

SUSTAINABILITY REPORT 2013



REPORT INFORMATION

2

This is the second edition of the sustainability report published by ZF Friedrichshafen AG. It is based upon the fiscal year of 2013 and addresses customers, employees, suppliers, politicians, authorities, as well as all other target groups that are interested in our company and wish to know upon which values and principles we operate. The report is intended to offer transparency and is a continuation of our report last year, with a particular focus on our concrete services.

To simplify matters, we use the term employees throughout the report. We are of course referring here to both our female and male employees.

During the evaluation and the compilation of the contents for this report, we again used the principles of the Global Reporting Initiative (GRI) as a framework. The third generation (G3) of the GRI guidelines was valid at the time when the report was created. These guidelines require statements to be made with regard to strategy, organization, and values as well as with regard to central performance indicators in the fields of economy, ecology, and society. In the next report on the fiscal year 2014, we plan to apply the new G4 guidelines of the GRI.

The GRI has confirmed that the submitted report fulfills the requirements of the application level A. At the same time, the report represents our progress report to the United Nations Global Compact that we joined in May 2012.

CONTENTS

4	Strategy and Analysis
5	Company Profile
9	Report Facts
10	Corporate Governance and Commitment
16	Economic Performance Indicators
21	Ecological Performance Indicators
34	Social Performance Indicators
	Work Practices and Humane
	Employment
	Human Rights
	Society
	Product Responsibility
53	GRI Index and Communication on Progress to UN Global Compact
57	GRI Statement
58	Imprint

Strategy and Analysis

1.1 Statement from the highest decision-makers

ZF is synonymous with “Motion and Mobility” both today and in the future. As a worldwide leading technology company, we have committed to the task of responding to global megatrends. Population growth, a shortage of resources, climate change, demographic changes - factors such as these can jeopardize economic development if they are not recognized and managed in time. Our products are designed to turn risk into opportunity for our customers as well as for us. We support our customers by developing ever-better and more efficient products while contributing to conserving energy and reducing emissions. We are an industry supplier, focusing our product development on improvements to energy efficiency, cost-effectiveness, dynamics, safety, and comfort.

ZF wishes to establish added value – for customers as well as for employees, the environment, and society. For our company, whose dividends support two nonprofit foundations, sustainability means reconciling growth with its environment. This not only involves complying with laws and regulations but also implementing ethically sound business practices with a clear commitment to value-based management and consistent social responsibility principles.

By signing the United Nations Global Compact, we have committed ourselves to promote and internationally endorse the principles that we live by. In our area of responsibility and control, we affirm the ten principles of the Global Compact that are based on the recognized UN standards to respect the protection of human rights, industrial relations, and the environment, as well as the fight against corruption. We report annually on our progress in a sustainability report, which has been published for the second time and is in compliance with the guidelines of the Global Reporting Initiative (GRI).

Dr. Stefan Sommer,
Chief Executive Officer of ZF Friedrichshafen AG

1.2 Most important sustainability effects, opportunities, and risks

Population growth and urbanization, demographic change and cultural diversity, as well as the protection of the environment, climate, and resources – these global developments as well as our own rapidly advancing globalization symbolize both risks and opportunity for ZF. The risks range from the scarcity of raw materials and regulatory provisions regarding climate protection through to a potential lack of qualified junior staff. Opportunities are primarily presenting themselves in the field of efficient and low-emission products, new concepts in human resources development, and resource conservation in production.

One of the central sustainability effects of the company is the involvement in the co-determination of mobility. We are conscious of the fact that our products consume resources – both during manufacture and with application. The challenge lies in uniting the economic benefits of our products with the highest levels of environmental protection and intergenerational equity standards. ZF is committed to the responsible use of resources – for customers and market partners as well as for its own company. And that is why ZF is now focusing on making the conventional driveline more efficient. ZF supports this approach with its commitment to electromobility, lightweight construction technology, and renewable energy generation using wind power.

Fuel savings and the reduction of emissions are the major megatrends currently dominating the automotive industry. Politics and society, markets and technologies are being increasingly shaped by these factors. At the same time, the globalization of our markets is forcing a consolidation of the customer landscape and tougher competition. With respect to these general conditions, our “ZF 2025” strategy dictates the focus of the ZF Group for the coming years. In the context of a balanced global market penetration, we want to intensify the expansion of our sales and sourcing markets not only in our core European market, but also in the regions of Asia-Pacific, North America, and South America. Furthermore, striving for leadership in both technology and costs will play a key role in determining ZF’s market success in the

future. We want to significantly strengthen fields of competence such as electronics, its integration into ZF products and systems, as well as lightweight design. Another objective is to make ZF a more attractive, global employer brand.

Company Profile

2.1 Company name

ZF Friedrichshafen AG (in the following referred to as ZF)

2.2 Important brands, products, and services

The company was incepted in 1915 to produce gears and transmissions for aircraft, motor vehicles, and motorboats. Today, ZF is a global leader in driveline and chassis technology. Sales in 2013 amounted to EUR 16.8 billion. The company employs 72 643 people worldwide and has 122 production companies in 26 countries. ZF has eight main development locations in Europe, North America, and Asia. This global list is rounded off by the international service network that offers ZF customers an extensive range of services worldwide. It consists of 33 own service companies and more than 650 service partners.

ZF is primarily active in the automotive industry, for passenger car and commercial vehicle manufacturers. In 2013, 68 percent of sales were in the field of passenger cars and light commercial vehicles below six tons, 20 percent in the field of commercial vehicles over six tons, and 12 percent in the field of construction and agricultural machinery, marine, aviation, special vehicles, and rail vehicles, as well as wind power. ZF achieved a 62 percent share of its sales with driveline technology products, while the sales share of chassis technology products amounted to 38 percent.

The most important product brands in the ZF aftersales segment include:

- SACHS: clutches and dampers for passenger cars and commercial vehicles
- LEMFÖRDER: steering systems, chassis, rubber-to-metal components, drive and brake components for passenger cars and commercial vehicles
- BOGE: shock absorbers for passenger cars, steering gears, and steering pumps
- ZF Parts: transmission and axle parts
- ZF Lenksysteme: steering gears and steering pumps

For other companies and product groups, see Point 2.3.

2.3 Business units and corporate structure

The merging of the major German ZF companies in order to create ZF Friedrichshafen AG took place on August 01, 2011. Four divisions that manage the operational activities as well as the corporate functions for functional management all operate under this roof. Furthermore, the foreign companies are operationally assigned to the divisions. The four divisions are:

- Car Powertrain Technology
- Car Chassis Technology
- Commercial Vehicle Technology
- Industrial Technology

The operational business of ZF Services continues to be an independent business unit, organized in a comparable manner to a division and is represented on the Board of Management level by the Board member responsible for the Market segment. The Electronic Systems business unit also exists. The Die Casting Technology business unit was integrated into the Car Powertrain Technology division in the year under review.

Further companies belonging to the Group can be found in the 2013 Annual Report on pages 139 - 143.

Locations

The ZF Group has 122 production companies in 26 countries worldwide within the regions of Europe, North and South America, Asia-Pacific, as well as eight main development locations in Friedrichshafen, Dielingen, Passau, Schweinfurt, Schwäbisch Gmünd (all Germany), Northville/Michigan (USA), Pilsen (Czech Republic), and Shanghai (China). In addition, the Group also has 33 own service companies as well as 650 service partners worldwide.

2.4 Company headquarters

Friedrichshafen (Germany)

2.5 Countries with business activities

The focus of the international business activities of the ZF Group can traditionally be found in Western Europe, primarily in the domestic market of Germany. Here, the company has further large-scale locations in Schweinfurt, Saarbrücken, Passau, and in the Dümmer Region in addition to the Corporate Headquarters in Friedrichshafen. These locations accommodate both production and development capacities. In addition to that, there are further production companies throughout Germany as well as in Austria, Great Britain, Belgium, France, Italy, Spain, Hungary, Slovakia, the Czech Republic, Turkey, Russia, and the Netherlands. In 2013, the share of Group sales from the Region of Europe amounted to 59 percent; 51 792 people were employed in this area.

With 16 production companies in the USA and Mexico, the ZF Group generated sales amounting to EUR 3.1 billion in North America, which is a Group sales share of 18 percent. At the end of 2013, ZF employed 7 237 people at its North American locations.

In South America, the Group has six locations throughout Argentina, Brazil, and Columbia. In 2013, sales amounted to EUR 704 million. The workforce comprises 4 791 employees.

As in the previous year, the Asia-Pacific region recorded the largest percentage growth with an increase of 15 percent to EUR 2 998 million. ZF has 37 locations in China, India, Japan, South Korea, Australia, Malaysia, Philippines, Singapore, Taiwan, Thailand, and United Arab Emirates. In addition, there are also development centers located in Shanghai (China) and Tokyo (Japan). The region is becoming increasingly more important for ZF. The share of the region in Group sales amounted to 18 percent. The number of employees amounted to 7 540. Within this region, the Chinese market experienced the greatest growth momentum, especially in the automobile sector. The ZF Group invested in new production locations for passenger car axle systems in Beijing (China) and the expansion for passenger car axle assembly in Shenyang (China).

ZF operates six production companies in Africa and, with 1 283 employees, generated sales of EUR 213 million.

ZF also invests in global market development. Particular focus of investment included:

At the Saarbrücken (Germany) location, investments were made in product projects for the 8-speed automatic transmissions in order to increase capacity to 2.2 million units per year. For this purpose, respective investments in the torque converter production in Schweinfurt (Germany) and for die casting technology in Nuremberg (Germany) were also required. The implementation of further capacity increases has started.

Large-scale investments were once again required at the new location in Gray Court, South Carolina (USA), for the ramp-up of the 8-speed and 9-speed automatic transmissions in the second half of 2013. Since 2011, approx. EUR 350 million has been invested in the establishment of this new production location. Expansions of capacities of a similar magnitude are scheduled. The investments for the torque converters required in Gray Court, South Carolina (USA), were made in Saltillo (Mexico).

In the Car Chassis Technology division, major investments were made for axle systems in the new plants in Beijing (China) and Kulim (Malaysia). In addition, expansions in Shenyang (China), and for damping modules in Guadalajara (Mexico) and Shanghai (China) were also completed.

In the Commercial Vehicle Technology division, emphasis was put on the expansion of the location for heavy commercial vehicle transmissions at ZF Kama in Naberezhnye Chelny (Russia).

In the Electronic Systems business unit, focus was placed upon volume production preparations for new products, especially electronic control units for applications in passenger cars, commercial vehicles, and off-road machinery. This also includes the electronic control units for the 8 and 9-speed automatic transmissions in Juárez (Mexico) for delivery to Gray Court, South Carolina (USA).

2.6 Ownership structure and legal form

ZF Friedrichshafen AG is a non-listed corporation in accordance with German law. The shareholders of ZF are the Zeppelin Foundation that is administered by the City of Friedrichshafen and holds 93.8 percent of company shares and the Dr. Jürgen and Irmgard Ulderup Foundation, Lemförde (Germany) that holds 6.2 percent of company shares. Employee stocks are not issued.

Each year, ZF gives the Zeppelin Foundation a dividend; the resources are exclusively used for non-profit and social purposes, especially in the fields of science and research, art and culture, as well as child and youth welfare. The Dr. Jürgen and Irmgard Ulderup Foundation in Lemförde supports the education and vocational training of young people as well as nature and landscape conservation. Jürgen Ulderup was the founder of the Lemförder Group, a company that remains part of the ZF Group today.

The City of Friedrichshafen – Zeppelin Foundation

<https://www.friedrichshafen.de/unsere-stadt/zeppelin/zeppelin-stiftung>

Dr. Jürgen and Irmgard Ulderup Foundation

<http://www.ulderupstiftung.de/>

2.7 Markets served

See Point 2.5

2.8 Size of the reporting organization

In 2013, ZF generated sales of EUR 16.8 billion (2012: EUR 15.5 billion) with its portfolio of several thousands of products in approximately 80 different product groups. The number of workers employed in the company at the end of the year was 72 643 (2012*: 68 406).

Further figures can be found in the 2013 Annual Report (pages 52 f., 56, 59).

2.9 Significant changes during the reporting period

See Point 2.3

* As of 2012 excluding ZF Lenksysteme GmbH

2.10 Awards during the reporting period

- GM presents ZF's Dingley location in Melbourne (Australia) with the "Quality Excellence Award". GM acknowledges those suppliers with this award, who have convinced them with ultimate quality during the past twelve months.
- ZF repeats its top slot gained over the past few years in the "Auto Bild", "auto motor und sport", and "Auto Zeitung" readers' polls. Readers of these widely published German automobile trade journals voted ZF as by far the best transmission brand for passenger cars. With a considerable lead over the competition in some areas, ZF again defended its top slot in the "Transmission" category in 2013.
- ZF again ranks among the top ten in German patent statistics. In 2012, ZF filed exactly 740 patents. This is an increase of roughly ten percent compared to 2011 – and once more a position in the top ten of the annual statistics of the German Patent and Trade Mark Office (GPTO).
- Automotive INNOVATIONS Award 2013: At the eighth Automotive INNOVATIONS Award event, ZF received the award in the "Chassis" category. The focus of this award is placed on innovations which provide a tangible additional benefit for customers and which are different from previous innovations.
- A double success for ZF at the readers' choice "the best commercial vehicles and brands": In the ETM publishing house readers' choice, ZF enjoyed a double success. Taking first place for the ninth consecutive year, the technology company was awarded first place in the "Commercial Vehicle Transmission" product group. The ZF-Intarder was also placed first in the "Retarder" category.
- ZF wins the European Transport Award for Sustainability 2014 with the TraXon transmission. With TraXon, the modular transmission system for heavy trucks, ZF scooped the European Transport Award for Sustainability 2014 in the Commercial Vehicle Components category. An expert jury awarded the product innovation top marks in the assessment criteria "Economy", "Environment", and "Social Responsibility".
- "Agricultural Machinery of the Year" 2014 with ZF technology: As part of the Agritechnica, the world's largest trade fair for agricultural technology, the Deutsche Landwirtschaftsverlag [German agricultural publishing house] acknowledged the best machinery of 2014. Four of the six award-winning tractors are fitted with ZF technology. One of them also won the "Innovation of the Year" title.

Report Facts

3.1 Reporting period

Fiscal year 2013 (corresponds to calendar year 2013)

3.2 Publication of the last report

May 2013

3.3 Report cycle

The sustainability report is published annually.

3.4 Contacts for questions regarding the report

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3.5 Procedure for determining report content

In determining the report content, ZF followed the guidelines of the Global Reporting Initiative as well as the interviews with important stakeholders that took place in the run-up to the 2012 report. Above all, the ZF customer questionnaires also provided important information.

Usually, it is primarily the large car manufacturers that ask for comprehensive details regarding social and ecological issues within the context of their supplier management of ZF. For the next reporting cycle, ZF plans to conduct a systematic materiality analysis as part of the transition of the reporting to GRI G4.

3.6 Report restrictions

The statements contained in this ZF Group report refer to

- all corporate functions in the Group,
- all divisions,
- and the independent business units of Electronic Systems and ZF Services

3.7 Restrictions of the scope or limits of the report

None

3.8 Foundation for reporting on subsidiary companies and joint ventures

See Point 3.6

3.9 Collection methods and the foundations of data acquisition

Data regarding operational environmental protection has been globally collected in a systematic manner within the context of the environmental management since 2000. Since 2013, employee data has been collected from ZF locations and saved on a global scale. Furthermore, ZF uses existing structures from areas such as Controlling, Occupational Safety and Health, and Materials Management to collect data.

3.10 Changes compared to earlier reports with regard to new representations and interpretations

None

3.11 Changes compared to earlier reports with regard to topics, scope, measurement methods

Previously, ZF Lenksysteme GmbH - a joint venture with Robert Bosch GmbH - with its subsidiaries followed proportionate consolidation and were included in the consolidated financial statements of ZF Friedrichshafen AG. Since January 1, 2013, ZF has recognized the subgroup at equity which has significantly changed the presentation of the results of operations, net assets, and financial position of the consolidated ZF Group. The profit share of ZF Lenksysteme GmbH is now included in the net financial result. As the method change was implemented retrospectively, the comparative values are based upon adjusted prior-year figures.

The information regarding environmental protection, occupational safety and health, compliance, and materials management did not include ZF Lenksysteme GmbH in the last report.

3.12 GRI index

See page 53 ff

3.13 External verification of the report statements

None

Corporate Governance and Commitment

4.1 Management structure

ZF Friedrichshafen AG is a non-listed corporation with two foundations as shareholders. The corporation is subject to the provisions of the German Stock Corporation Act that stipulates a dual management system comprising the Board of Management and Supervisory Board. ZF Friedrichshafen AG is led by the Board of Management, which manages the company, and by the Supervisory Board, which monitors the Board of Management. A new Board of Management concept was introduced at the beginning of 2013 with the primary objective of giving the Board of Management's work a more strategic focus and intensifying networking and cooperation within the Group. In addition to the reduction of the Board of Management from eight members to six, the previous separation of responsibilities for divisions and corporate functions was abolished. The operational topics of the divisions and business units are mainly processed in the divisions. The supervision of the Board of Management by the Supervisory Board, whose 20 members are appointed with equal representation, is supported by an Executive Committee and an Audit Committee which are both composed of members of the Supervisory Board.

