZF Friedrichshafen AG		−285	614
thereof non-controlling interests		25	27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ZF FRIEDRICHSHAFEN AG AS OF JUNE 30, 2019

Assets in € million	Notes	June 30, 2019 unaudited	Dec. 31, 2018
Current assets			
Cash and cash equivalents		856	922
Financial assets		115	84
Trade receivables	6	5,563	5,161
Other assets		766	482
Contract assets		89	82
Income tax receivables		60	89
Inventories		4,074	3,915
		11,523	**10,735**
Non-current assets			
Financial assets		1,044	945
Associates		473	454
Other assets		131	102
Contract assets		150	109
Intangible assets	7	7,007	7,205
Property, plant and equipment	8	7,234	6,630
Deferred taxes		1,093	852
		17,132	**16,297**
		28,655	**27,032**

Liabilities and equity in € million	Notes	June 30, 2019 unaudited	Dec. 31, 2018
Current liabilities			
Financial liabilities	10	1,938	606
Trade payables	11	5,196	5,467
Other liabilities		1,808	1,494
Contract liabilities		1,035	899
Income tax provisions		299	294
Other provisions		580	812
		10,856	**9,572**
Non-current liabilities			
Financial liabilities	10	4,552	4,464
Trade payables		48	40
Other liabilities		109	98
Contract liabilities		328	357
Provisions for pensions	12	4,847	4,065
Other provisions		504	511
Deferred taxes		442	484
		10,830	**10,019**
Equity			
Subscribed capital		500	500
Capital reserve		386	386
Retained earnings		5,789	6,262
Equity attributable to shareholders of ZF Friedrichshafen AG		**6,675**	**7,148**
Non-controlling interests		294	293
	13	**6,969**	**7,441**
		28,655	**27,032**

CONSOLIDATED STATEMENT OF CASH FLOWS

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2019

in € million	Notes	2019 unaudited	2018 unaudited
Net profit or loss before income tax		223	744
Amortization/depreciation/reversal of impairments for intangible assets and property, plant and equipment		1,013	892
Results from deconsolidation		0	–83
Changes in non-current provisions made through profit or loss		54	43
Income taxes paid		–92	–242
Results from the disposal of intangible assets and property, plant and equipment		–2	–7
Net result from participations and net financial result		134	38
Increase in inventories		–134	–546
Increase in trade receivables		–368	–727
Increase in other assets		–334	–133
Decrease (2018: increase) in trade payables		–292	64
Increase in other liabilities		113	435
Cash flow from operating activities		**315**	**478**
Expenditures for investments in			
intangible assets		–20	–28
property, plant and equipment		–587	–499
associates and other participations		–8	–5
financial receivables		–26	–15
Proceeds from the disposal of			
intangible assets		1	7
property, plant and equipment		19	21
associates and other participations		0	4
financial receivables		3	1
Cash inflow from the sale of consolidated companies		0	766
Cash outflow from the acquisition of consolidated companies	15	–24	0
Dividends received		9	22
Interest received		9	18
Cash flow from investing activities		**–624**	**292**

in € million	Notes	2019 unaudited	2018 unaudited
Dividends paid to ZF Friedrichshafen AG shareholders		–162	–195
Dividends paid to holders of non-controlling interests		–33	–36
Repayments of borrowings		–2,820	–1,256
Proceeds from borrowings		3,413	793
Proceeds from capital increases through holders of non-controlling interests		7	0
Interest paid and transaction costs		–170	–163
Cash flow from financing activities		**235**	**–857**
Net change in cash		**–74**	**–87**
Cash position at the beginning of the fiscal year		922	1,315
Effects of changes in the basis of consolidation on cash		0	12
Effects of exchange rate changes on cash		8	0
Cash position at the end of the fiscal year	14	**856**	**1,240**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ZF FRIEDRICHSHAFEN AG FOR THE PERIOD DATING JANUARY 1 TO JUNE 30, 2019

