

# REPORT OF THE SUPERVISORY BOARD



**DR.-ING.  
FRANZ-JOSEF  
PAEFGEN**

## Dear Reader,

In 2019, the Supervisory Board supported the Board of Management through a challenging fiscal year. One standout event was the acquisition of WABCO, which will shortly be concluded. This is an important component in the implementation of our Group's Next Generation Mobility strategy which makes ZF, among other things, an integrated systems supplier of commercial vehicle technology. Issues that impacted our daily business were economic and political uncertainties such as trade conflicts, tariff discussions and Brexit. Such factors contributed to declining markets, making it very difficult for the ZF Group to reach its defined targets. These external influences will continue to affect ZF in the coming year.

However, 2019 also highlighted the ever-faster transformation in the automotive industry. Naturally, this will determine ZF's activities in the transition from a classic component supplier to a systems supplier. It will further accelerate our entry into new business fields such as electromobility and automated driving.

Key personnel changes in the last year were:

Mr. Matthias Scherer left the Supervisory Board on his retirement on July 31, 2019. His successor as a representative of the workforce is Mr. Mario Kläs, who took up this office on August 1, 2019. On October 1, 2019, Mr. Frank Iwer became Head of HR Germany at ZF Friedrichshafen AG. For this reason, he left his position as an employee representative and Deputy Chairman of the Supervisory Board as of September 30, 2019. On the joint recommendation of the Groups Works Council and the Board of Management, the registration court of Ulm appointed Mr. Roman Zitzelsberger as his successor. The Supervisory Board then elected him as Deputy Chairman with effect from November 28, 2019.

The Supervisory Board wishes to thank the former members for their constructive involvement in the company's further development. Special thanks go to the former Deputy Chairman of the Supervisory Board Frank Iwer for his many years of excellent work on the Supervisory Board and for his support of the Chairman.

With effect from January 1, 2019, Ms. Sabine Jaskula joined the company in the position of Member of the Board of Management for Human Resources and Legal Affairs and as Director of Labor Relations of ZF Friedrichshafen AG. This position was vacant for a time, and in the interim period Mr. Wolf-Henning Scheider additionally took on these corporate functions as well as the position of Director of Labor Relations. Dr. Franz Kleiner retired on December 31, 2019, leaving his post as a member of the Board of Management. Dr. Martin Fischer was appointed his successor as a member of the Board of Management as from November 1, 2019.

The Supervisory Board wishes to thank Dr. Kleiner for his many years of excellent work for the company and especially for his successful efforts in the integration of TRW.

As required by the law and our articles of association, the Supervisory Board continually and extensively monitored the work of the Board of Management. It assisted the Board of Management in the execution of its central managerial tasks, the strategic further development of the company and other important matters. Outside of the board meetings, the Chairman of the Supervisory Board also received regular reports from the Chief Executive Officer about current and important developments in the company.

At the end of 2019, as in previous years, the Supervisory Board carried out a self-evaluation with the intention of further improving cooperation and efficiency in its own activities.

During 2019, the Supervisory Board met for four regular meetings during which the Board of Management reported on the company's situation and all essential current and strategically important issues. The Supervisory Board also held two extraordinary meetings and passed two resolutions by way of circular resolution.

The subject of the extraordinary Supervisory Board meetings in March 2019 was the acquisition of WABCO. The two circular resolutions supported decisions on HR matters. In its December meeting, the Supervisory Board resolved new rules of procedure for the Audit Committee.

In various meetings, the Supervisory Board discussed the challenges posed by and the progress achieved in implementing the strategy devised by the Board of Management in depth. It also thoroughly examined the measures for dealing with the consequences of market decline, transformation in the automotive industry and uncertainties due to changed political conditions. One example of causes for concern is increasing protectionism by individual countries, such as the introduction and expansion of strict market access barriers in the form of protective tariffs. Another is Brexit. Despite the decline in business performance compared to the prior year, the company will continue to invest in future-oriented technology. The Supervisory Board also noted positive achievements. ZF attracted large orders in traditional segments such as driveline technology, e.g. with a further developed 8-speed automatic transmission, but also in new areas such as electromobility. Here, ZF launched a purely electric drive for an electric car manufactured by an OEM. There was also a focus on further development of the Autonomous Driving Business Unit. In its October meeting, the Supervisory Board heard an in-depth presentation on this topic. At its last regular meeting of 2019, the Supervisory Board approved the company's operational planning.

As part of the Group-wide risk management system, the Board of Management reported quarterly to the Supervisory Board and the Audit Committee on the main opportunities and risks identified. No individual risks that threaten the existence of the company or its results of operations, net assets and financial position were discovered. Furthermore, the Board of Management presented the Compliance Report.

The Supervisory Board will continually seek information about progress in implementing the measures for continued business success even in today's difficult environment. It will advise and support the Board of Management in this respect.

At its meetings, the Executive Committee addressed, in particular, the strategic focus of the ZF Group, personnel issues of the Board of Management and Division Management and succession planning.

During the meeting on April 1, 2019, the appointed auditor reported to the Audit Committee in detail on the results of the annual financial statements and the consolidated financial statements, and discussed these as well as ZF's challenges in Finance with the Board of Management. In two other meetings, the committee tackled, among other subjects, the further development of the internal monitoring system and the Compliance Organization, risk management, the Corporate Audit report and the amendment of the internal rules of procedure of the Audit Committee. The chairpersons of both committees, Dr. Franz-Josef Paefgen and Mr. Axel Strotbek, reported on the essential issues and activities in their committees at the subsequent Supervisory Board meetings.

The annual financial statements of ZF Friedrichshafen AG compiled by the Board of Management in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements compiled in accordance with Sec. 315e HGB on the basis of the International Financial Reporting Standards (IFRS), dated December 31, 2019, as well as the corresponding management reports, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The company issued its unqualified audit opinion in each case.

The Supervisory Board extensively studied the documentation. All members of the Supervisory Board had access to the audit reports to do this. In addition, the appointed auditor explained the main audit results first to the Audit Committee and then to the Supervisory Board during the board meeting on March 25, 2020. In both cases, the results were discussed in detail in the presence of the auditor. The Supervisory Board raised no objections, accepted the financial statement audit results and adopted the annual financial statements of

ZF Friedrichshafen AG as well as the consolidated financial statements. The Supervisory Board advised the shareholders to approve the annual financial statements, adopt the consolidated financial statements and accept the recommendation of the Board of Management for the appropriation of the net profit.

For the fiscal year 2019, the Board of Management drew up a report on the relations to affiliated companies (dependence report) according to Sec. 312 German Stock Corporation Act (AktG). The Supervisory Board audited this report; no objections were raised. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the report and issued the following audit opinion:

"Based on our dutiful audit and assessment, we confirm that

1. the actual statements of the report are correct;
2. the contribution by the company with regard to the legal transactions presented in the report was not unreasonably high."

The Supervisory Board agrees to the audit result of the appointed auditor. According to the concluding audit result by the Supervisory Board, no objections are to be raised with regard to the Board of Management's closing statement contained in the report.

Despite facing difficult obstacles at times, the Board of Management, the management, the employee representatives and the entire workforce of the ZF Group once again did an outstanding job in 2019. The Supervisory Board would like to take this opportunity to express its appreciation and thank everyone for the work they have done, their high level of commitment to the company as well as their good and constructive teamwork.

Friedrichshafen, March 2020



On behalf of the Supervisory Board  
**DR.-ING. FRANZ-JOSEF PAEFGEN**  
Chairman of the Supervisory Board