ZF is structured along the lines of a matrix organization which links the Group-wide competencies of the corporate functions with the global business responsibility of the divisions and business units. The central departments of the ZF Group are headed by the six members of the Board of Management. The four divisions for business in Car Powertrain Technology, Car Chassis Technology, Commercial Vehicle Technology, and Industrial Technology are assigned to the members of the Board of Management. The divisions include the business units relevant to the respective industry. The Electronic Systems and ZF Services business units are an exception. They are assigned directly to members of the Board of Management. The same applies to the responsibilities with regard to the North America, South America, and Asia-Pacific regions.

In 2007, ZF issued its own Corporate Governance Code that is closely aligned to the provisions of the German Corporate Governance Code (German abbreviation: DCGK) that takes the specific features of ZF as a non-listed foundation company closer into account. Further developments of the DCGK are constantly checked with regard to their transferability to the ZF Corporate Governance Code.

The highest controlling body and its committees are nominated and voted based on the ZF Corporate Governance Code. In addition, the Executive Committee also ensures a proper discussion of personnel matters and strategic issues. In addition, the Audit Committee ensures the proper discussion of the Annual Financial Statements as well as the topics of compliance, revision, and planning. Two of the ten members of the Supervisory Board are currently women. Three of the members representing the employer as well as one of the members representing the employee are of international origin.

Five years is the maximum term of office for the members of the Supervisory Board in order to ensure the independency of the controlling committee.

4.2 Independence of the Chairman of the Supervisory Board

The Chairman of the Supervisory Board is Prof. Dr. Giorgio Behr (Buchberg, Switzerland), President and owner of the BBC Group, (Villmergen, Switzerland). According to the ZF Corporate Governance Code, each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board, especially conflicts that may arise as a result of a consultancy or management function with customers, suppliers, creditors, or other business partners. The same shall apply in the event of a consultancy function with significant competitors.

Each member of the Supervisory Board is obliged to act in the best interests of the company. When making decisions, no member may pursue personal interests or profit from business opportunities to which the company is entitled. Furthermore, the member of the Supervisory Board may not disclose confidential ZF matters that they became aware of as part of their activities. This also

applies after the member has left their post. Consultancy as well as other service agreements and contracts for work and services belonging to a member of the Supervisory Board of ZF with the company require permission from the Supervisory Board. The Supervisory Board held five meetings in 2013. The average participation rate amounted to 97 percent.

For further information, refer to the 2013 Annual Report (Report of the Supervisory Board), page 6 et seq.

4.3 Highest management body in companies without a Supervisory Board

Not relevant as it is a corporation.

4.4 Procedure for dialog between shareholders and employees with the Board of Management/Supervisory Board

According to Point 4.1 of the ZF Corporate Governance Code, the Board of Management ensures that information is promptly forwarded to the shareholders. Inasmuch as these persons are represented in the Supervisory Board, the duty to supply information is fulfilled with the reports as designated under Number 1.2. in the Corporate Governance Code. In accordance with the German codetermination right, half of the 20 members of the Supervisory Board are employee representatives at ZF. The Board of Management is in regular exchange with the Group Works Council. This also applies to the European Works Council incepted in 2000.

4.5 Relationship between the Board of Management remuneration and company performance

According to the ZF Corporate Governance Code, the members of the Board of Management should be adequately remunerated for their services. The assessment is based on, in particular, the tasks and services performed, the economic situation, the long-term success, as well as the future perspectives of ZF whilst taking the peer environment into account. The remuneration of the members of the Board of Management consists of fixed and variable components. They must be appropriate on an individual basis and as a whole. The variable remuneration elements contain success components and, where

necessary, components with a long-term incentive effect, and risk elements whilst taking individual target agreements into account.

4.6 Procedures in order to avoid conflicts of interests

The Compliance Management System launched in 2008 was further optimized in the reporting year. Corporate Compliance was restructured and new substantial areas were added. Furthermore, the department was reorganized and now forms the new Corporate Governance function. As of May 1, 2013, Mr. Bernhard Günther was appointed Chief Compliance Officer. The ZF Compliance Management System mainly deals with anti-corruption matters and antitrust law and focuses on preventive as well as explanatory, and response measures. In the reporting year, the Code of Conduct to which all employees including the Board of Management have been accountable since 2009, has been revised.

It is defined within the Code of Conduct that decisions in the Group are taken exclusively on the basis of business considerations and in the interests of the company. We ensure that no impression of any non-businesslike conduct is given. We expect our employees to remain objective in all circumstances and to make sure that their judgment is not influenced by personal or family interests. All employees must immediately inform us about situations in which their personal interests collide with the interests of ZF and consult with the superiors responsible so as to ensure that appropriate actions are taken as a means to prevent or resolve the conflict of interest.

In addition, secondary employment and (equity) participations in a company that does not belong to ZF or in another organization must not impair the interests of ZF. These also require disclosure and approval in accordance with labor law regulations. The Supervisory Board monitors that these provisions are observed by the Board of Management.

The Business Partner Principles established in the year under review also oblige business partners to adhere to the transparency principle and avoid conflicts of interests. The Business Partner Principles also contain a specific reference to the ZF Trustline that was launched in

October 2013. ZF Trustline is an electronic notification system that serves to identify potential breaches of compliance. In 2013, ZF began to systematically implement a transparent structure across all memberships in organizations, unions, and trade associations and to review their relevance. The primary objective is to create a standard framework of values that is communicated and put into practice throughout the ZF Group. Direct coordination and communication between ZF employees and the increasing level of transparency also contribute to establishing a value-oriented understanding also with regards to compliance factors.

Also see Point 4.2 regarding the avoidance of conflicts of interests with the Supervisory Board.

4.7 Qualification and expertise of the executive committees in the area of sustainability

The members of the Supervisory Board are elected by the annual general meeting based upon their expertise and qualification with regard to consultancy, monitoring, and supervision of the Board of Management. The Chairman of the Supervisory Board issues the appointed auditor with the audit assignment and comes to a fee agreement with this person. He also agrees that the appointed auditor will immediately inform him of significant discoveries and incidents during the inspection. That also applies to central aspects of a forward-thinking risk management and a sustainable corporate management. During its meetings, the Board of Management regularly deals with issues of compliance, risk management, human resources development, environmental protection, and occupational safety and health and allows the Chief Compliance Officer as well as the Heads of Human Resources, Health, as well as Safety, Security & Environmental Protection to provide it with reports and advice.

4.8 Mission statement, company values, and codes of conduct

The following documents are binding for all ZF Group employees worldwide:

- “Give me 5” Corporate Principles, 2011
- Corporate Governance Code, 2007
- Code of Conduct, 2008 (revised in 2014)

- Principles of Social Responsibility, 2011
- Environmental and Energy Policy, 2012 version
- Occupational Health and Safety Policy, 2013
- Corporate Statement, 2013

4.9 Procedure for the management and control of the sustainability performance on the Board of Management level

The Board of Management of ZF Friedrichshafen AG (Group) assumes overall responsibility for sustainability; it defines the regulations and standards applicable throughout the Group. From an organizational perspective, the topic of sustainability is part of Corporate Compliance and assigned to the member of the Board of Management in charge of Corporate Governance. In the reporting period, sustainability was formally established as a department in its own right. This department is responsible for:

- coordinating topics,
- acting as a central partner both inside and outside the company,
- cooperating with internal and external Communications,
- representing the company at events and memberships focusing on sustainability such as UN Global Compact,
- regular reporting to the responsible member of the Board of Management,
- external reporting on sustainability,
- and stakeholder dialog.

The Member of the Board of Management, Corporate Governance, chairs the Sustainability Steering Committee that meets on a regular basis. The committee comprises representatives from Compliance, Communications, Human Resources, Diversity, Environmental Protection, Occupational Safety and Health, Market, Production, Materials Management, as well as Research and Development. The Steering Committee meets on a quarterly basis. It primarily defines the framework for sustainability reporting and sets out recommendations for the Board of Management.

Amongst others, the Human Resources, Diversity, Health Services, as well as Safety, Security & Environmental Protection departments are active on the Group level. These

departments are assigned to the Corporate Human Resources function. The responsible member of the Board of Management also compiles the relevant Group Directives and coordinates the system of officers in the Group. Within the four divisions and the Electronic Systems and ZF Services business units, the health, safety, and environmental requirements are fulfilled in accordance with the corporate standards with the support of officers at the locations, divisions, and regions.

The Board of Management has set up councils and committees for the cross-company coordination of relevant topics. The councils consist of representatives from the corporate functions, the regions, and the divisions. They usually meet twice a year with the participation of the responsible Board of Management members. The following bodies were set up at ZF at the end of 2013: CFO Council, HR Council, HSSE Council, Product Council, Production Council, Quality Management Council, Materials Management Council, and Market Council. In addition to the councils, there are also further committees and expert teams for individual subject areas that report to the councils.

4.10 Procedure for the evaluation of the sustainability performance by the Board of Management

See Point 4.5

4.11 Consideration of the precautionary principle

The Group-wide uniform reporting to the Board of Management and Supervisory Board of ZF with regard to the early detection and tackling of risks that threaten the existence of the company is regulated by a Group Directive. All elements of risk management are summarized in a risk management system. This system is not just aimed at fulfilling legal requirements; it should also contribute towards increasing the company's value by reducing risk potential and its probability of occurrence. All risks that exceed the threshold values with regard to scope of damage and probability of occurrence are reported by the corporate departments and decentralized reporting units. According to the directive, all divisions through to the individual companies are responsible for the implementation of a functioning risk management process (risk identification, risk assessment, risk management, report-

ing, monitoring/verification). This is performed in agreement with the respective corporate functions. Corporate Controlling is responsible for the risk management system on the Group level.

In addition, there are further instruments in the ZF Group that can be used for early detection such as monthly reports, strategic and operative planning, reports from the technical (expert) departments (Quality, Corporate Materials Management, Corporate Market, Compliance, etc.), standard audits from Corporate Auditing, and certifications according to the standards from the International Organization for Standardization (ISO). Furthermore, there is a host of information systems and instruments that are geared towards specific risk fields such as the environment, quality, financial status, market (customers, suppliers/materials management), and competitive situation. The existing corporate functions also perform principal tasks within the context of risk management.

In the run-up to construction projects, the locations are tested with regard to possible polluted areas, in the event of acquisitions, potential environmental risks of the projects are determined with the aid of an environmental due diligence.

4.12 Support of external standards, agreements, and initiatives

ZF signed the United Nations Global Compact on May 1, 2012, thus committing itself to the observation and promotion of its ten principles. Since joining, ZF has also become a member of the German Global Compact Network and participates in exchanges between the member companies.

4.13 Memberships in associations and interest groups

The ZF Group and its companies are committed to a wide range of associations and interest groups. The following list provides a representative selection.

- Employers' Association Südwestmetall
http://www.suedwestmetall.de/swm/web.nsf/id/pa_en_startseite.html

- German Aerospace Industries Association (BDLI)
<http://www.bdli.de/en>
Member of the ZF Luftfahrttechnik GmbH,
Kassel-Calden.
- German Association Materials Management, Purchasing, and Logistics e.V. (AMMPL)
<http://www.bme.de/index.php?id=12>
- Carbon Composites e.V.
<http://www.carbon-composites.eu/en>
- Compliance Netzwerk e.V.
<http://www.netzwerk-compliance.de>
- German Global Compact Network
<http://www.globalcompact.de/>
- Chamber of Industry and Commerce Hochrhein-Bodensee
<http://www.konstanz.ihk.de/en>
- Chamber of Industry and Commerce for Upper Swabia Weingarten
<http://www.weingarten.ihk.de>
- Foundation of German Business – Remembrance, Responsibility and Future (as a donor)
<http://www.stiftung-evz.de/eng/home.html>
- German Association of the Automotive Industry e.V. (VDA)
<http://www.vda.de/en/index.html>
- German Engineering Federation (VDMA)
<http://www.vdma.org/en/der-vdma>
- Association of German Engineers e.V. (VDI) – Lake Constance regional association (as a supporting member)
<http://www.vdi.eu/>
- Wissenswerkstatt Friedrichshafen e.V. (as supporting organization)
<http://www.wiwe-fn.de>
- German Federation for Motor Trades and Repairs
<https://www.kfzgewerbe.de/service/english-version.html>
- ZVEI German Association of Electrical Engineering and the Electronics Industry
<http://www.zvei.org/en/Pages/default.aspx>
Auerbach plant is member,
Electronic Systems business unit
- European Association of Automotive Suppliers (CLEPA)
<http://www.clepa.eu>

Stakeholder Dialog

4.14 List of the involved stakeholder groups

At ZF, the employees, customers and suppliers, as well as the owners of the company, authorities, trade unions, associations, media and politics, as well as the business partners, and the residents at the locations are considered to be significant stakeholders. An evermore important group is the potential junior staff, which is why schools, vocational schools, universities of applied sciences, universities, and scientific institutes can be found at the top of the list of the stakeholder groups to be involved. As a B2B company, ZF has only rarely been in direct contact with national, non-governmental organizations (NGOs) that represent ecological and social concerns. However, as is the case with local environmental initiatives that are often in direct exchange with the location managements, these NGOs equally belong to the stakeholder groups that we consider to be important.

4.15 Procedure for the identification of the stakeholders

Whoever acts in a sustainable manner should be aware of the interests of their stakeholders. In a first step, dialog was initiated with relevant stakeholders in order to identify the significance of various sustainability issues from both an external and internal perspective. An analysis of the results from an initial stakeholder survey indicated which topics must be taken into account and what needs to be done in order to retain the lasting trust of customers, employees, suppliers, and society as a whole. As part of a materiality analysis on reporting in compliance with the GRI G4 guidelines, the company also set out in 2014 to systematically integrate stakeholder interests into defining priorities for the field of sustainability.

4.16 Approach to the stakeholder dialog

ZF is involved in regular exchange with its stakeholders via memberships in associations, in the German Global Compact Network, via personal contact with residents at the locations, with the media, with customers and suppliers through direct discussions as well as through surveys concerning topics such as sustainability, with employees via the works council, internal events, and the Group media.

Types of stakeholder communication (groups and the media)

Employees	"we>move" employee magazine, Intranet, Internet, internal communication campaigns such as "Year of Energy", ZF Family Day, Social commitment/ZF hilft traveling exhibition
Potential employees	Cooperations with universities, Annual Report, Corporate Report, "Drive" company magazine, ZF website, involvement in trade fairs, social media, advertisements
Customers	Annual Report, Corporate Report, "Drive" company magazine, ZF website, brochures, advertisements, customer days, involvement in trade fairs
Suppliers and partners	Annual Report, Corporate Report, "Drive" company magazine, ZF website, involvement in trade fairs, advertisements, supplier days, brochures, key purchasing strategy
Politics, associations, interest groups	Annual Report, Corporate Report, ZF website, personal discussions
Educational institutions	Cooperations with universities, Annual Report, Corporate Report, ZF website, involvement in trade fairs, advertisements
Press and the media	Annual Report, Corporate Report, ZF website, "Drive" company magazine, press releases, press conferences
Communities	ZF Family Day, press, ZF website, advertisements, sponsoring, regional trade fairs such as the International Lake Constance Trade Fair (IBO)
Former employees	"Drive" company magazine, ZF Family Day, International Lake Constance Trade Fair, ZF website, ZF pensioner association
End customers	Annual Report, Corporate Report, involvement in trade fairs such as International Motor Show, North American International Auto Show, "Drive" company magazine, ZF website, brochures, advertisements, social media

4.17 Statement regarding the central concerns of the stakeholders

The expectations and requirements that are presented to ZF are always similar: They are based on acting in accordance with the law and regulations, developing excellent and efficient products for the customers, and demonstrating responsibility for employees, the environment and, at a progressive rate, in the supply chain. The requirements placed upon junior staff that are reflected in questions of values, future orientation, development chances, and working conditions are also particularly important to us. We also wish to address them in this report.

As part of our active membership in the environmental management committee at the VDA and in associated work groups on energy management or hazardous substances for example, we have taken part in exchanges on

current topics and developments. For example in 2013, in response to a ZF initiative, manufacturers and suppliers met to discuss targets, methods, and measures to reduce CO₂ emissions.

Economic Performance Indicators

Management approach

Independence and financial standing are the foundations for our business success. Our profitability allows us to make the necessary investments in new products, technologies, and markets. In this way, we secure the future of our company in the interests of our customers, market partners, employees, and owners.

Securing the financial independence of the ZF Group is the focal point of the ZF financial strategy. This is particularly a challenge in years of strong growth with high levels of investment and development activities as the external financing of its equity is limited due to the company structure of the ZF Group.

In terms of its economic operations, ZF aligns itself with global megatrends. In doing so, fuel and emission reduction of drives, social trends such as increasing mobility, urbanization, and demographic change, as well as an increasing regulation and general globalization of the markets are central in terms of energy efficiency and climate protection. The internationalization of the company proceeds further. Even in previous years, ZF followed the manufacturers into new markets with its locations or prepared itself ready for new customers in growth markets. While vehicle sales have been stagnating in the European market, North America, South America, China, and other newly industrialized countries in particular have developed into central and promising growth markets for the automotive sector.