			Retained earnings							
in € million	Subscribed capital	Capital reserve	Other retained earnings	Foreign currency translation differences	Mark-to-market of securities	Mark-to-market of cash flow hedges	Actuarial gains and losses	**Equity attributable to shareholders of ZF Friedrichshafen AG**	Non-controlling interests	**Group equity**
Jan. 1, 2018	**500**	**386**	**6,924**	**−422**	**−31**	**−13**	**−858**	**6,486**	**299**	**6,785**
Changes in accounting policies			103					103	−2	101
Jan. 1, 2018 (adjusted)	**500**	**386**	**7,027**	**−422**	**−31**	**−13**	**−858**	**6,589**	**297**	**6,886**
Net profit or loss after tax			541					541	27	568
Other comprehensive income after tax				55	−3	−19	40	73		73
Total comprehensive income	**0**	**0**	**541**	**55**	**−3**	**−19**	**40**	**614**	**27**	**641**
Dividends paid			−195					−195	−36	−231
Acquisition of non-controlling interests			8					8	−8	0
Capital increase in exchange for company shares								0	7	7
June 30, 2018 (unaudited)	**500**	**386**	**7,381**	**−367**	**−34**	**−32**	**−818**	**7,016**	**287**	**7,303**
Jan. 1, 2019	**500**	**386**	**7,751**	**−334**	**−50**	**−20**	**−1,085**	**7,148**	**293**	**7,441**
Changes in accounting policies			−30					−30	−1	−31
Jan. 1, 2019 (adjusted)	**500**	**386**	**7,721**	**−334**	**−50**	**−20**	**−1,085**	**7,118**	**292**	**7,410**
Net profit or loss after tax			143					143	23	166
Other comprehensive income after tax				62	−12	−22	−456	−428	2	−426
Total comprehensive income	**0**	**0**	**143**	**62**	**−12**	**−22**	**−456**	**−285**	**25**	**−260**
Changes in the basis of consolidation								0	3	3
Dividends paid			−162					−162	−33	−195
Capital increase in exchange for company shares								0	7	7
Other changes			4					4		4
June 30, 2019 (unaudited)	**500**	**386**	**7,706**	**−272**	**−62**	**−42**	**−1,541**	**6,675**	**294**	**6,969**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ZF FRIEDRICHSHAFEN AG AS OF JUNE 30, 2019

Fundamental Principles

Corporate structure

ZF Friedrichshafen AG (ZF) is a corporation, of which 93.8% is owned by the Zeppelin Foundation and 6.2% by the Dr. Jürgen and Irmgard Ulderup Foundation. The company is headquartered in 88046 Friedrichshafen, Germany, Löwentaler Straße 20.

ZF is a globally leading technology company and supplies mobility systems for passenger cars, commercial vehicles and industrial technology. ZF is set up along the lines of a matrix organization which links the Group-wide competencies of the central functions with the global business responsibility of the divisions and business units. The business units are assigned to the following nine divisions: Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, Industrial Technology, E-Mobility, Aftermarket, Electronics and ADAS, Passive Safety Systems and Active Safety Systems. Further explanations on the corporate structure can be found in the Group Management Report as of December 31, 2018.

General

The interim consolidated financial statements of ZF Friedrichshafen AG as of June 30, 2019 were prepared as a condensed interim report in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting”, as adopted by the European Union. It includes the following components:

- Consolidated statement of profit or loss from January 1 to June 30, 2019
- Consolidated statement of comprehensive income from January 1 to June 30, 2019
- Consolidated statement of financial position as of June 30, 2019
- Consolidated statement of cash flows from January 1 to June 30, 2019
- Consolidated statement of changes in equity from January 1 to June 30, 2019
- Notes to the condensed interim consolidated financial statements

The condensed interim consolidated financial statements do not include all the pieces of information and disclosures that are required for the consolidated financial statements at the end of a fiscal year and should therefore be read in conjunction with the consolidated financial statements as of December 31, 2018.

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

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

Adoption of IFRS

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

ZF has implemented all standards and interpretations adopted by the International Accounting Standards Board (IASB), London (UK) and by the EU that are mandatory as of January 1, 2019.

Standard/ Interpretation	Title	Applicable pursuant to IFRS as of	Endorsement by EU	Impact
IFRS 9	Amendments to IFRS 9 “Prepayment Features With Negative Compensation”	Jan. 1, 2019	Yes	None
IFRS 16	Leases	Jan. 1, 2019	Yes	Refer to section “Changes in accounting policies”
IAS 19	Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	Jan. 1, 2019	Yes	None
IAS 28	Amendments to IAS 28 “Long-Term Interests in Associates and Joint Ventures”	Jan. 1, 2019	Yes	None
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	Yes	None
Various	Improvements to IFRS 2015 – 2017	Jan. 1, 2019	Yes	None

ZF did not apply any new or amended standards and interpretations early whose application is not yet mandatory even though they have been published. Except for the changes in accounting mentioned in the section “Changes in accounting policies”, all other standards applied for the first time in fiscal year 2019 did not result in any effects on ZF Group accounting.