At the same time, we are aware that economic growth very much depends upon the satisfaction of the customers and, therefore, upon the quality of the products as well as the general acceptance of business activities in society and in the immediate environment. Another highly significant matter is materials management which represents a basis for a trusting and reliable collaboration with our supplier base that ensures high product quality and ZF delivery reliability.

Last year saw ZF launch its “ZF 2025” strategy process. The objective is to stay competitive in the long-term. Based on megatrends and their implications for ZF, the Board of Management defined top targets to be fleshed out as part of the new strategy process in the matrix organization of the divisions, business units, and corporate functions. The aim by the end of 2014 is to develop a viable, long-term perspective underpinned with strategic initiatives and measures that establish the framework for further Group planning processes (operational and strategic planning).

Guidelines and organization

In order to control the financial independence, the existing ZF controlling system with the top key figures of operating profit, ROCE (Return on Capital Employed), and the ZF Value Added was expanded and supplemented with financial-oriented elements in 2012. The top key figure of free cash flow that was redefined in terms of its content and the gross margin in particular will be more significant in terms of control in all organizational units in the future. The introduction of further liquidity-oriented key figures in sectors such as working capital as well as the supplements in reporting complete the restructuring of the business administration control concept.

With the ZF Advanced Procurement Strategy (APS 25), Corporate Materials Management is making a contribution to achieving the economic objectives of the Group. Within the context of its objective to base the entire value chain upon excellence, it pursues three sub-goals: increasing ROCE, total quality management, and standardization. Another element of APS 25 is the integration of sustainability into the supplier management which obligates the approx. 3 500 production material suppliers to comply with our Code of Conduct and begins with a self-assessment.

Economic performance

EC1: Financial profit data

In 2013, the net profit or loss before tax as well as depreciation and amortization (EBITDA) amounted to EUR 1 703 million (2012: EUR 1 531 million). The expense for research & development, a backbone of our company, amounted to EUR 836 million in 2013 (2012: EUR 770 million). As a result, the share of the total sales amounted to 5 percent; consequently, the target figure was reached.

It was possible to tackle the financing of the growth in 2013 through a mixture of various financial resources. Alongside internal financing and the utilization of available cash, borrowings were also used for external financing.

Besides the basic corporate financings i.e. syndicated loans and bonded loans, a new KfW development loan was also assumed in 2013 from the “Environment and Energy Efficiency Program”. In terms of this new program, ZF is obliged to adhere to strict environmental and climate protection standards in compliance with the German Energy Conservation Regulations (EnEV) in the construction of its new “ZF Forum” corporate headquarters.

Further diversifying financing resources helps to promote and secure the strategic objective of safeguarding the financial independence of the ZF Group at any time. Attainment of this target is reviewed on a monthly basis (see also Points EC8 and EC9, and the 2013 Annual Report, pages 74 and 104).

EC2: Financial implications and other risks and opportunities due to climate change

ZF is directly affected by climate change due to the resulting regulations and customer requirements with respect to energy saving and CO₂ reduction. We do not get tied up in the argument about whether and to what extent man is responsible for global climate change. Simply the opportunity and existing indicators, as well as tighter international statutory regulations have prompted the Group to fulfill its responsibility and play its part in reducing fuel consumption and, in turn, CO₂ emissions.

We consider stricter conditions with regard to equipment approval and observation of emission limit values at the locations complete with the possible associated retrofitting needs to be potential risks that could arise from a tighter legislation. An extension of the reporting obligations could also lead to higher reporting effort. Finally, suitable precautionary measures must be taken to counter the increased probability of failure at the locations and in the supply chain caused by increasing extreme weather situations and natural disasters.

Our products consume resources both during manufacture and application. Within their competitive environment, ZF products are even today characterized by the fact that they contribute to an economical handling of resources. For example, our new 9-speed automatic transmission for passenger cars lowers fuel consumption by up to 16 percent in comparison to other similar 6-speed automatic transmissions, the EcoLife bus transmission saves 10 percent in comparison to an Ecomat transmission, and the new modular, automatic transmission system TraXon for heavy trucks reduces consumption by 6–9 percent (up to 12 percent in the hybrid version) in comparison to manual transmissions. All these advancements represent new sales opportunities for ZF. At the same time, a possible increase in fuel or energy taxes may result in an increase in logistics costs as well as a decrease in demand for individual mobility on the market side. We can mitigate this risk with innovations in hybrid technology, e-mobility, and lightweight design.

The opportunities and risks for our wind power sector are heavily dependent on the state regulation and funding of renewable energies.

Further information can be found in Point 1.2 and the 2013 Annual Report (page 20 f.).

EC3: Coverage of the organization’s defined benefit plan obligations

Private retirement provisions are becoming more and more important. ZF is prepared for this and already developed a series of attractive models for private employee pensions some years ago. The essential commonality among these models is the possibility to convert

gross income into retirement benefits. All employees with indefinite employment contracts in Germany receive the ZF pension as a voluntary employer contribution. The ZF pension is contribution-oriented and consists of a component financed by the company and a contribution that is made by the employees. Since 2013, our employees have been able to profit from an innovative pension scheme: by converting at least three percent of the gross pay into pension benefits, employees can receive an additional basic occupational disability allowance which is free for the employee. The ZF retirement benefits are also aimed towards our goal of becoming a more attractive global employer as part of the 2025 strategy. Further instances of social benefits include payments connected to the period of employment (anniversary bonuses, etc.).

In the consolidated statement of financial position for 2013, a total of EUR 2 729 billion provisions for pensions was accounted for. This is approximately EUR 116 million more than in the previous year. The vast majority of provisions affects employees in Germany.

Further information can be found in the 2013 Annual Report (pages 120 - 122).

EC4: Government grants

During the fiscal year of 2013, ZF received EUR 4 million (2012: EUR 25 million) in government grants for investments as well as expense subsidies amounting to EUR 17 million (2012: EUR 16 million). Investment grants were primarily received at locations in China, Germany, Hungary, North America, and Australia. Expense subsidies mainly comprise reimbursements from pre-retirement part-time work and research subsidies.

Market presence

EC5: Range of ratios of standard entry level wage compared to local minimum wage (GRI additional indicator)

ZF is a fair employer that pays attention to a remuneration of its employees that is in line with the market. This is ensured in two ways in Germany: With regard to those

employed on the collectively agreed scale, the locations regularly participate in benchmarks of the respective employers' associations. Employees are paid more than the minimum standard as per the collectively agreed scale at many locations. With regard to management, remuneration benchmarks take place at regular intervals with service providers such as the Hay Group, with whom ZF cooperates. Furthermore, market comparisons are made on a case-related basis such as when appointing staff.

In order to allow employees to be involved in the success of the company, part of their remuneration is performance related. For those employed on the collectively agreed scale in Germany, the collective agreement and company rules are used that often stipulate a performance related pay component that is based upon an individual performance evaluation. However, there are also systems in place that do not include an individual performance evaluation, especially in production. The performance components are then generally determined using key figures. Temporary and subcontract workers are employed by the company in order to cushion the impact of production peaks and in order to ensure a certain amount of flexibility. Together with the Group Works Council, a company in-house "flexi quota" has been determined by mutual agreement. At ZF, temporary and subcontract workers are paid in accordance with the standard wages that are otherwise paid.

Please also see Point EC9 with regard to minimum wages with suppliers.

EC6: Procurement from local suppliers

99 percent of global purchases for non-production materials (excl. investments) are to be made locally. For 2013, the local procurement of production materials is calculated using a key figure. The average of all divisions amounted to almost 70 percent for production materials.

EC7: Hiring of local staff

ZF traditionally recruits management staff from within the company's own ranks. This also applies to international locations. ZF has now launched the Global Opportunities and Living Abroad (GoaL) initiative in order to

Localization ratio

	in percent
South Korea	84
Germany	79
China	75
Argentina	74
Brazil	71
Italy	65
USA	65
Australia	55
Thailand	49
United Kingdom	48
Turkey	47
Hungary	41
Mexico	39
Spain	30
France	17
Austria	14
Russia	13
Malaysia	11
Slovakia	11
Czech Republic	4

work towards an improved exchange between various cultural backgrounds and characters. A principle objective of ZF is to open up international careers and integrate the management and junior staff into an international talent management at all locations.

Indirect economic impacts

EC8: Investments in local community welfare

Each year, ZF gives the Zeppelin Foundation a dividend; the resources are exclusively used for non-profit and social purposes, especially in the fields of science and research, art and culture, as well as child and youth welfare. In Friedrichshafen, the foundation runs the MOLKE youth center, the “Spielehaus”, the “Weilermühle” youth leisure center, subsidizes the youth clubs, and finances the construction and operation of 32 places in day-care centers. Foundation facilities include the Graf-Zeppelin-Haus, the school of music, the “Medienhaus am See”, the adult education center, and the “Karl-Olga-Haus”. The Zeppelin Museum and the municipal

hospital are also supported and sponsored by the Zeppelin Foundation. Sports are also promoted. Furthermore, the foundation also makes contributions to families, the elderly, and the deprived social groups, for example for holidays for families and children, fuel subsidies, or financial assistance in extreme cases.

ZF finances multiple foundation professorships in the Lake Constance region. We support colleges in Ravensburg, Weingarten, and Konstanz in order to finance scholarships in technical study courses. Furthermore, ZF supports an endowed professorship for Corporate Management at Zeppelin University in Friedrichshafen as well as one for Automotive Mechatronics (together with other companies) at the University of Stuttgart. The total amount of donations made by the ZF Group in 2013 was EUR 10.8 million (2012: EUR 8.2 million). ZF also made a donation of EUR 20 million to the Zeppelin University in 2012 for an upcoming construction project to be completed between 2012 and 2015. ZF also provides funding over a period of five years for the Endowed Chair of Passenger Car Chassis Technology and Dynamics at the Chinese-German College for Postgraduate Studies (CDHK) at the renowned Tongji University in Shanghai.

The company is also making a further contribution to the local urbanistic development and communication with the citizens of the city with the new ZF corporate headquarters in Friedrichshafen that will be ready to move into in 2015. The future ZF Forum should also provide a meeting place for customers, partners, schoolchildren, students, employees, and citizens. In addition, it will include the ZF Academy for the education and vocational training of employees and ZF Services and also be home to a “glass workshop” for children and adolescents, which is part of Wissenswerkstatt Friedrichshafen e.V., as well as a school students’ research center. ZF is also investing in local infrastructure as well as cultural, and non-profit organizations at other locations such as Passau, Schweinfurt, and Dielingen. At these locations, ZF has launched organizations such as the Wissenswerkstatt (Knowledge Workshop) in Friedrichshafen.

The ZF Art Foundation supports non-profit organizations that contribute to cultural diversity in the Lake Constance region. Artists and musicians, festivals and concert series all profit from this funding. Scholarships are awarded to visual artists from Germany, Austria, and Switzerland. In addition, every two years (last awarded in March 2014) highly-talented musicians are awarded the ZF Music Award, a public piano competition for young pianists from around the world.

At the Passau location, the local ZF Culture Foundation promotes the arts and culture. Regional and local artists as well as institutions such as the Wörlen Museum of Modern Art and the Scharfrichterhaus (executioner's house) receive support. Together, the two foundations support the renowned Passau European Festival Week. ZF also funds cultural events at the locations in Bayreuth and Auerbach. In Schweinfurt, the company regularly finances traveling exhibitions of regional, contemporary artists.

In terms of sports funding, since 1995 ZF has been the main sponsor of the successful volleyball team VfB Friedrichshafen that play their home matches in the ZF Arena. At the ZF location Eger in Hungary, the water polo team publicizes the name of the sponsor ZF nationally. ZF is also actively involved in recreational sport, supporting many teams from various disciplines in the regions.

For more information on social commitment, see also Point SO1.

**EC9: Indirect economic impacts
(GRI additional indicator)**

ZF is one of the biggest employers and customers in all regions that the company is active in. On average, ZF products contain 60 percent supplied materials and products. ZF maintains a global network consisting of approximately 3 500 suppliers, ranging from small family businesses through to large groups solely for the procurement of production materials. ZF calls upon approximately 25 000 suppliers for non-production materials.

Ongoing tax payments by regions 2013

	in EUR million
Western Europe	146.8
Eastern Europe	7.2
North America	10.4
South America	0.4
Asia-Pacific	38.4
Africa	2.5
Total	205.7

Together with its suppliers in Germany, ZF has negotiated minimum wages for subcontract workers for five different categories that are, in some cases 50 percent above the collective agreement. Furthermore, ZF is entitled to check that the employees of suppliers receive the respective minimum wages or standard wages from service providers and that legal regulations regarding the minimum wage are also fulfilled in the global environment. All suppliers are examined before a decision is made regarding collaboration.

Ecological Performance Indicators

Management approach

By implementing environmental protection measures, we fulfill our responsibility towards people and the environment, which is anchored in the ZF values. We also protect ourselves against entrepreneurial risks - in the areas of compliance, customer relations, and reputation - while improving our operating efficiency. In order to uphold our responsibility in business activities and ZF products, we are constantly working towards the global implementation of legal requirements and internal standards.

The conservation of natural resources forms the basis of our environmental strategy that is based upon the environmental policy that was adopted in 1996. It is globally binding for all locations. As part of the company's environmental policy, a company objective in the field of climate protection concerning the reduction of energy consumption and the CO₂ emissions was issued: By 2020, 20 percent less CO₂ should be generated worldwide compared to the average figure between 2006 and 2010. We are planning to meet this target by improving energy efficiency at the locations and increasing the share of renewable energy in the overall energy supply.

ZF environmental and energy policy

We respect our planet's natural source of life and are committed to resource conservation and the reduction of environmental pollution. This commitment to sustainable environmental protection is anchored in ZF's Corporate Principles and is the basis for our work. This results in the following principles. They are checked on a regular basis and are binding for all employees worldwide; our executive managers are role models for their implementation.

1. We are committed to environmentally friendly product design

We design products to be as energy and resource-efficient as possible. Our striving for technological innovations and excellent solutions also includes environmen-

tally friendly product design. We are convinced that our innovative strength in terms of environmental issues contributes to our competitiveness.

2. We reduce the environmental impact of our operating processes to a minimum

We design our processes to be as energy and resource-efficient as possible and reduce environmental pollution by our activities to a minimum. We take appropriate measures to ensure that environmental hazards are prevented and limited in the event of an incident. To this end, we use at least state-of-the-art, environmentally-friendly technologies for our investments; in particular, we actively support the worldwide climate protection efforts.

3. We continuously improve our energy and environmental performance

We implement our environmental and energy objectives worldwide with the help of appropriate management systems, we regularly review the agreed performance levels, and, if any discrepancy is detected, we take the necessary remedial action. For Corporate Development projects, we perform environmental risk assessments.

4. We strive to be a worldwide role model

We want to be a role model in the way we interact with the environment and its resources. In order to meet our claim to excellence, we not only comply with the respectively applicable legal requirements but also work on the worldwide implementation of ZF-internal standards.

5. We actively involve employees, suppliers, service providers, and customers and engage in dialog with the authorities and society

We involve our employees in the development and implementation of our environmental and energy policy. We train and motivate them regularly; our employees actively contribute to shaping our environmental protection and energy management. Our suppliers and service providers are expected to comply with the respectively applicable environmental and energy specifications; from our suppliers with processes especially relevant to the environment, we demand a certified environmental management system. When dealing with environmental

and climate protection issues, we engage in a dialog with the authorities and all parties interested on site. Furthermore, we report regularly on the outcome of our efforts.

Guidelines and organization

In 1996, ZF set up a global environmental organization which it has been expanding ever since. It covers all the levels of the company from the divisions and regions to the locations. The Corporate Environmental Protection Officer is responsible on the Group level and Senior Environmental Protection Officers are appointed on a divisional level. In individual regions, the regional coordinators support in ensuring compliance, the implementation of ZF standards, as well as the control of the environmental management system. The Environmental Protection organization works closely with Occupational Safety and Health as well as Corporate Security (Safety, Security, Environment) in order to utilize synergies.

As part of a reorganization of the Board of Management responsibilities in 2013, Corporate Environmental Protection was assigned to Corporate HR. The line of reporting basically comes to the HR Council although technical matters are also reported to the Production Council. The Environmental Manager Committee (EMC) exists beneath these councils. Here, members of the Corporate Functions and the respective officers from the divisions meet on three or four occasions each year. In addition, work groups are established for specialist areas.

Environmental management

All ZF locations are obliged to conduct active environmental management. In 2013, 93 production companies and organizational units worldwide were certified in accordance with the international ISO 14001 standard; this corresponds to 89 percent of the production locations. All production and main development locations with more than 50 employees and after being part of the Group for more than one year are obligated to align their environmental management to the requirements of the ZF Group environmental management system and to be certified within the ZF Group Certificate in accordance with ISO 14001. The Group environmental management

system covers all regions: Eastern and Western Europe, Africa, North America, South America, and Asia-Pacific and regulates important matters throughout the Group: For instance, all environmental protection officers are granted the right to submit a direct report to the location management or the sequence and cycle are defined with regard to internal audits.

The extent to which the environmental objectives are reached or the extent to which the environmental management is qualified to meet current requirements is evaluated by the Board of Management on an annual basis: A Group review is created based upon the valuation of all locations and the Group unit for environmental protection. This review is presented to the Board of Management and is used to derive the strategic environmental and sustainability objectives for the entire company.

The environmental management system was extended in Germany in 2013 to include an energy management system in accordance with ISO 50001. A total of 20 locations was added to the certification matrix. All the remaining German locations will be certified by the end of 2014. As part of the energy management system, the locations define specific targets to increase efficiency and take the necessary measures.

In order to raise staff enthusiasm for environmental protection, ZF has been presenting an internal award for outstanding work in this field since 1995. In 2013, the prize was awarded to the “Green Plant” project at the Chinese location of ZF Dongfeng Shock Absorber Shiyan Co., Ltd. The entire shock absorber production location was restructured and renovated in line with the latest environmental, cost, and health aspects. A holistic approach was taken to launch projects from the fields of energy efficiency, sewage treatment, noise reduction, use of alternative materials, workplace design, etc. Approximately 5 000 cubic meters of water and 30 percent of energy could be saved each year thanks to this remediation work. Furthermore, green areas and parks were created all over the site.

Materials

EN1: Materials used

Steel, aluminum, and rubber are the raw materials that ZF primarily procures. With up to 70 percent by weight, steel boasts the highest share. A standard ZF product, the 8HP70 8-speed automatic transmission, comprises approx. 58 percent steel and 25 percent aluminum. The rest contains lubricating oil (7 percent), silicon (3 percent), rubber and plastic (2.2 percent), and copper (1.5 percent) as well as other metals, alloys, and solvents in extremely small quantities.

EN2: Percentage of recycled input materials used

ZF frequently uses recycling materials in its production. This includes steel from scrap steel and aluminum from scrap aluminum. Recycling oils are also used in the production; recycling oil is also used as hydraulic oil.

Furthermore, ZF contributes to a high share of waste being channeled back into the material cycle via external recycling procedures. This especially includes scrap metal/metal chips, waste oil, paper and cardboard, wood and demolition waste. As a result of their material composition, ZF products make a disproportionately high contribution to meeting the recycling quotas according to the EU End-Of-Life Vehicle Directive.

Energy

EN3: Direct energy consumption

In response to the sales growth over the last five years, the amount of energy used at ZF has also increased. The direct energy consumers in Production are mainly cutting machines for metal machining complete with respective cooling lubricant supply and compressed air supply, heat treating installations, and the hall/building air conditioning machines.

Despite this increase in sales, the power consumption (indirect energy) could be slightly lowered in comparison to the previous year. In contrast, the amount of absolute as well as sales-based gas consumption increased. The reasons for this increase were, on the one hand, the long heating period last spring in Europe and North America,

and, on the other hand, the inclusion of the power-intensive foundries in Nuremberg (Germany) and Grosbliederstroff (France) in the reporting. Other energy sources include fuel oil, district heating, fuels, and process gases.

EN4: Indirect energy consumption

The indirect energy consumption refers to the electricity used in the Group (quantities and explanations can be found in EN3).

The electricity mix that exists in Germany comprises approximately one quarter lignite, approx. 23 percent nuclear power, and approx. 18 percent hard coal. In accordance with the electricity mix that exists in Brazil, 84 percent of the electricity used at the Brazilian locations originates from hydropower.

Furthermore, some locations also generate electricity from renewable sources. For instance, geothermal installations are in operation at the Friedrichshafen location (Germany) and Shanghai (China) for building heating. At the Schweinfurt location, district heating is supplied from thermal recycling which generates 40 percent less CO₂ than district heating from fuel oil. In 2012, ZF Services in Delfgauw (the Netherlands) completely switched its energy supply to 100 percent wind power.

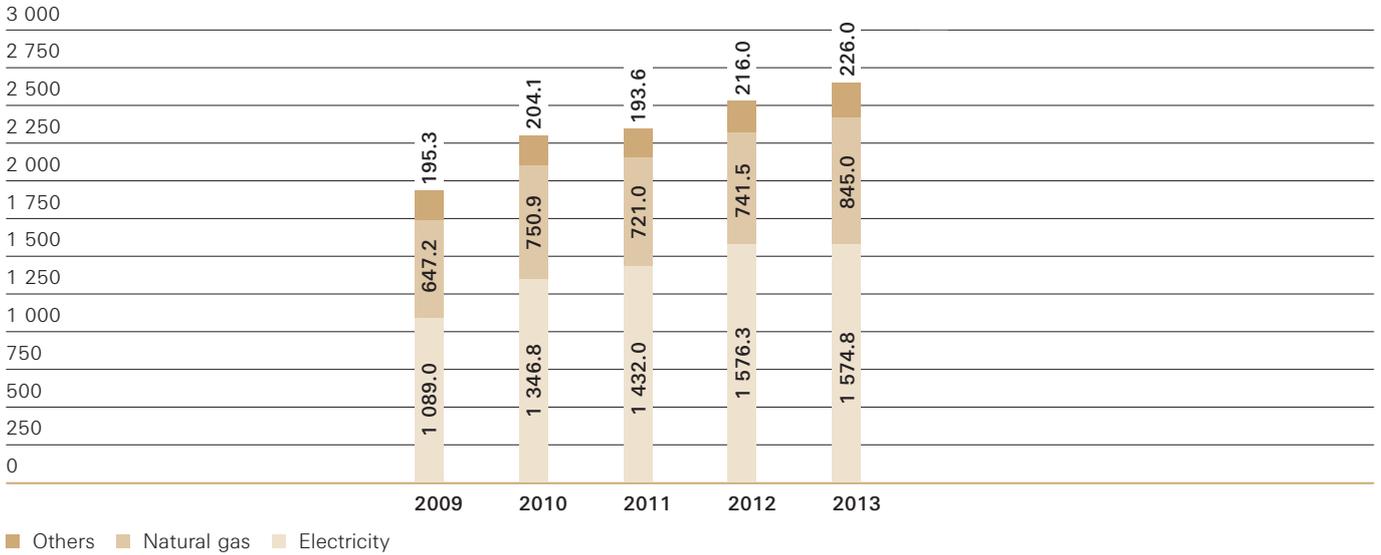
EN5: Energy saved due to conservation and efficiency improvements (GRI additional indicator)

In order to sustainably reduce the company's energy consumption, ZF is establishing a Group-wide energy management system. In 2013, an energy management system in accordance with ISO 50001 was introduced at all German locations. By implementing specific programs and measures at the locations, the system is intended to ensure that energy is used more efficiently and consumption is reduced accordingly. If the project is successful, a decision will be taken at the end of 2014 to extend the externally certified system to other locations outside Germany.

Alongside the improvement in energy efficiency, the energy supply is also being optimized: A combined heat and power plant (CHP) was placed into operation in Friedrichshafen (Germany), which supplies parts of Plant 1

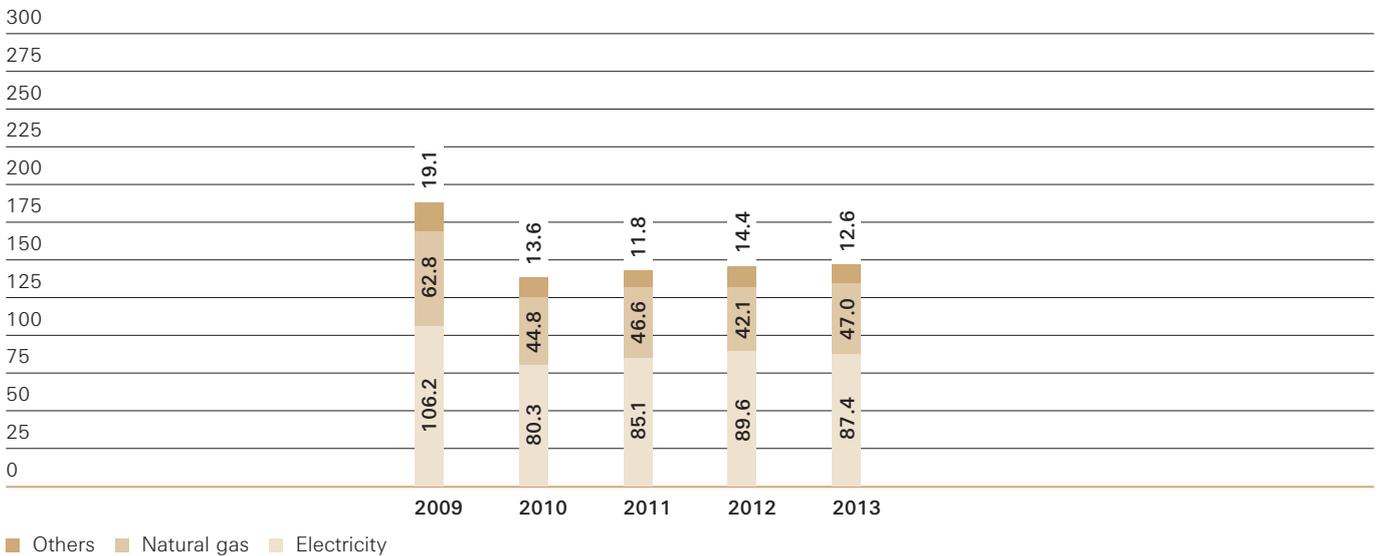
Absolute energy consumption 2009 - 2013

in gigawatt hours



Specific energy consumption 2009 - 2013

in megawatt hours per EUR million of sales

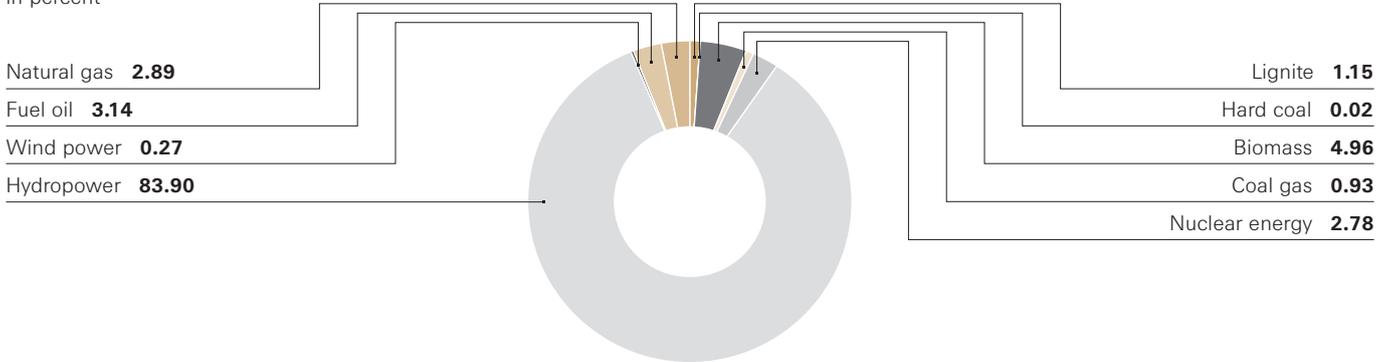


and will supply the new Corporate Headquarters currently under construction. From its commissioning in September until the end of 2013, the CHP generated approx. 4 300 MWh of heat and 4 000 of MWh electricity. This caused CO₂ emissions to drop by 1 300 tons. Plans for another CHP in Plant 2 are in progress which is expected to go into operation in 2015.

The energy management system of the ZF Group was successfully certified in accordance with DIN 50001 in 2013. The potential to increase energy efficiency identified as part of this certification process was developed in detail and implementation measures were taken. In the ZF Group, various energy managers were also appointed and work groups were established to discuss relevant

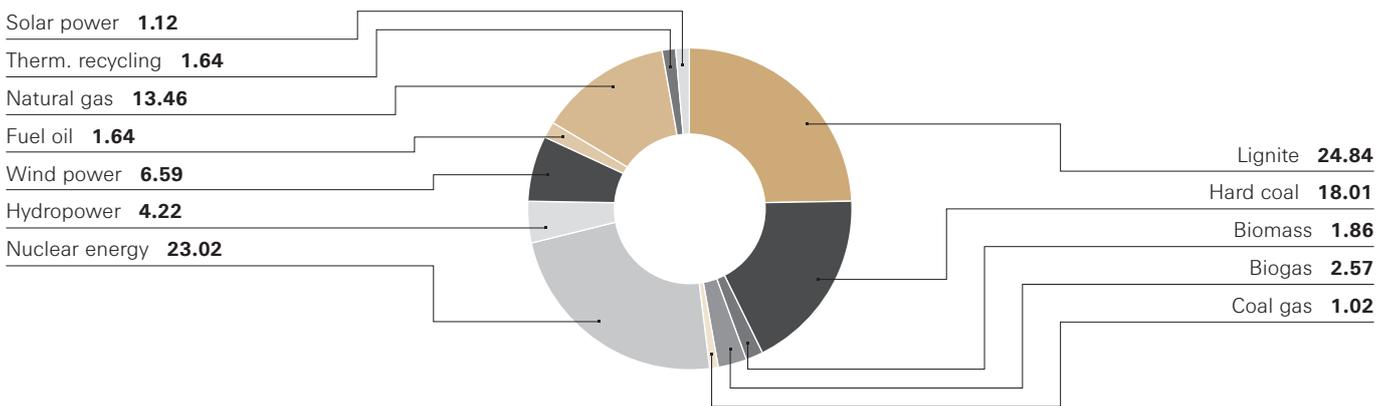
Electricity mix in Brazil

in percent



Electricity mix in Germany

in percent



topics and implement and trace the measures taken. Energy procurement is also a responsibility of these work groups to discuss and examine energy-related topics from all angles.

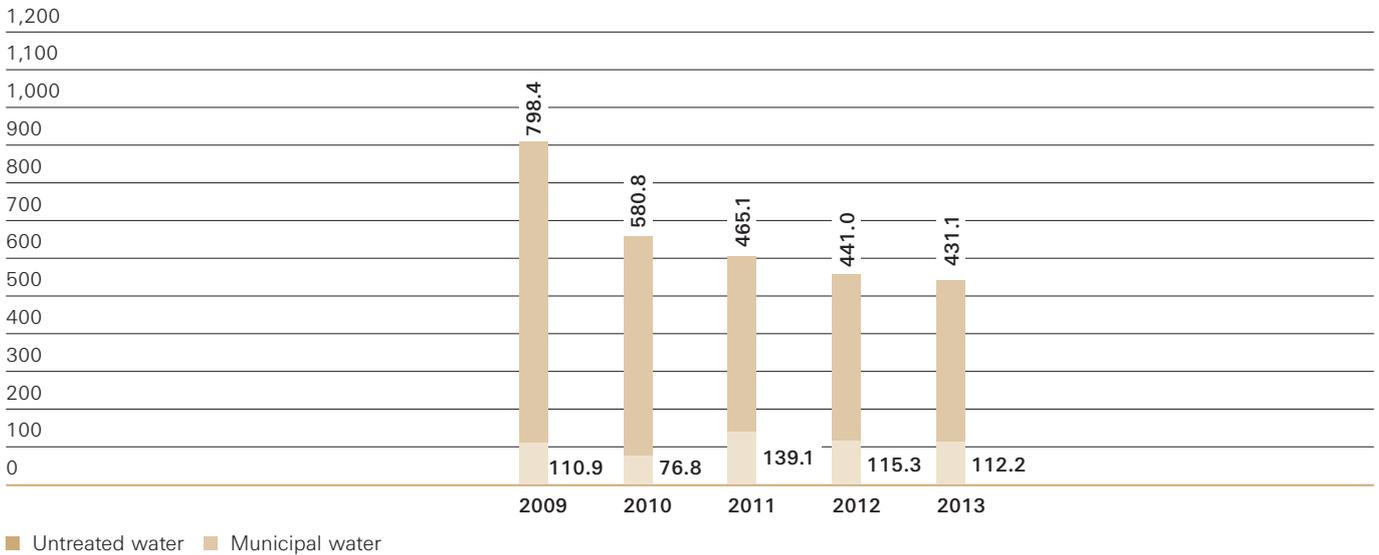
Energy efficiency is a key factor governing procurement process decisions. When commissioning new machinery and systems, a great deal of importance is attached to the optimum use of energy, such as the use of the best available technology in terms of energy consumption, the use of residual process heat, and energy-optimized operation.

EN6: Initiatives to provide energy-efficient or renewable energy based products and services (GRI additional indicator)

ZF develops both fuel-saving conventional drives as well as innovative hybrid and electric solutions. Energy efficiency is a significant criterion of the ZF 9005 standard for environmentally-friendly product design. By designing a more lightweight construction, a better energy efficiency can be achieved. If an increase in a vehicle's energy efficiency results in a reduction in consumption of 0.5 liters per 100 kilometers, the CO₂ emissions of a passenger car will be reduced by approximately three tons over a service life of 250 000 traveled kilometers.

Specific water consumption 2009-2013

in cubic meters per EUR million of sales



Developing products that can make vehicles more energy efficient allow ZF to admirably fulfill its product responsibility requirements. For example, the hybrid technology and electrification in the driveline – cf. PR1.

For other example, see also EN26.

EN7: Initiatives to reduce indirect energy consumption (GRI additional indicator)

Data has not been compiled on this indicator, particularly with regard to the future use of GRI G4 guidelines by ZF which no longer include this indicator.

Water

EN8: Total water withdrawal by sources

Water is used at the ZF locations for production purposes, for example for surface treatment processes such as washing, rinsing, or cleaning, as a coolant or for non-production purposes such as sanitary water, drinking water, in plant restaurants, or during building projects. This trend towards saving water continued in 2013.