Basis of consolidation

In addition to ZF Friedrichshafen AG, 32 German and 235 international subsidiaries controlled by ZF Friedrichshafen AG were included in the interim consolidated financial statement.

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

	Jan. 1, 2019	First-time consoli-dations	Legal changes	Deconsoli-dations	June 30, 2019
Subsidiaries	263	6	–2	0	267
of which German	34	0	–2	0	32
of which international	229	6	0	0	235
Joint ventures	10	0	0	0	10
Associates	11	2	0	0	13

Compared to the previous year, the basis of consolidation increased by eight companies due to acquisitions or new company formations. Two companies were deconsolidated in the fiscal year 2019 as a result of merger.

Company acquisitions

On March 28, 2019, ZF Friedrichshafen AG signed a binding agreement regarding the acquisition of all outstanding shares of WABCO Holdings Inc. (WABCO) listed on the New York Stock Exchange (NYSE) for a cash purchase price of $136.50 per share. This corresponds to a purchase price of approximately $7 billion. The Board of Management and the Supervisory Board of ZF as well as the Board of Directors of WABCO agreed to the planned acquisition. On June 27, 2019, 68.44% of the WABCO shareholders agreed to the transaction. The transaction is subject to a number of general closing conditions, e.g. approval by the responsible authorities. ZF expects to be able to complete the transaction in the first months of 2020.

WABCO is a leading global supplier of brake control systems, technologies and services for the improvement of the safety, efficiency and connectivity of trucks, buses and trailers. WABCO offers integrated brake control and stability control systems, air suspension, transmission automation and aerodynamics, telematics and fleet management systems. In 2018, WABCO achieved sales of €3.3 billion. The company employs approximately 16,000 people in 40 countries around the globe.

By way of a purchase contract dated March 19, 2019, 60% of the shares of 2 Getthere Holding B.V., Utrecht, Netherlands, as well as its two subsidiaries were acquired. The company based in Utrecht with offices in San Francisco, Dubai and Singapore offers complete automated transport systems. It is working on applications ranging from automated guided electric vehicle systems at airports through to business and theme parks to urban transport infrastructure. With this strategic investment, ZF is implementing its "Next Generation Mobility" strategy and strengthening its foothold in the "Mobility as a Service" and automated guided vehicle systems growth markets. The preliminary purchase price amounts to €19 million and was calculated taking the agreed earn-out regulation into account. At the point of taking over control, €24 million were paid in cash. The goodwill recognized based on the preliminary purchase price allocation amounts to €11 million. The excess remaining after capital consolidation results in particular from the strengthening of ZF activities in the field of autonomous transport systems.

The acquired assets and liabilities of the corporate group have been recognized at the date of acquisition with the following fair values which are based on a preliminary purchase price allocation:

in € million	
Trade receivables	7
Inventories	6
Associates	1
Intangible assets	15
Financial liabilities	–7
Trade payables	–2
Contract liabilities	–4
Other liabilities	–1
Deferred tax liabilities	–2
Acquired total net assets	**13**
Acquired ZF share of net assets	8
Purchase price	19
Excess remaining after capital consolidation	**11**

In connection with the share deal, ZF acquired receivables at a fair value of €7 million. These are exclusively trade receivables. There are no uncollectible receivables. Since the acquisition date, 2 Getthere has contributed sales of €1 million, an amount of €1 million to net profit after tax and €0 million to other comprehensive income. If the acquisition had been effected as of January 1, 2019, the Group's sales would have amounted to approximately €18,369 million and the Group's net profit after tax would have amounted to €168 million.

The purchase price allocation has not been completed since there are no final valuations of assets available. Adjustments may in particular result from contingent purchase price elements.

Consolidation principles and foreign currency translation

The consolidation methods and the methods for foreign currency translation have not changed compared to the consolidated financial statements as of December 31, 2018.