The launch of the new reporting software now enables us to record the withdrawal of ground and surface water in an itemized report. Only very few locations use pri-

marily surface water for cooling purposes. A total of 17 locations in Europe, South America, and Asia have their own groundwater withdrawal sources.

EN9: Water sources significantly affected by withdrawal of water (GRI additional indicator)

The water supply at the ZF locations usually comes from the public network (municipal water supply). In cases where this is not possible due to infrastructural reasons, some of the required water is taken from rivers or underground water (untreated water). In India for example, five of our relatively small locations are located in “water-stressed areas” and due to the lack of local infrastructure, work with well water.

ZF attaches significant importance to minimizing the impact of water consumption, particularly in areas with a precarious water situation. At its El Salto (Mexico) location, ZF launched a project that sustainably reduces the withdrawal of groundwater: A cascade cleaning system in the paint shop helped to reduce water consumption by a total of 20 percent. This has significantly reduced the volume of water taken from the local well and supplies enough water for production. Wastewater treatment is also required less thanks to the reduction in wastewater generated.

The launch of the new reporting software in 2013 has enabled ZF for the first time to systematically record the volumes of groundwater and surface water extracted. In 2013, a total of seven locations used surface water including the Schweinfurt location that uses water from the Main river as coolant. 17 locations from Europe and South America extracted groundwater for their production requirements.

EN10: Percentage volume of water recycled and reused (GRI additional indicator)

Reductions in water consumption are primarily achieved by re-using treated coolants or process water, using rain water, or by means of optimized sanitary equipment. At the São Bernardo location (Brazil), the treatment of process wastewater and the reuse of it in phosphating saves 61 000 cubic meters per year. Optimized cooling circuits at the Passau location (Germany) led to savings of tens of thousands of cubic meters each year.

For the first time the volume of re-used water could be calculated thanks to the introduction of the new reporting software ERIS+. The majority of recycled water is used at a Brazilian location where coolant from the ventilation system is re-used and the consumption of fresh water could therefore be reduced.

Biodiversity

EN11: Land use in protected areas

As a basic principle, ZF pays attention to not selecting locations that are close to protected areas. Since 2013, an additional criterion in the location's profile has been its proximity to protected areas. Currently some locations can be found either in or adjacent to preserved areas. The four ZF locations of Auerbach, Saarbrücken, Lebring, and Eger are based inside water protection areas. The location in Sorocaba (Brazil) is located in a protected area for surface water. The location in Passau (Germany) is based in a terrestrial protected area (Flora-Fauna-Habitat Directive, FFH). At these locations in particular, ZF is committed to precautionary environmental protection and satisfies all legal regulations in these areas.

EN12: Impacts of activities, products, and services on biodiversity in protected areas

Impacts are currently being identified on a local level using an environmental risk assessment within the context of the environmental management system. The prevention concept, implemented at locations that are based in or close to protected areas, ensures that the stricter requirements in terms of system certificates, emission protection, as well as the handling of substances hazardous to water are observed. When the Danube flooded in June 2013, the location in Passau managed to close its installed safety barrier in the sewage system early enough and prevent the leakage of hazardous substances.

EN13: Protected or restored habitats (GRI additional indicator) and EN14: Strategies, current actions, and future plans for managing impacts on biodiversity (GRI additional indicator)

In 1997, the association for the protection of habitat and owls (Arbeitsgemeinschaft Biotop- und Eulenschutz Stenweder Berg e.V.) was founded that is given significant financial support by us as the main sponsor. The objective of the association is to maintain the flora and fauna in the region.

In 1999, ZF initiated the association "Naturraum Dümmerriederung" (Lake Dümmer plains natural area) in Germany and, with this, has been making a decisive contribution to safeguarding the landscape of these wetlands in the long run. We cooperate very closely with the nature conservation station of the Federal State of Lower Saxony. We annually donate EUR 35 000 to the association.

In Ramos Arizpe (Mexico), a botanical garden with over 1 000 cacti was created on the plant site. This area was placed under state protection.

EN15: Species on the "Red List" affected by the operating activities (GRI additional indicator)

Not yet possible to report for 2013.

Emissions, wastewater, and waste

EN16: Direct and indirect greenhouse gas emissions (GHG Scope 1, 2)

The expansion of our business activities over the previous years was inevitably linked to an increase in emissions of climate-related gases. The latest VDA emission factors have been used since the reporting year 2013 to calculate the quantity of direct and indirect greenhouse gas emissions. In terms of the power consumption emissions, the direct emissions caused by power generation are taken into account.

EN17: Other relevant greenhouse gas emissions (GHG Scope 3)

The data on Scope 3 emissions has not yet been fully collected. Nevertheless, the Group has taken measures to reduce greenhouse gas emissions that fall under Scope 3 of the Greenhouse Gas Protocol. For instance, ZF has created a carpooling center that is intended to reduce employee traffic throughout Germany via the creation of carpools for the journey to work. However, the participant rate is still low. Plant buses are also being deployed at some locations in order to take the employees to work and back home again.

EN18: Initiatives to reduce greenhouse gas emissions (GRI additional indicator)

The Group objective adopted in 2012 to reduce the absolute CO₂ emissions by 20 percent by 2020 is our central initiative to reduce greenhouse gas emissions. Among other programs, a Group-wide energy management system was launched (cf. EN5). Objectives to increase efficiency are set each year at the various locations and measures are implemented to achieve these goals. In 2013, the German locations were certified in accordance with ISO 50001.

EN19: Emissions of ozone-depleting substances

There are officially-coordinated reduction plans in place to reduce the emissions of volatile organic compounds (VOC) from large paint and degreasing installations at the German locations. Where technically possible, the switchover to water-based paints or aqueous degreasing procedures has already been made. Further measures include self-contained installations and thermal after-

treatment of exhaust air. Throughout Europe, all installations that still work using VOC possess respective balances. Chlorofluorocarbons (CFC) are no longer used within the Group.

EN20: NO_x, SO_x, and other significant air emissions

The increase in emissions of sulphur oxide and nitrogen oxide at ZF in comparison to the previous year is primarily attributed to the change in the national mix of electricity, for example in Germany or China. As a result from the phasing out of nuclear energy in Germany, the percentage of coal-generated electricity has increased significantly in the electricity supply. In China, coal-generated electricity has continually increased over the last few years and has led to more sulphur oxide and nitrogen oxide emissions.

EN21: Water discharge by quality and destination

At ZF, wastewater is usually fed into the public sewer system and treated in the wastewater treatment plants. Direct discharges into surface water only take place at a few locations, due to a lack of public infrastructure. In these cases, the discharge only takes place with approval and is prepared according to state-of-the-art technology and whilst strictly monitoring the threshold values.

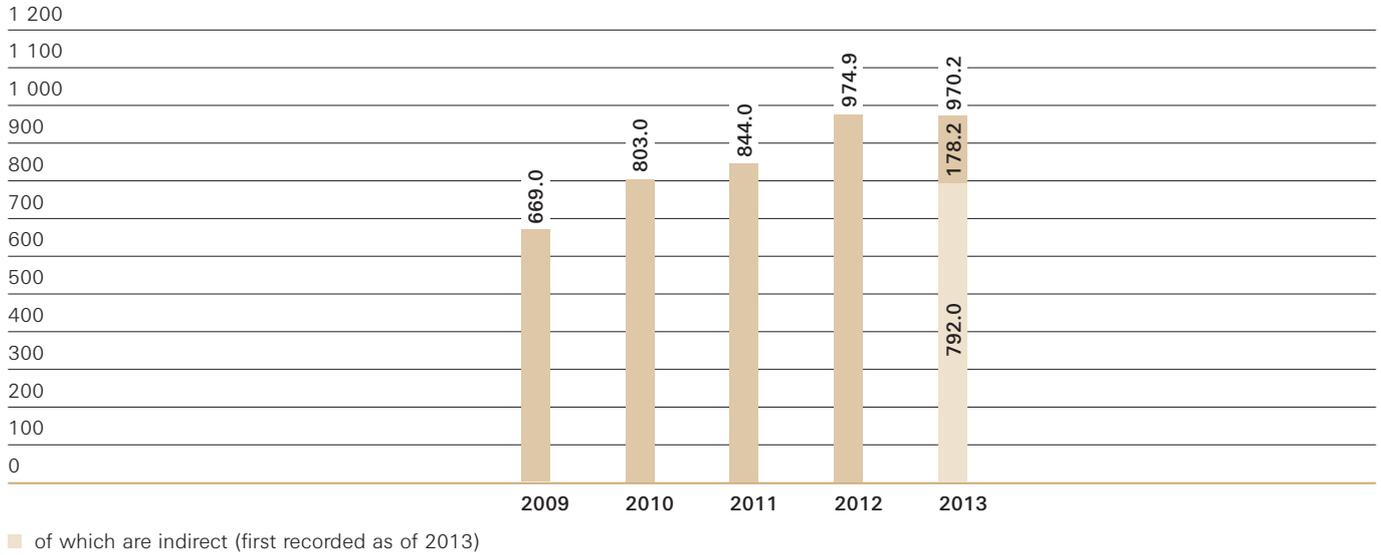
Installations for the handling of substances hazardous to water are designed according to the regulations of the Federal Water Act (Germany) or the country-specific requirements and are equipped with water saving devices that usually go beyond the statutory requirements. In India, the environmental law defines a prohibition on certain processes hazardous to water within a protection zone measuring many kilometers around supply-relevant surface water for instance. An example of a regulation within the context of the integrated environmental permit is that no surface treatment of products using solvents may be performed in these zones.

EN22: Total weight of waste

ZF is constantly working towards minimizing the volume of hazardous waste as well as waste sent for disposal. Examples of measures here include process conversions, procedure optimizations, and the replacement of hazardous substances in operating procedures.

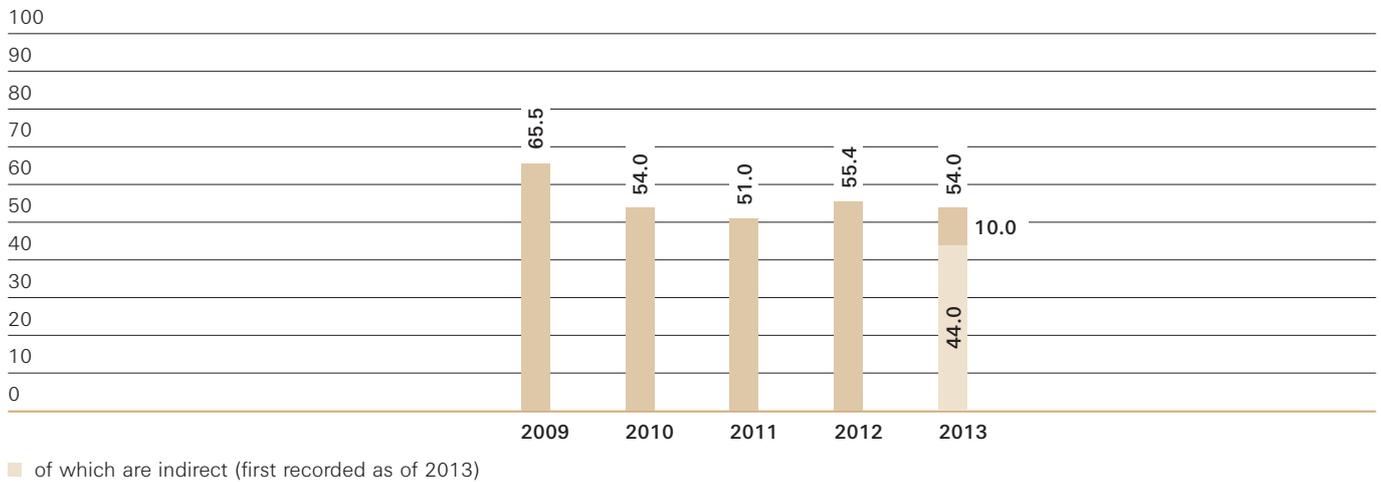
Absolute CO₂ emissions 2009 – 2013¹⁾

in thousand of tons



Specific CO₂ emissions 2009 – 2013¹⁾

in tons per EUR million of sales



¹⁾ Differences in comparison to the previous year's report are a result of adjustments to the current ZF portfolio and a modified Consolidated Group.

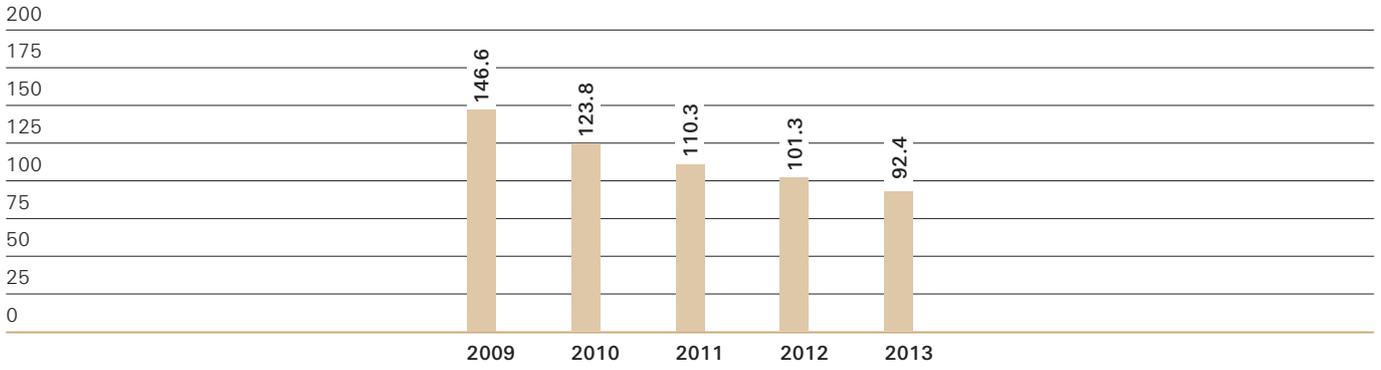
The specific waste generation slightly rose in 2013. The primary reasons for this rise in waste production is construction work at the various locations, a remediation of a contaminated site at the Schweinfurt location (Germany) with large amounts of excavated soil and rubble, as well as the clearance operation following the floods in Passau (Germany).

EN23: Releases of hazardous substances

At ZF, the relevant processes with a potential risk for the release of hazardous substances are essentially surface treatment, carbide treatment, and hardening. At the locations, preventive technical safety measures ensure that hazardous substances cannot spill into the ground and endanger the groundwater, even in the event of a poten-

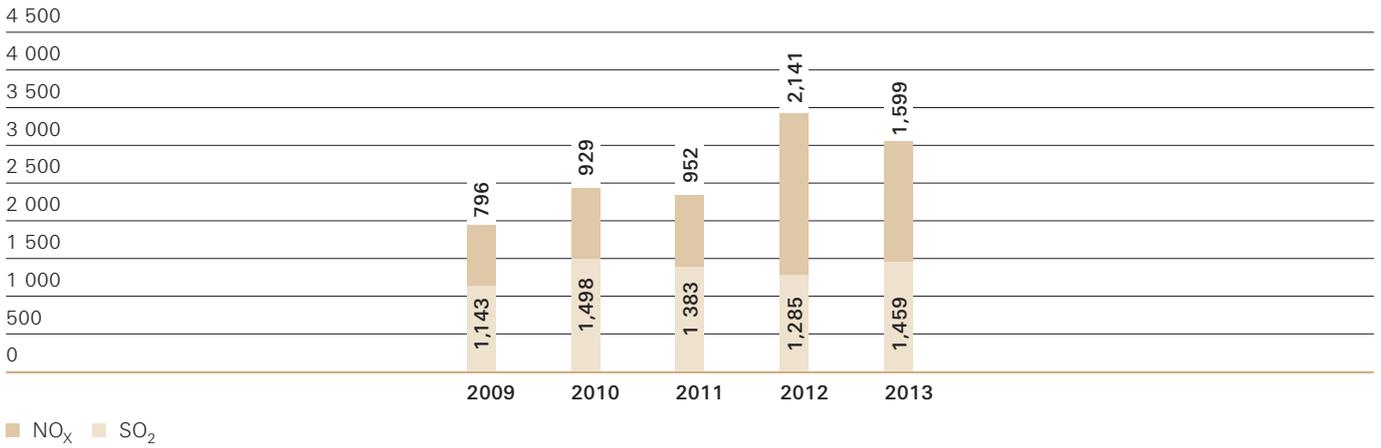
Specific VOC emissions 2009 – 2013

in kilograms per EUR million of sales



Absolute NO_x and SO₂ emissions 2009 – 2013

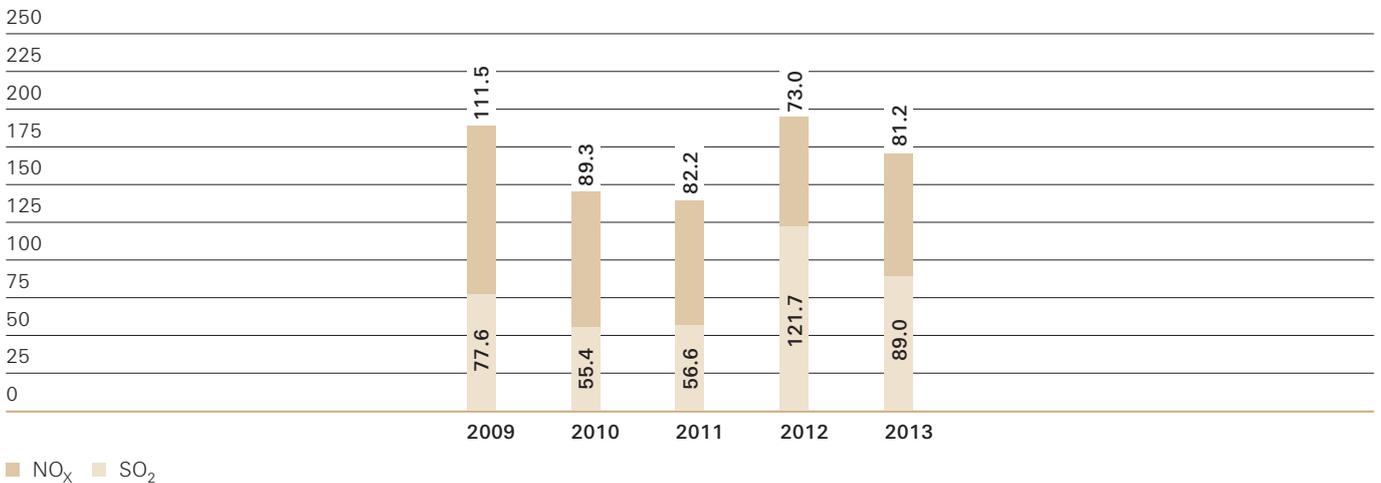
in tons



■ NO_x ■ SO₂

Specific NO_x and SO₂ emissions 2009 – 2013

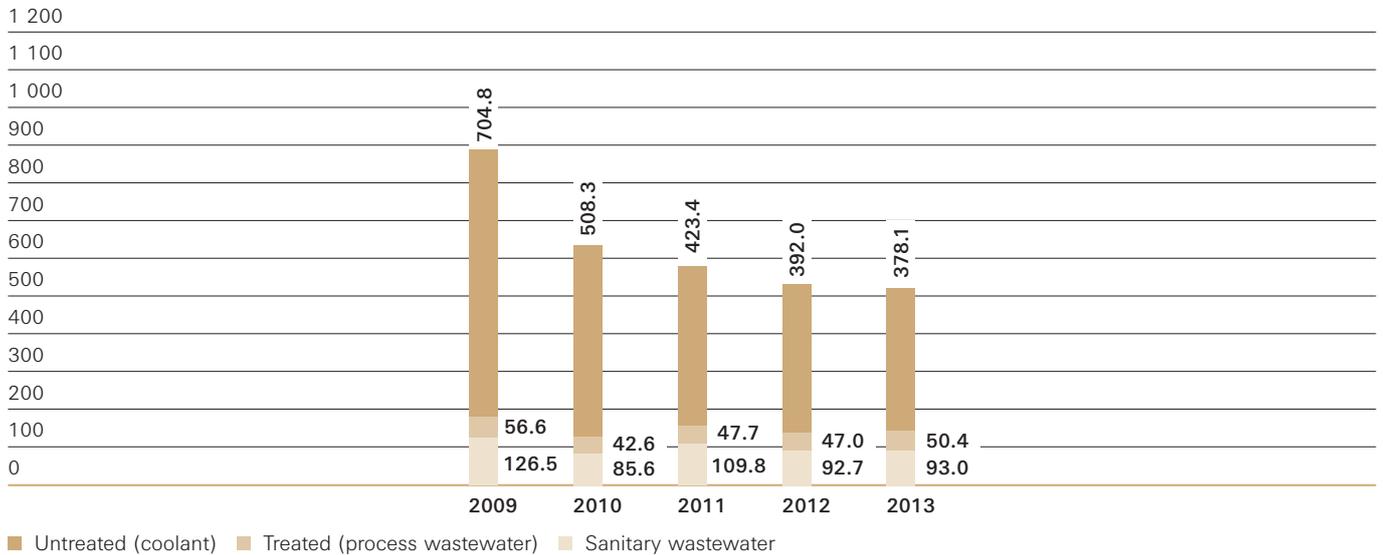
in kilograms per EUR million of sales



■ NO_x ■ SO₂

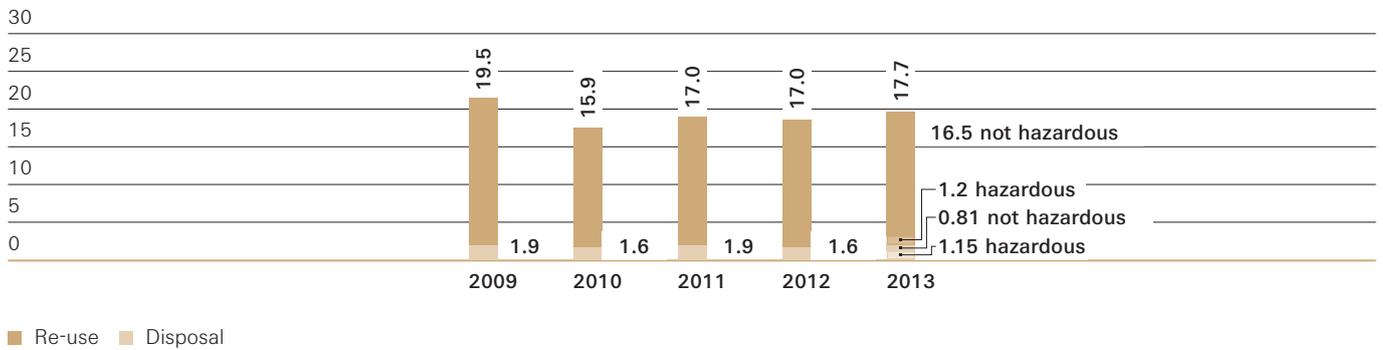
Wastewater 2009 – 2013

in cubic meters per EUR million of sales



Waste 2009 – 2013

in tons per EUR million of sales



tial release in the case of a breakdown. A Group-wide reporting obligation has been introduced in the event of a release.

In 2013, approx. 1 200 liters of fire-extinguishing agent with perfluorinated tensides leaked into the adjacent river during maintenance work carried out on a sprinkler system by an external company. This was caused by an incorrect wastewater connection from the detention reservoir. The police and all relevant authorities were notified of the incident, the foam gathered on top of the water was removed at the wastewater treatment plant.

After the incident, several water analyses were conducted by the relevant authority, which did not reveal any changes to the water quality.

EN24: Transported waste shipped internationally (GRI additional indicator)

No details.

EN25: Impacts of the wastewater discharges (GRI additional indicator)

See EN21 and respective explanations.

Products and services

EN26: Initiatives to minimize environmental impacts of products and services

ZF engineers have achieved a great deal over the past few years in order to reduce vehicle fuel consumption and the associated emissions. At ZF, these services belong to our understanding of product responsibility. Examples of product development initiatives can be found in PR1.

EN27: Percentage of products sold and their packaging materials that are reclaimed

Within the context of respective legislation in the European Union, ZF is obligated to take back packaging. For example, ZF assumes this responsibility in Germany by participating in external collection systems: Packaging is taken back and recycled through a dual system or sector solutions (for automobile repair workshops or for information technology, communications technology, consumer electronics). In this respect, we exceed the level of the statutory recycling quotas.

In 2013, a total of 218 150 tons of packaging was reclaimed in Germany in accordance with §6(1) of the Packaging Directive, approximately 200 000 tons of which were paper and cardboard, approx. 438 000 tons in accordance with §6(2) and 4 484 000 tons in accordance with §7, of which 2 755 000 tons were paper and cardboard.

Various vehicle parts are reclaimed through a global reclaiming system at the service locations and remanufactured for industrial use. Locally remanufactured parts are available at 77 locations in 36 countries for clutches, steering gears, steering pumps, and automatic transmissions. By remanufacturing units, ZF manages to save 20 000 tons of material each year. In comparison to producing a new part, remanufacturing can save more than 90 percent energy for production.

Compliance

EN28: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Due to a lack of permission to transport hazardous goods in Hungary and excessive wastewater amounts in sanitary wastewater at a location in Mexico, ZF was issued with fines totaling EUR 5 460 in 2013.

Transport

EN29: Significant environmental impacts of transporting products and materials, and transporting members of the workforce (GRI additional indicator)

The overall value of transport costs for incoming deliveries, outgoing deliveries, and other transports amounted to EUR 304 million in 2013 (2012: EUR 295 million).

These figures refer to the Group including ZF Lenksysteme and can be broken down as follows:

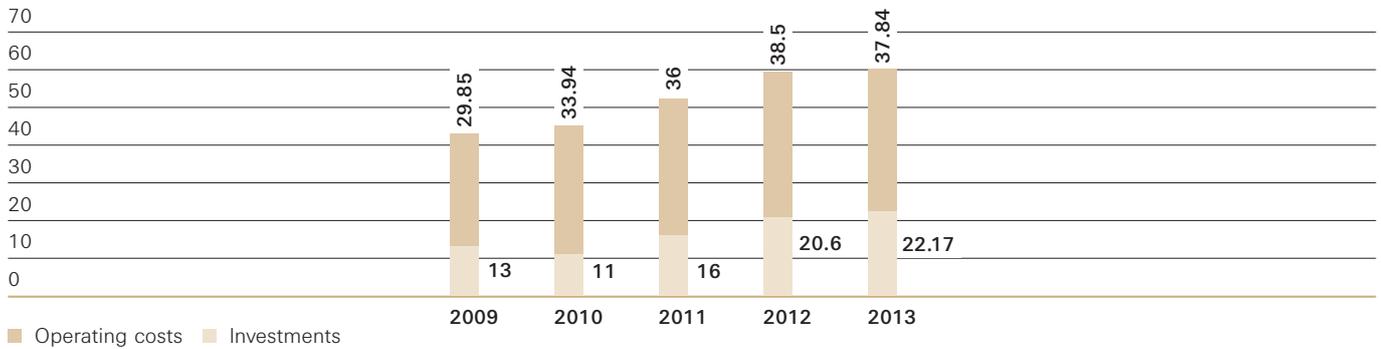
Composition of transports

Mode of transport	in percent (%)	Costs (in EUR)
Land freight	53	159 404 702
Sea freight	13	39 890 476
Air freight	12	35 180 524
Courier express/post/special shipments	10	31 470 503
Plant traffic/round trips	7	21 360 408
Project logistics/heavy transports	3	10 181 861
Relocations (office equipment/employees)	1	3 752 131
Rail transport	1	2 332 686
Total transport costs		303 573 289

ZF Logistics is making an effort to develop new concepts that can simultaneously reduce transport costs and CO₂ emissions. As a result, the railway transport between Turkey and Germany that has been organized by ZF Services since 2012 has not only reduced the annual costs by EUR 220 800; it has also reduced the annual CO₂ emissions by 571 tons. That equates to 70 percent compared to the previous truck transport.

Expenses 2009 – 2013¹⁾

in EUR million



¹⁾ Differences in the presentation of results in the previous year's report are a result of the inclusion of additional costs not related to the environmental management system, e.g. for development.

We are currently analyzing opportunities available and requirements for a Group-wide measurement of CO₂ emissions for transporting goods and people. Various approaches have already been tested in this respect. The findings from these analyses will now be tested for their practical feasibility and then incorporated into pilot projects.

When selecting transport service providers, more priority will be given to the company's "green logistics" credentials. Before commissioning companies, we will first check whether they offer CO₂ reporting, if sustainability is firmly anchored in their corporate strategy, and if they use environmentally friendly technologies. For example, when commissioning a service provider to manage the land freight services for the Beijing plant, we chose a company that uses vehicles run on LNG (Liquefied Natural Gas) for transportation. As a result, CO₂ transport emissions could be reduced by approx. 8 percent in comparison to using diesel vehicles for all the transportation.

The ZF intercontinental supply chains are to be organized based around sea freight. Again in 2013, the airplane still had to be used as a means of transport due to the volatile situation on various supply chains caused by production start and large sales volumes. A new approval process was also introduced for air freight with the aim of creating a more transparent system. The objective is to identify critical supply chains prematurely and take the

appropriate measures to transport the goods by sea freight as soon as possible whereby minimizing the volume of air freight tonnage.

Expenses

EN30: Total environmental protection expenditures and investments

(GRI additional indicator)

In 2013, ZF spent EUR 22.17 million globally for investments in environmental protection at its locations (2012: EUR 20.6 million) and EUR 37.84 million for operations and maintenance (2012: EUR 38.5 million).

Social Performance Indicators

Work Practices and Humane Employment

Management approach

As part of the changing corporate environment, ZF is compelled to respond to megatrends such as globalization, technological and demographic change, and worldwide population growth on the one hand and the ever-ageing society in Western countries on the other. At the same time, highly-qualified personnel are the key to the company's sustainable success. In this respect, attracting talented and highly-skilled personnel and providing continuous further development opportunities are some of the major challenges faced by ZF and key targets of our ZF 2025 HR strategy.

This strategy is focused on the corporate objective of becoming an attractive employer worldwide. For this purpose, the strategic pillars of "Leadership 2025", "Competitive Work Environment", and "One Global Culture" were defined and translated into strategic targets designed to help us successfully face these challenges.

Within the framework of leadership initiatives, ZF has developed and launched consistent leadership principles throughout the Group aimed at establishing one common understanding of management and forms the basis for "One Global Corporate Culture" and "One ZF" in line with the ZF 2025 corporate strategy. Talent management and qualifications are supported and developed by promoting initiatives such as international training, the establishment of functional academy concepts, study program funding and PhD programs, as well as the use of so-called professional experts. These are former ZF experts and executive managers who offer ZF their valuable expertise and skills over the long-term so that this knowledge can be sustainably secured for ZF. In adopting this holistic approach to management, we monitor and anticipate systematic aspects of the age structure within the workforce in all corporate areas which allow

us to secure the employability of our employees and to confidently respond to the challenges of demographic change.

ZF strives to be a fair and reliable employer for all its employees that provides attractive career opportunities at all locations. We value the varied cultural backgrounds of our employees, their competencies, and their diligence and motivation. Their commitment beyond the borders of their own field of work and location shapes our corporate culture and is the key to our success. In this respect, we have set ourselves clear objectives: By 2025, the number of international executive managers is to be increased by 50 percent in the ZF Group and the number of women in executive positions is to be doubled. The mobility of our employees is inextricably linked to this and is therefore growing in significance. In this context, Global Mobility and Job Rotation programs are currently being developed and implemented in the divisions.

In order to remain an esteemed and coveted employer, we value individual development opportunities and the reconciliation of work and family. To this end, we offer a variety of arrangements such as flexible working time models or the possibility of mobile working. A further central issue is the safe and employee-friendly design of the workstations in order to maintain the performance and health of the employees and to prevent work-related accidents and illnesses. We anchored this at the beginning of 2013 through in-house ZF health and safety at work guidelines (cf. pages 12 and 35).

Our fundamental understanding of the laws and principles applicable for all employees is summarized in our "Principles of Social Responsibility at ZF". They are based on our Corporate Principles and are implemented in the different countries and at different locations in compliance with the respective laws and existing practices. We accept the basic principles of the ILO Core Labor Standards, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises.

Alongside the mentioned statutory framework agreements, the ZF Code of Conduct applies to all employees worldwide. It regulates among other things matters such

as conflicts of interests, allowances, business and private expenses, secondary employments and participations, protection against discrimination, data privacy, the conduct with suppliers and competitors, company donations, and the complex field of occupational safety and health, and environmental protection. The Code of Conduct includes a clear statement on the issue of diversity: At ZF, employees are not discriminated on the basis of skin color, gender, age, nationality, religious denomination, social background, disability, or sexual preferences. This applies to the recruitment of new employees, the existing employment relationship, as well as the professional advancement at ZF. The only characteristics that are important here are performance, abilities, and suitability.

Occupational safety and health

At the beginning of 2013, the ZF Board of Management agreed on new principles for health and safety at work. The issue of prevention plays a key role in these new principles. We regularly assess the risks at our workstations, initiate the necessary measures, and check whether they have been implemented efficiently. We use state-of-the-art technology and knowledge. When planning and procuring machines and work equipment, occupational safety and health protection criteria are essential.

We have set Group-wide targets for occupational health and safety management and regularly monitor our progress. Besides complying with the respective national occupational health and safety standards, we work on appropriate and suitable Group-wide minimum standards for the health and safety of our employees. We involve our employees and their representatives in the further development of safe and healthy workplaces. We regularly qualify and motivate them so that every employee is aware of their own responsibility and their environment. We also expect our suppliers and service providers to comply with the respectively applicable occupational health and safety regulations.

The international occupational safety management system at ZF was expanded again in 2013. The Occupational Health and Safety Committee, represented by officers from the divisions and regions, elaborated guide-

lines with regard to the material issues. For example, we have extended the existing environmental management system to include the topics of energy and occupational safety and health. In this Integrated Management System (IMS), occupational health and safety is defined based on the international standard BS OHSAS 18001 (Occupational Health and Safety Assessment Series). The introduction of OHSAS is still voluntary at ZF. However, the gradual increase in the share of the certified Group companies is a fixed element of the occupational health and safety objectives. In 2013, seven locations joined the Group matrix. Another nine locations have shown interest in joining the matrix in 2014.