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

	Closing rate		Average rate	
	June 30, 2019	Dec. 31, 2018	Jan.–June, 2019	Jan.–June, 2018
US dollar	1.1380	1.1450	1.1301	1.2108
British pound	0.8966	0.8945	0.8733	0.8799
Chinese renminbi	7.8185	7.8751	7.6668	7.7120
Brazilian real	4.3511	4.4440	4.3405	4.1332
Mexican peso	21.8201	22.4921	21.6584	23.0754

Accounting policies

The condensed interim consolidated financial statements were prepared on the basis of the accounting policies applied for the preparation of the consolidated financial statements as of December 31, 2018, with the following exception:

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

Changes in accounting policies

Changes in lease accounting

ZF is applying the new standard IFRS 16 – "Leases" for the first time to the fiscal year beginning on January 1, 2019. The transition to the standard follows the modified retrospective method. Comparative information for leases previously classified as operating leases is therefore not adjusted.

IFRS 16 replaces and changes the previous provisions of IAS 17 in relation to the accounting for leases by lessees. The distinction previously made pursuant to IAS 17 regarding the lessee between recognized obligations from finance leases and unrecognized obligations from operating leases is revoked and replaced by an accounting model for lessees that introduces mandatory recognition similar to the provision for finance lease contracts applicable under IAS 17. The procedure set out in IAS 17 for finance leases is largely followed. Accordingly, as per IFRS 16, a liability in the amount of the present value of the future lease payment and a corresponding asset amount in the form of a right-of-use asset have to be recognized. Accordingly, the depreciation expense for the right-of-use asset has to be presented separately from the interest expenses on the lease liability in profit or loss, with interest expenses being recognized as a component of the net financial result.

IFRS 16 provides accounting options as well as practical expedients that are applied by ZF as follows:

- Lease agreements with a term of up to one year and lease agreements for which the underlying asset is of low value and can be used on a standalone basis are directly recognized in profit or loss, remaining off-balance.
- ZF will not apply IFRS 16 for intangible assets (including software and licenses). These continue to be accounted for in accordance with IAS 38.

Furthermore, the following options and practical expedients were used in the first-time application:

- At the date of the initial application, no re-assessment was made regarding the qualification as a lease of the agreements previously classified as leases under IAS 17.
- Irrespective of their original term, leases that will expire before January 1, 2020 are recognized directly in profit or loss as short-term leases, thus remaining off-balance.
- Apart from very few exceptions, the right-of-use assets from leases are measured at the amount of the lease liability. The latter is the present value of the outstanding lease payments as of January 1, 2019, discounted using the incremental borrowing rate applicable at that date.
- Initial direct costs were not taken into account for the measurement of the right-of-use asset.
- An impairment review of the right-of-use assets was not performed while taking into account potentially existing provisions for onerous contracts.

The initial application of IFRS 16 has mainly led to the following effects:

- For previously existing operating leases, right-of-use assets in the amount of approximately €0.6 billion were recognized as assets in property, plant and equipment and corresponding lease liabilities in the amount of about €0.6 billion were recognized as financial liabilities as of January 1, 2019. These mainly relate to real estate rental contracts and – to a lesser extent – factory and office equipment. The difference resulting from the application of transition options for the initial measurement of the initial right-of-use assets and the lease liabilities as of January 1, 2019, is recognized directly in retained earnings. The application of IFRS 16 resulted in an increase in total assets by 2.2% in the opening statement of financial position for 2019.
- The present value of the lease liabilities was determined using an incremental borrowing rate applicable for the respective lease term and currency. Its weighted average as of January 1, 2019 is 3.4%.
- Options for extension, termination and purchase – if reasonably certain – were taken into account in the measurement of the right-of–use assets, the lease liabilities and the useful life.
- For the subsequent measurement as of June 30, 2019, the capitalized right-of-use assets were depreciated on a straight-line basis over the respective contract period or – if shorter – the respective useful life. The expenses from depreciation are recognized in the corresponding functional areas. The interest portion contained in the lease payments is recognized in the net financial result. Compared to the previous treatment of costs from operating leases in the operating profit only, this results in a correspondingly slight improvement in the EBIT.

- In the consolidated statement of cash flows, this change in recognition in the statement of profit or loss has a positive impact on the cash flow from operating activities. The cash flow from financing activities is reduced by the repayment amount of the lease liabilities and the interest portion contained in the lease payments.
- Pursuant to IAS 17, non-exercised renewal options only had to be taken into account in the measurement of the financial liability from finance leases in specific cases. To the extent that the prerequisites are met, these are taken into account in the carrying value under IFRS 16, leading to an increase in total assets.
- To a minor extent, temporary differences led to the recognition of deferred taxes.

The difference between the nominal value of the expected cash payments for rental and lease agreements reported as of December 31, 2018, and the present values of the lease liabilities recognized upon transition as of January 1, 2019, is mainly due to discounting effects as well as – in line with the requirements of IFRS 16 – to the consideration of extension options that are reasonably certain to be exercised in the lease liabilities. Moreover, in line with the practical expedients no liabilities for short-term leases and leases for underlying assets of low value were recognized upon transition.

Notes to the Consolidated Statement of Profit or Loss

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

1 Sales

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

in € million	**Jan.–June, 2019**	Jan.–June, 2018
Volume production business sales	16,010	16,359
Aftermarket and service sales	1,634	1,633
Other sales	722	662
	18,366	**18,654**

in € million	**Jan.–June, 2019**	Jan.–June, 2018
Germany	3,581	3,785
Western Europe	3,545	3,913
Eastern Europe	1,506	1,365
North America	5,363	5,022
South America	532	519
Asia-Pacific	3,600	3,955
Africa	239	95
	18,366	**18,654**

2 Cost of sales

in € million	Jan.–June, 2019	Jan.–June, 2018
Cost of materials	11,371	11,514
Personnel expenses	2,511	2,478
Depreciation, amortization and impairment	776	708
Other	922	873
	15,580	**15,573**

3 Net result from participations

in € million	Jan.–June, 2019	Jan.–June, 2018
Result from associates	**16**	**24**
Income from participations	5	13
Income from the measurement of participations	0	65
Income from the disposal of participations	0	4
Expenses from the disposal of participations	0	–1
Other net result from participations	**5**	**81**
Net result from participations	**21**	**105**

4 Financial income

in € million	Jan.–June, 2019	Jan.–June, 2018
Interest from current financial investments	3	12
Interest from non-current financial investments	2	1
Other interest	4	7
Return on plan assets	14	0
Interest income	**23**	**20**
Foreign exchange gains	61	49
Income from derivative financial instruments	28	46
Other financial income	**89**	**95**
Financial income	**112**	**115**

5 Financial expenses

in € million	Jan.–June, 2019	Jan.–June, 2018
Interest on financial liabilities	90	107
Interest on lease liabilities	12	0
Other interest	8	3
Interest cost on pension provisions	31	33
Unwinding the discount on other non-current items	0	3
Interest expenses	**141**	**146**
Foreign exchange losses	60	49
Expenses from derivative financial instruments	35	55
Write-downs of financial receivables	18	0
Transaction costs and incidental expenses	13	8
Other financial expenses	**126**	**112**
Financial expenses	**267**	**258**

Notes to the Consolidated Statement of Financial Position

6 Current trade receivables

Compared to the end of fiscal year 2018, trade receivables have increased seasonally.

7 Intangible assets

The decrease in this line item mainly results from the continuously high level of amortization and impairment of intangible assets that exceeded investments in the first half of 2019.

8 Property, plant and equipment

The increase in property, plant and equipment is mainly the result of the capitalization of right-of-use assets in connection with the first-time application of IFRS 16 in the fiscal year 2019.

9 Impairment tests

As of June 30, 2019, there were no indications for required impairment in the cash-generating units of ZF. Both in the first half of 2019 and the comparative period, neither impairments nor reversals of impairments were recognized.

10 Financial liabilities

The increase in current financial liabilities mainly results from the utilization of bilateral lines to finance ongoing business activities and the reclassification of a bond tranche due in January 2020 in the amount of €507 million from non-current to current financial liabilities. This is supplemented by an increase due to the classification as liabilities of lease liabilities in the context of the first-time application of IFRS 16 ("Leases") as of January 1, 2019.

Compared to December 31, 2018, the non-current financial liabilities increased slightly. On the one hand, they decreased due to the above-mentioned reclassification of a bond tranche. However, this effect was overcompensated for by the classification as liabilities of lease liabilities due to the first-time application of IFRS 16.

In the context of the acquisition of WABCO, a new syndicated financing of €7.3 billion was agreed with a total of 15 banks. The financing was completely unutilized as of June 30, 2019. The credit commitment contains a bridge financing in the amount of €4.8 billion with a term of maximally two years as of the point of utilization. The bridge financing should be released in the short or medium term by the capital market.

11 Current trade payables

Compared to the end of fiscal year 2018, trade payables have decreased for business reasons.