A machine safety expert team was also established. The aim of this team is to clarify processes and interfaces and to provide all those involved with good-practice examples on how to source, commission, and retrofit machinery.

The overall company agreement regarding pre-employment examinations was concluded in August 2013 and is valid for all German locations. It pursues the objective of finding effective and common regulations for the pre-employment examination procedure at ZF in line with statutory law. This is based on the fact that no legal regulation currently exists in Germany governing the general validity and permissible scope of medical pre-employment examinations.

Employment

LA1: Total workforce by employment type, employment contract, and region

In 2013, ZF employed 72 643 people worldwide, more than two-thirds of them in Europe (71.3 percent) of which the majority is based in Germany (57.7 percent). Within just a few years, more than half of the ZF workforce will be employed outside Germany. It can be predicted today that the internalization of markets will continue to grow in significance and at a faster rate, a factor which is reflected in the development of the employee structure. In line with the ZF 2025 corporate strategy, more investments are being pumped into global market development, which is reflected in the rapid growth of employees particularly in the regions of North America (15.1 percent) and Asia-Pacific (14.1 percent) in comparison to last year's figures. The number of employees abroad (7.8 percent) is growing faster than in Germany (5.1 percent).

Employee structure worldwide*

	2011	2012	2013
ZF Group (total)	71 488	68 406	72 643
Europe	51 413	49 526	51 792
thereof in Germany	41 229	39 882	41 900
North America	6 096	6 291	7 237
South America	5 664	4 762	4 791
Asia-Pacific	7 172	6 610	7 540
Africa	1 143	1 217	1 283
Work contracts			
Permanent	68 326	65 557	69 664
Temporary	3 162	2 849	2 979
Full time	69 591	66 565	70 663
Part time	1 897	1 841	1 980
Employees by gender			
Men			62 124
Women			10 519
Apprentices and temporary workers			
Apprentices	1 962	1 818	2 085
Temporary workers	4 025	3 566	4 105

* As of 2012 excluding ZF Lenksysteme Number of employees by contracts in accordance with the IFRS regulations until the year end.

95.9 percent of employees have permanent contracts with the ZF Group. In Germany, this amount is 94.9 percent. The percentage of women employed by the ZF Group is 14.5 percent (Germany 12.5 percent and Europe 13.5 percent.). The region of North America has the largest percentage of women in the workforce with 21.9 percent.

Flexibility in terms of working times is an important topic at ZF that the Group Works Council is also involved in. Many different working time models are already in place at the German and many international locations.

In the face of volatile markets, flexible working time models such as working time accounts, temporary employment contracts, and agency work are important tools to compensate for and mitigate the fluctuations in demand and sales. In 2013, a total of 4 105 temporary workers were deployed, the majority of which (75.2 percent, 3 088) abroad.

Many individual working time models are available to our employees at our German and international locations, with varying working times and locations. A ZF Group Works Council agreement also regulates sabbaticals, therefore facilitating both individual breaks and the care of relatives for an extended period.

LA2: Employee turnover*

In 2013, the quota of (voluntary) labor turnover was recorded for the first time in the ZF Group. It differs greatly from region to region and ranges from 1.5 percent in Europe to 8 percent in Asia-Pacific.

Employee turnover* 2013

	in %
Europe	1.5
thereof in Germany	0.5
North America	7.0
South America	2.1
Asia-Pacific	8.0
Africa	6.5
Total	2.8

* Employees in permanent contract that have voluntarily resigned in ratio to the average number of employees, in percent

LA3: Company benefits provided to full-time employees (GRI additional indicator)

In many countries, the ZF social and health insurance benefits are above the level as required by law. In 2013, a global review of the company’s pension plans was produced. This will be fleshed out in 2014 with a focus on financial aspects.

Employer-employee relationship

LA4: Percentage of employees covered by collective bargaining agreements

The establishment of employee or trade union representations of interests is also possible at ZF if the national standard does not fully conform with the ILO standards in the respective country and our Principles of Social Responsibility states the following with regard to this matter: “Every ZF employee is entitled to join a trade union and to found a workers’ representation in the company without prior approval. No employee or employee representative shall be disadvantaged as a consequence of exercising his or her rights in this respect. ZF respects the right to collective bargaining and negotiations (ILO Convention No. 98) for the regulation of working conditions and strives for a constructive cooperation marked by mutual trust and respect. ZF works openly and constructively with all existing workers’ representation bodies.”

LA5: Minimum notice periods regarding operational changes

Traditionally, codetermination plays an important role at ZF. The Group Works Council and the Board of Management engage in a regular dialog based on trust. As a result, the employee representatives promptly learn of important operational changes. All legal obligations are adhered to.

The European Works Council (EWC) at ZF represents all locations and subsidiaries in the European region. The EWC is informed and consulted with regard to changes that affect the company as a whole or at least affect two enterprises/companies in different states located within the jurisdiction. The topics that are essentially dealt with in the exchange and the discussions include funda-

mental questions regarding corporate development, site closures and relocations, investments, organizational changes, and employee issues.

Occupational safety and health

LA6: Percentage of the workforce represented in health and safety committees (GRI additional indicator)

The Law of Occupational Health and Safety that stipulates the organization of occupational health and safety committees applies at the German locations. Members of the works council are also represented in these committees. Prior to the meetings of the occupational health and safety committees, specialists for occupational safety and health, medical officers, and representatives of the works council together with the responsible executive managers carry out inspections and audits to gain an insight into the state and needs for change.

LA7: Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

Great value is placed upon employee health and safety at ZF. In 2013, the average sickness rate throughout the Group amounted to 4.6 percent (2012: 4.5 percent).

Sickness rate

in percent

	2011	2012	2013
Europe	5.5	5.5	5.8
thereof in Germany	6.0	6.0	6.3
North America	1.0	1.1	1.0
South America	4.8	3.9	4.7
Asia-Pacific	0.8	1.9	1.0
Africa	2.2	1.9	2.4
ZF Group (total)	4.5	4.5	4.6

The number of days of absence related to illness has marginally increased in comparison to the previous year. However, the number of industrial accidents was again reduced on a Group-wide scale.

Accidents*

per one million working hours

	2011	2012	2013
	17.7	14.1 **	13.6

*) Accidents associated with at least one loss day (without commuting accidents); Group (from 2013 without ZF Lenksysteme)

**) Due to missing or inconsistent data, the 2012 accident statistics were reviewed and corrected.

In the 2013 reporting year, the accident rate dropped by 3.5 percent to 13.6 accidents per one million working hours. There were again no work-related fatalities as in the previous year. In 2013, employees missed a total of 23 669 days due to industrial accidents. The accidents of contracting parties are also included in the figures if this is stipulated by the national law.

A three-point program was developed in 2013 to sustainably reduce the number of industrial accidents. The objective is to standardize key performance indicators and the reporting process, to reduce the number of accidents and severity of accidents, and to integrate specialists in occupational health and safety into the planning, procurement, and operation of machinery, systems, and buildings. In future, the accident rate should be reduced consistently to a one-digit figure, the procurement processes improved, and accident management should be used as a control instrument on a location level. In 2013, the definition of Group-wide valid performance indicators and the required data were agreed upon and communicated worldwide. For the 2013 accident statistics, data has already been recorded on a Group-wide scale using a reporting software.

Occupational diseases

In Germany, a list of recognized occupational diseases is available based on data provided by the social accident insurance. This list revealed that noise-induced hearing loss was the most frequently reported occupational disease (OD, German abbr. BK) among ZF employees. In 2013, 28 cases were identified (2012: 17). For a metal-processing operation, it is not surprising that noise-induced hearing loss (BK 2301) is the most frequently reported occupational disease. Most of the detected cases were reported at the locations of Schweinfurt (13) and

Saarbrücken (8), followed by Passau (4). As noise-induced hearing loss usually develops over years of exposure to noise, the latest figures of detected occupational diseases do not necessarily reflect actual conditions.

In 2013, two cases of lung cancer/cancer of the larynx linked to asbestos (BK 4104) as well as two occupational-related skin diseases were reported. The company’s medical officer services are particularly aware of work-related skin diseases as when symptoms occur, the spread can often be avoided before it develops into an occupational disease. In 2013, 48 suspected cases of an occupational-related “skin” disease (BK 5101) were reported, but only two were confirmed. In nearly all of the rejected cases, services were provided in accordance with § 3 of the Occupational Disease Regulations.

LA8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members and their families regarding serious diseases

In order to avoid work-related accidents and illnesses, ZF places emphasis on prevention. We support our employees through training for executive managers to raise the awareness for “health-promoting management” and through our commitment with regard to work and family (see page 41).

We employ a total of 15 company medical officers at the large locations in Lemförde, Friedrichshafen, Passau, Schweinfurt, and Saarbrücken. They deal with all issues concerning “work and health”. In doing so, they offer regular consultation hours and they are qualified and equipped to provide rapid help in emergencies; one example of the equipment that they have access to is rescue vehicles. The tasks of the company medical officer include: Occupational-medical support and care, acute medical and emergency care, participation in operational health management and integration management, check up examinations, regular visits to workstations, etc.

ZF employees external service providers for occupational-medical services at smaller locations. At the large German locations, the company medical officers are supported by a social service. This service provides assistance in the fields of social advice, addiction counseling,

and integration advice. An example of where this service has been put into place is the Friedrichshafen location, where the social service is run by three employees. Health reports have been created locally to date. The reports at the Friedrichshafen location contain information regarding the number of staff away sick, industrial accidents, and occupational illnesses, the performance statistics of outpatient departments, operational integration management, and current developments.

In addition, ZF meets all legal health protection requirements – in Germany these are the Industrial Safety Act (ArbSchG), the Law of Occupational Safety and Health (ASiG), the Regulation concerning Preventive Occupational Medicine (ArbMedVV), as well as the professional association regulations. The Occupational Health Care Ordinance (ArbMedVV) was revised at the end of October 2013 and the necessary changes are currently being implemented in German businesses. In accordance with the regulations, obligation, offer, and requirement provisions are available.

LA9: Health and safety topics covered in formal agreements with trade unions (GRI additional indicator)

The codetermination practiced at the German ZF locations also applies in the field of health and safety at work. Close cooperation between the Works Councils and the Group Works Council takes place with regard to these topics.

Occupational health and safety topics are part of the Group Directives and guidelines steered by the various locations. In Germany, their approval process provides for the participation of employee representatives in topics subject to codetermination. On a location level, there are various guidelines in existence covering occupational health and safety. A Group Directive regarding occupational health and safety is currently in progress.

In 2013, a works agreement was concluded regarding the rollout of a pilot project on the psychological stress analysis at the Friedrichshafen location. The employees were surveyed voluntarily on psychological stress and pressures. This survey is intended to identify ways of improving employee health and the company's success. Specific

hazardous areas should be identified and improvement measures taken. The second step involves an inspection and analysis (structured interviews of individual employees) of the hazardous areas. The objective here is to identify stress-related workplaces and processes. After project completion, a suitable manner (for example workshops) will be found to notify employees of the results and the actions to be taken.

Education and vocational training

LA10: Education and vocational training: average hours of training by employee category

ZF is one of the largest training companies in Germany and attaches a great deal of importance to qualified apprenticeships. In 2013, the number of apprentices and students of the cooperative work-study degree program in the ZF Group was 2 085, the majority of whom was based in Germany with 1 777 (approx. 85 percent). In comparison to last year, the number of apprentices grew considerably by approx. 15 percent.

More than 98 percent of apprentices receive employment contracts after they have completed their apprenticeship. At its Gray Court location, South Carolina (USA), ZF has teamed up with the local Piedmont Technical College to implement a system similar to the German model of combined degree programs. The training program will then be extended to ZF locations in Brazil and throughout Asia.

The continuous development and qualification of employees and executive managers is a crucial factor of success in safeguarding the long-term future of the ZF Group. The establishment of ZF Campus takes account of this and provides a qualification of the relevant target groups that meets all requirements and needs. Specialist staff and executive managers are supported in their current function or are prepared for new tasks through a variety of support programs and qualification measures. Through efficient and modern learning architectures, a large workforce is qualified across locations and divisions worldwide in accordance with uniform ZF standards.

ZF Campus has also been establishing specialist academies since the end of 2011. This represents a new, ZF-specific approach to directly qualify the employees in a corporate function-related or department-related manner, thus ensuring that the state of knowledge of the target group is consistent throughout the Group.

With the “Learning on the Web” vocational training initiative, ZF is supporting qualification measures with new media. Via this virtual academy for vocational training and continuing education, employees have the possibility to compile contents according to their own needs and work on them as often as required.

LA11: Programs for skills management and lifelong learning (GRI additional indicator)

The objective of knowledge management is the conscious, responsible, and systematic handling of knowledge as a resource. In order to retain knowledge in the organization, ZF implements couriers where employees who are leaving the company make their practical knowledge available to the organization. The documentation of existing know-how takes place via storage media that enables knowledge to be shared and exchanged. Expert forums ensure the targeted exchange of knowledge.

Idea management provides all employees with a platform for the development and submission of suggestions for improvement and innovations. The ideas@ZF project is aimed at establishing conditions for an idea management process across all locations, which allows ideas to circulate between the German locations. The newly-established knowledge management in the Corporate HR function initiates new ideas for the careful handling of knowledge and advises and supports the professionalism of existing and new activities in knowledge management.

LA12: Percentage of employees receiving regular performance and career development reviews (GRI additional indicator)

In 2013, ZF launched a standardized development landscape under the name “pro>>motion” based on the strategy to support executive managers prior to a promotion to a more senior management position. This offers execu-

tive managers the opportunity to systematically prepare for the specific responsibilities of the new role and thus ensures the management success within the company. By basing the learning contents closely on the policies of the ZF 2025 strategy, “pro>>motion” contributes to establishing and implementing the strategic objectives. The participation in “pro>>motion” is obligatory for all executive managers that have been certified as suitable for the next management level in the “ZF SteerR” evaluation processes before they take up their new responsibility.

In addition, the “Academy Landscape”, aimed at ensuring the worldwide professionalism of our employees in their various professional responsibilities, was extended to include a “Q Academy”. The academies are intended to inform and train all employees of a particular function on topics of relevance for their particular responsibility. This is how we achieve worldwide professionalism.

In 2014, ZF plans to introduce a new, worldwide-compliant executive management incentive system – ZF Incentive. ZF Incentive supplements the existing incentive model to include elements of individual targets that are taken from the ZF 2025 strategy. A new feature is a year-over-year item in the financial target figures that will reflect to a greater degree the requirements of the company to make sustainable, continuous improvements to our company’s results. In preparation for the launch of ZF Incentive, approx. 2 500 executive managers were informed about the new model and trained in its use in the second half of 2013.

In 2013, a pilot project was held at eight ZF locations to conduct a Global Employee Survey. Due to the positive experience taken from this pilot project, it was decided to conduct the survey worldwide in 2014 at all locations at the same time.

Diversity and equal opportunities

LA13: Composition of governing bodies in terms of diversity and equal opportunity

Two of the ten members of the shareholders of the Supervisory Board are women. No woman is currently represented on the Board of Management. On the Super-

visory Board, a total of three of the employer representative members as well as one employee representative member are of international origin.

Composition of governance bodies 2013

number of persons

	Board of Management	Supervisory Board	
		Employer representative	Employee representative
Total	6	10	10
thereof women	0	2	0
thereof with international origin	0	3	1
thereof ≤ 50 years	1	2	–

With the HR strategy as part of the ZF 2025, the topic of diversity also came to the fore. ZF understands diversity to be the key to success, a driver of innovations, and a company value-enhancing factor. ZF focuses its attention on four core dimensions that will significantly help to meet the strategic challenges in the coming years and contribute to the future competitiveness of ZF. These include a balanced ratio of genders, and aspects such as cultural background and the internationality of the workforce, a variety of experiences and status of knowledge, and solutions to demographic changes. All of these factors are systematically analyzed and processed on a regular basis, and reported to the Board of Management. With the introduction of career elements for executive managers, this has helped to gain experience in an international context.

Women/men divided by region 2013

in percent

	Women	Men
Europe	13.5	86.5
thereof in Germany	12.5	87.5
North America	21.9	78.1
South America	8.3	91.7
Asia-Pacific	18.2	81.8
Africa	15.3	84.7
ZF Group (total)	14.5	85.5

In 2013, the percentage of women in the Group amounted to 14.5 percent – and with 21.9 percent was at its highest in North America. The aim is to increase this amount by introducing various measures such as improvements in combining work and family. This includes the launch of a social career element which takes into account parental leave, caregiving leave, or similar social commitments. In order to promote equal opportunity and employee satisfaction, the compatibility of work and family at ZF is still an important objective: Since 2006, the ZF location in Friedrichshafen has been a certified family-friendly company in Germany. As part of the “berufundfamilie” (“career and family”) audit certificate, family-related targets and measures are clearly established. An initial report documenting the successfully implemented measures after the re-auditing in 2012 was issued in 2013.

Furthermore, family-friendly minimum standards were defined and consistently implemented via the work and family Group expert body. A first positive effect was recorded with the increase in the number of all-day daycare places available. In addition, another important aspect, the care of employees’ children during all school holidays was improved at all large locations in Germany with an increase to 500 places. In response to demand, provisions for daycare places and emergency care are being expanded and activities driven forward (more information under <http://berufundfamilie.zf.com/>).