12 Provisions for pensions

The increase in this line item results from the lower discount rates for the evaluation of pension provisions. The effects of applying the changed discount rates are recorded in other comprehensive income as actuarial losses.

The following discount rates were applied as of June 30, 2019:

	June 30, 2019			Dec. 31, 2018		
in %	**D**	**USA**	**GB**	D	USA	GB
Discount rate	1.3	3.6	2.3	2.0	4.3	2.9

13 Equity

Dividends

In the fiscal year, a dividend of €162 million (€0.32 per share) for 2018 was paid to the shareholders of ZF Friedrichshafen AG.

Deferred taxes on equity items not affecting profit or loss

	June 30, 2019			June 30, 2018		
in € million	**Before income tax**	**Income tax**	**After tax**	Before income tax	Income tax	After tax
Foreign currency translation differences	64	0	64	55	0	55
Mark-to-market of securities	−12	0	−12	−3	0	−3
Mark-to-market of cash flow hedges	−18	−4	−22	−27	8	−19
Actuarial gains and losses	−653	197	−456	42	−2	40
Other comprehensive income	**−619**	**193**	**−426**	**67**	**6**	**73**

Notes to the Consolidated Statement of Cash Flows

14 General

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

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

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

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

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

15 Company Acquisition

The assets and liabilities of consolidated companies received on the date of acquisition are composed as follows:

in € million	2019
Current assets	8
Non-current assets	21
Current liabilities	9
Non-current liabilities	7

The preliminary purchase price taking the agreed earn-out regulation into account amounts to €19 million; €24 million in cash were paid.

Other Disclosures

16 Litigation

In connection with recalls of airbags by Hyundai, KIA and FCA, ZF submitted a notification to the National Highway Traffic Safety Administration (NHTSA) in the USA and is in regular contact with this authority. At the same time, ZF is of the opinion that it is not responsible for any grounds of the recalls and will defend itself against potential claims.

In 2014, the Brazilian antitrust authority, Conselho Administrative de Defensa Economica (CADE), searched the premises of one of our Brazilian subsidiaries to investigate the suspected violation of antitrust provisions in connection with the sale of specific vehicle components. ZF is cooperating in this procedure.

In addition, various German ZF locations were searched by the German Federal Cartel Office, Bundeskartellamt, in 2016 in the context of an investigation in relation to agreements regarding steel purchasing that violate antitrust law. ZF again is cooperating with the investigating authorities in this procedure. The duration and outcome of the procedure are uncertain.

In a pending class action lawsuit in the USA against several companies from the automotive industry, plaintiffs have stated that ZF participated in the alleged development and implementation of illegal equipment for the manipulation of vehicle emission tests. Although ZF is not mentioned as a defendant in the complaint in connection with the pending procedure, the role of ZF in this is currently being investigated in the procedure. Furthermore, ZF is currently in contact with the public prosecutor's office in Stuttgart with regard to emission and consumption topics. In this matter, ZF is cooperating with the public prosecutor's office. So far, no formal investigation has been launched against individuals or the company.

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

17 Financial instruments

Carrying amounts of the financial instruments by categories

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

in € million	June 30, 2019	Dec. 31, 2018
Assets		
At amortized cost	6,456	6,058
At fair value through other comprehensive income	206	255
At fair value through profit or loss	162	165
Derivative financial instruments (hedge accounting) 1)	50	34
	6,874	**6,512**
Liabilities		
At amortized cost	10,897	10,492
Lease liabilities 1)	738	35
At fair value through profit or loss	12	7
Derivative financial instruments (hedge accounting) 1)	87	43
	11,734	**10,577**

1) No measurement category in accordance with IFRS 9

Fair values

The fair values of the financial assets and liabilities are presented below. Provided that financial assets and liabilities are recognized at amortized cost, the fair value is compared to the carrying amount.

The following table shows the carrying amounts and the fair values of the financial assets and liabilities recognized at amortized cost. Due to short maturities, the carrying amounts of the current financial instruments recognized at cost approximate the fair values.

	June 30, 2019		Dec. 31, 2018	
in € million	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
At amortized cost				
Cash and cash equivalents	856	856	922	922
Financial receivables	193	193	169	169
Trade receivables	5,407	5,407	4,967	4,967
	6,456	**6,456**	**6,058**	**6,058**
Liabilities				
At amortized cost				
Bonds	3,070	3,198	3,067	3,069
Bonded loans	907	935	916	972
Liabilities to banks	1,655	1,659	965	964
Other financial liabilities	21	21	37	37
Trade payables	5,244	5,244	5,507	5,507
Lease liabilities 1)	738	738	35	37
	11,635	**11,795**	**10,527**	**10,586**

1) No measurement category in accordance with IFRS 9

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

in € million	June 30, 2019	Dec. 31, 2018
Assets		
At fair value through other comprehensive income		
Investments in participations	50	61
Trade receivables	156	194
At fair value through profit or loss		
Investments in participations	152	144
Financial receivables	2	14
Derivative financial instruments	8	7
Derivative financial instruments (hedge accounting) 1)	50	34
	418	**454**
Liabilities		
At fair value through profit or loss		
Derivative financial instruments	12	7
Derivative financial instruments (hedge accounting) 1)	87	43
	99	**50**

1) No measurement category in accordance with IFRS 9

In the following, the financial instruments recognized at fair value are allocated to the three levels of the fair value hierarchy based on the input parameters used for measurement. The classification as well as the need to perform reclassifications are reviewed on the reporting date. Level 1 covers those financial instruments for which prices for identical assets and liabilities quoted on active markets are available. Allocation to level 2 occurs if input parameters that are directly (e.g. prices) or indirectly (e.g. derived from prices) observable on the market are used for the measurement of the financial instruments. Financial instruments whose valuation is based on information that is not observable on the market are reported in level 3.

in € million	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments in participations	50	98	54	202
Financial receivables	0	0	2	2
Trade receivables	0	156	0	156
Derivative financial instruments	0	58	0	58
	50	**312**	**56**	**418**
Liabilities				
Derivative financial instruments	**0**	**45**	**54**	**99**

in € million	Dec. 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments in participations	61	98	46	205
Financial receivables	0	0	14	14
Trade receivables	0	194	0	194
Derivative financial instruments	2	39	0	41
	63	**331**	**60**	**454**
Liabilities				
Derivative financial instruments	**3**	**47**	**0**	**50**

Investments in participations which are traded on an active market are recognized at share prices of the stock exchange of the respective country. Derivative financial instruments included in level 1 refer to tradable derivatives such as futures. Their fair value corresponds to the value traded on the derivatives exchange.

With level 2 investments in participations measured at fair value, measurement is based on transactions that can be observed in the market. Furthermore, a part of the trade receivables, whose measurement can be derived from parameters observable in the market, has been assigned to this category. The level 2 derivative financial instruments concern non-tradable derivatives. Fair values are determined on the basis of fixed prices quoted on approved stock exchanges discounted for the remaining term (foreign currency exchange rates, interest rates and raw material price indexes).

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

A significant change regarding the future results and multipliers used for the multiplier method would affect the fair value of these investments in participations in the amount of −€15 million to +€2 million.

The measurement of level 3 financial receivables is based on information not observable on the market and for which there are no comparable transactions with market values to be derived from such transactions.

With respect to hedging a material portion of the purchase price of the WABCO transaction (underlying transaction) in the amount of approximately $7 billion against currency fluctuations, ZF concluded a transaction-related forward contract. As the forward contract is bound to the execution of the underlying transaction, this contract was classified as level 3. The fair value of this forward contract is determined based on the two components of a premium paid only in case of execution of the underlying transaction and the market value of the forward contract. The value of the premium was ascertained on the basis of the futures price observable on the market at the time of conclusion and the tender price agreed on with the contracting party at the time of maturity of the underlying transaction. The market value of the forward contract was determined in line with market standards from parameters observable on the market.

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

Investments in participations in € million	**2019**	2018
As of Jan. 1	46	58
Fair value changes recognized through profit or loss	0	77
Purchases	8	11
Sales	0	−2
Reclassifications from level 3 to level 2	0	−98
As of June 30/Dec. 31	**54**	**46**

The profits recognized through profit or loss in the previous year are contained in other net results from participations.

Derivative financial instruments (liabilities) in € million	**2019**
As of Jan. 1	0
Fair value changes recognized through other comprehensive income	54
As of June 30	**54**

18 Related party transactions

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

Friedrichshafen, July 24, 2019

ZF Friedrichshafen AG

The Board of Management

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Dr. Konstantin Sauer

Sabine Jaskula

Michael Hankel

Wilhelm Rehm

Dr. Franz Kleiner

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In cases of doubt, the German version of this Report is binding.

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