In accordance with the statutory basis, ZF records the handicapped rate for Germany. In 2013, the share of employees with certain restrictions amounted to 5.4 percent as of 2013-12-31 (2012: 5.3 percent). In both years the level exceeded the share of 5 percent that the legislator stipulates to the company. As a result, it was not necessary to make any compensation payments.

LA14: Ratio of basic salary and remuneration of women to men

In Germany, the basic salaries of those employed on the collectively agreed scale are defined in accordance with the collective agreements (usually the collective agreement of the M&E Industry). As the evaluation of the posi-

tion is performed irrespective of the job holder, the principle of same pay for the same tasks irrespective of gender applies here. The definition of the basic salaries is subject to codetermination and is therefore monitored in the jointly represented committees (e.g. Joint Commission for Remuneration in Friedrichshafen).

The evaluation of executive management positions with the assistance of the Hay System is also performed irrespective of the person. The decision lies with the Hay Commissions that also have employee representatives. ZF cooperates with the Hay Group during the evaluation of the management position, which is the required foundation for the remuneration benchmark. ZF has procured licenses from the Hay Group in order to use the PayNet Salary Database for Germany. The license for Brazil, India, and China followed in March 2013.

Human Rights

ZF considers compliance with and the protection of human rights to be an important foundation of engaging in business. In signing United Nations Global Compact, the Group has declared its commitment to observing the ten principles in which human rights is a central element. Alongside all ZF departments, this particularly affects Corporate Materials Management. As we are committed to establishing sustainable and long-lasting cooperation with our suppliers, we systematically develop our suppliers into strategic partners. This includes the suppliers engaging in business according to the same principles as ZF.

ZF Corporate Materials Management aligned its strategy to 2025 with the Advance Procurement Strategy (APS 25), with the integration into the ZF 2025 Group strategy. The consistent implementation of measures and monitoring of activities are now firmly established in day-to-day operations. Consequently, the focus in the APS 25 now concentrates on newly industrialized countries. Sustainability principles help to consolidate a responsible and reliable supplier management. The long-term goal is a purchasing strategy which dispenses with materials from critical procurement sources.

The ZF Group expects its suppliers to recognize and apply the **Principles of Social Responsibility** developed by the Group and motivates them to introduce and implement similar principles in their companies. In case of new or existing suppliers, the compliance with these ZF standards shall be worked towards in a suitable manner.

Guidelines and organization

ZF has revised its Code of Conduct in 2013 and, as a consequence, has substantiated the requirements placed upon the cooperation with business partners, especially those regarding compliance with the relevant law and acting with integrity. In doing so, we aim to work towards business partners acting in a comparable manner to the social principles of ZF as well as the ten principles of United Nations Global Compact. In 2014, the “Business Partner Principles” will also be published. All

suppliers of production materials and non-production materials are prompted to affirm these principles and behave accordingly. In the future, the Code of Conduct will also be the binding foundation for supplier self-assessments and audits.

The APS 25 is based upon the ZF environmental policy, the ZF Principles of Social Responsibility, as well as the ten principles of United Nations Global Compact and implements them into the supply chain. 3 500 ZF production material suppliers have already been requested to comply with these three basic principles. We have taken the next step by integrating environmental and social standards into the supplier selection process; this ranges from evaluating new suppliers using supplier self-assessments to audits. 1 300 audits have been conducted in the year under review at the existing volume production suppliers.

With the “ZF Supplier Academy”, we created a strategic cooperation and qualification platform in order to promote and support the cooperation with our production material suppliers worldwide. Training sessions provide suppliers with a extensive insight into our requirements, standards, and procedures. The global rollout of the ZF Supplier Academy is scheduled for 2014, with qualification initiatives in the focal regions of China, USA, and Brazil. With the Energy Efficiency Award, we have been awarding a special prize for sustainability since 2011 with the aim of making our suppliers aware of aspects of sustainability.

Investment and procurement practices

HR1: Investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening

The commitment to basic human rights principles is legally defined in our Corporate Principles and Social Responsibility Principles. These also apply to all investment agreements.

Outside Germany, and especially in newly industrialized countries, ZF only invests in locations that are close to or immediately next to the production locations of large

automotive manufacturers. They are usually industrial parks where no conflicts with the original inhabitants are to be expected.

When procuring our raw materials, we ensure that no human rights are violated (cf. HR 2).

HR2: Suppliers and contractors that have undergone human rights screening

Our production material suppliers are requested to comply with the ZF Principles of Social Responsibility as well as the ten principles of United Nations Global Compact. Suitable measures and methods are adopted where we are aware of violations to these principles in order to ensure a fast and sustainable process. Furthermore, 26 one-day and multiple-day training events were organized for 310 participants as part of the ZF Supplier Academy in 2013. Based on the provisions of the Dodd Frank Act, Sec. 1502, all relevant production material suppliers of ZF were obligated in 2013 to fulfill the disclosure requirement for the use of conflict materials (gold, coltan, cassiterite, wolframite and its derivatives such as tantalum, tin, or tungsten) from the Democratic Republic of Congo and adjacent countries in company products and to verify their origins.

To provide a solution for the reporting and identification of conflict materials along the entire supply chain, ZF has been using a web-based solution since 2013. As part of the tool-assisted supplier inquiry program, a total feedback of 29 percent was recorded. The result of the inquiry indicates that the reviewed supply chains do not source products that finance conflicts in DRC regions. We intend to increase the feedback rate from suppliers in 2014.

HR3: Human rights policies and procedures training for employees (GRI additional indicator)

Insofar as human rights are a component of compliance as well as the ten principles of the United Nations Global Compact: See Point SO3.

Equal treatment

HR4: Incidents of discrimination

We make every effort to create a climate between our employees and in contact with our business partners that is characterized by mutual respect, trust, tolerance, and fairness. We respect the dignity, privacy, and personal rights of every individual. It is explicitly formulated in the Code of Conduct that we do not tolerate any discrimination on the grounds of race, gender, religion, age, nationality, social or ethnic origin, disability, belief, sexual orientation, or political and trade union engagement. These principles apply to the recruitment of new employees, to employees with a valid employment contract, and to the professional promotion of our employees. To this end, the only decisive factors are performance, personality, capacities/skills, and suitability. Accusations of discrimination will be investigated.

Freedom of association

HR5: Operations identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these right

No concrete information regarding examined areas is yet present but it will be gradually recorded within the context of sustainability integration into supplier management. It obligates our production material suppliers to comply with the ZF Code of Conduct and begins with a self-assessment.

Child labor

HR6: Operations with significant risk of child labor

With regard to this topic, the ZF Principles of Social Responsibility are unambiguous: “ZF rejects all form of forced labor and child labor. We always observe the minimum age for employment stipulated in national legislation. ZF supports the abolishment of exploitative child labor. The natural development of children shall not be inhibited. The safety and health of children shall not be impaired. Their dignity shall be respected. The above mentioned principles are stipulated in ILO Conventions No. 138 and 182. If child labor is detected at ZF or a supplier, the child worker shall, whenever possible, be replaced by an adult member of the family in order to guarantee the family’s income.”

No concrete information regarding examined areas is yet present. It is planned that they will be gradually recorded within the context of sustainability integration into supplier management. It obligates our production material suppliers to comply with the ZF Code of Conduct and begins with a self-assessment.

Forced labor

HR7: Operations with significant risk of forced labor

No concrete information regarding examined areas is yet present. It is planned that they will be gradually recorded within the context of sustainability integration into supplier management. It obligates our production material suppliers to comply with the ZF Code of Conduct and begins with a self-assessment.

Safety practices

HR8: Human rights policies and procedures training for security personnel (GRI additional indicator)

Not relevant for ZF.

Rights of indigenous people

HR9: Incidents of violations involving rights of indigenous people (GRI additional indicator)

See HR1

Society

Management approach

Correct, responsible, and sustainable business management as well as compliance with all statutory requirements in the countries in which we operate are indispensable components of ZF's success. To this day, tradition and values characterize behavior at ZF. Together, they are both an obligation and an incentive to maintain a reliable and respectful relationship with customers, market affiliates, and employees. ZF places great importance to being a recognized partner in society and to assuming responsibility at the locations with regard to society and environmental protection.

The basis for this is lawful and fair behavior as well as a responsibility for social development that goes far beyond legal stipulations. ZF is actively committed to social issues at its locations.

Guidelines and organization

All employees are called upon to contribute to ZF's success through their own actions. At all times and worldwide. This applies to employees of ZF as well as to executive managers and the Board of Management in equal measure. To this end, the ZF Code of Conduct establishes binding principles for all employees of the ZF Group in their dealings with each other, with business partners, and the environment.

This entails the task of preventing misconduct and ensuring that risks to the integrity and lawfulness of our actions

- are identified in advance and in time,
- are prevented through suitable measures,
- are correctly responded to in case such risks materialize, and, subsequently,
- the task of identifying the causes in order to prevent recurrence.

The ZF Compliance Management System (CMS) creates the framework for meeting these requirements. Our Code of Conduct was published in fourteen languages and is available for all employees to download via the Intranet. It was also explicitly distributed to all executive managers that submitted a compliance statement. In addition, the "Prevention of Corruption in Business Transactions" Group Directive and the "Dealing with Inducements" Group Directive clarify what is permissible and what is impermissible.

With regard to sponsoring, Group Directive 11-07 defines a Group-wide approval process as well as procedural rules for sponsoring contracts. In accordance with this directive, all sponsoring contracts at ZF must pertain to matters of social, environmental, cultural, sports, and educational significance.

The Compliance Organization that supports employees worldwide is based on the corporate organization and on the three basic compliance functions of Prevent, Detect, Respond. This involves the following requirements: independence and effectiveness of the Compliance Organization, integration of compliance into business processes, transparent decision processes, and the relevant HR processes (sanctions).

The Compliance Organization is set up along the lines of the organizational structure of the ZF Group of corporate functions, divisions, and regions. Consequently, the Compliance Organization is divided into two parts: Corporate Compliance in the corporate headquarters and Compliance Officers in the divisions/business units/regions and corporate departments. The Compliance Officers are in turn supported by local Compliance Delegates at the individual locations.

The Compliance Management System, the core of which is the Code of Conduct was further developed during the reporting period, especially in the fields of training and awareness, communication, reporting, and business partner examination. Furthermore, the organization is supplemented by both units case management and investigation.

Community

S01: Programs and procedures which assess and regulate the effects of business operations on the public good

ZF regards sparking interest in technology and empowering young people as an obligation and a task for the future. Together with the City of Friedrichshafen and the Friedrichshafen Chamber of Commerce and Industry, the Südwestmetall employers' association, and the Association of German Engineers (VDI), ZF is funding a center for learning for children and young people. Following the model project in Friedrichshafen, the Knowledge Workshop will also be set up with partners at other large ZF locations in Germany such as Passau and Schweinfurt. Presentations by ZF managers at universities, donations of computers for schools, or support for the research initiative for young people "Jugend forscht" also underscore ZF's commitment to contributing in the area of education to a future-oriented society. For this purpose, the ZF locations run own programs. For instance, the Lemförde location participated in the "Future Camp" organized by the Foundation of German Business (Stiftung der Deutschen Wirtschaft). At the Schweinfurt location, ZF is a partner of the Business@school project. As part of this initiative, the Boston Consulting Group gives schools a hands-on look at business issues, aiming to fire young peoples' enthusiasm for the world of business. In Brazil too, education is at the heart of ZF's commitment: The local ZF locations support the "Pescar" and "Formare" projects, two aid initiatives which help children from socially disadvantaged families to complete their vocational education.

For cultural and sports funding of ZF, see also EC8.

On the role as an employer and taxpayer, see EC9.

Combating corruption

S02: Business units analyzed for risks related to corruption

In the reporting year, the Compliance Health Check conducted by an external company was completed. The objective of this analysis was to determine, on the basis

of the risk profile of ZF (Part 1 of the Health Check) whether the maturity level, i.e. the design, adequacy, and functioning of the Compliance Management System (CMS) of ZF (Part 2 of the Health Check) is appropriate. To a large degree, the approach of the Compliance Health Check followed the principles of a proper audit of compliance management systems as laid out by the Institute of Public Auditors in Germany, Incorporated Association (IDW) in testing standard IDW PS 980. It was amended to account for qualified external assessments, the self-assessments of interviewed executive managers, and internationally recognized best practices. For the risk assessment, all business units, selected national companies, and corporate functions, as well as regional sectors were involved. The results, recommended courses of action, and definition and prioritization of additional measures were presented to the Compliance Officers and the Audit Committee, as well as the relevant management teams. The Compliance Risk Assessment is conducted regularly, by taking a systematic and risk-oriented approach.

In terms of compliance, business partners can pose a risk to our company if their actions or failures - depending on the applicable legal system - can be attributed to ZF Friedrichshafen AG. As a result, the Group can be held liable if no suitable precautionary measures were taken, for example to prevent bribery. Therefore, all business functions of our company must take suitable measures - preferably before business relations with a partner are taken up - to ensure that the business partners are adequately examined and conducted. To take account of these requirements, a risk-based integrity check was conducted subsequently for all potential business partners. In the process, a risk classification and intensive background research was carried out.

New business partners which were not verified as part of the review and which are identified by the risk-oriented testing approach will have their integrity checked in the future by the Corporate Compliance Office. Diverse methods are used to verify business partners. The following represent some examples:

- Internet research,
- financial information from credit agencies,

- information from legal authorities by checking sanction lists or other public lists, or
- information from company-internal data sources/lists.

S03: Percentage of employees trained in the organization's anti-corruption policies and procedures

ZF offers target group-oriented compliance training courses which were anchored in a training concept in 2013. The objective of the compliance training courses is to firmly anchor compliance in the employees' consciousness and in this way to prevent legally critical acts. The courses convey knowledge and promote the ability to act in critical situations. For demonstration purposes, the training courses address aspects from everyday work in order to put what has been learned into practice. The objective here is to train more than 95 percent of executive managers in compliance-relevant topics.

Classroom training

Classroom training offers the opportunity to directly exchange ideas and experience regarding compliance-relevant topics and questions. Therefore, ZF attaches great importance to the participants' active involvement in the training courses, for instance by jointly working through case studies or by discussing case studies relevant to everyday work.

In 2013, a cross-divisional training concept was created, which will be worked out in further detail in 2014. It forms the basis for the compliance trainings from 2014. Training materials for various technical departments were created within the framework of this training concept. To this end, content regarding typical situations and possible case studies was agreed with the technical departments to ensure that it is relevant to everyday work.

Online training

Online training supplements classroom training and serves to convey knowledge to a larger number of employees.

It is planned for 2014 to re-train all worldwide executive managers within the framework of online and classroom training. If employees have questions regarding compliance issues, they can use the Compliance HelpDesk to

contact Compliance via telephone or e-mail. The Compliance HelpDesk serves as a preventative function since inquiries about issues can be systematically clarified in advance.

S04: Actions taken in response to incidents of corruption

During the reporting period, no fines or sanctions were issued due to legal violations.

Public policy

S05: Public policy positions and participation in public policy development and lobbying

ZF pursues its entrepreneurial interests within the context of its memberships in associations (cf. Point 4.13). Since October 2013, the Group office in Berlin represents the interests of ZF.

S06: Contributions to political parties, politicians, and related institutions (GRI additional indicator)

ZF does not permit any sponsoring for the benefit of individual persons, parties and organizations, party-affiliated foundations, and similar organizations.

Compliance

S07: Lawsuits against the company as a result of anti-competitive behavior (GRI additional indicator)

None

S08: Fines and sanctions due to illegal acts

Worldwide permitted fines and sanctions due to illegal acts are not recorded across the Group. During the course of 2014, we are planning to establish the organizational requirements to report on this data from 2015.

Product Responsibility

Management approach

Our enthusiasm for innovative products and processes and our uncompromising pursuit of quality have made us a global leader in driveline and chassis technology. We are contributing towards a sustainable future by producing advanced technology solutions with the goal of improving mobility, increasing the efficiency of our products and systems, and conserving resources. Improvements in energy efficiency, cost-effectiveness, dynamics, safety, and comfort are key to our work. The aspects of safety and energy efficiency (with their associated environmental protection) are key elements of product responsibility for ZF because they help to prevent accidents and protect the health of highway users. At ZF, sustainability is not another product development objective; it is an integral part of our company worldwide.

In 2013, the focus of our commitment to sustainability in the field of product responsibility was in the further development of our lightweight design activities. ZF invested EUR 3.2 million in this sector and around 40 employees were commissioned with the task of further research into fiber-reinforced plastics for product development, production, simulation, and testing. At the Schweinfurt location (Germany), the ZF Composites Tech Center was opened in 2013 in response to these requirements.

Guidelines and organization

Group Directive 92-13 provides a common basic understanding and consistent company jargon within the ZF Group for the development of products and refers to all development projects, such as new product developments, adaptive engineering, and application developments. In line with the customer-specific requirements, the individual business units design the sequence of their product evolution process themselves within the framework as defined by the directive.

The 9005 Group standard in conjunction with Group Directive GD 92-13 must be observed during the development of new ZF products. It serves to ensure product conformity with the environmentally-relevant requirements of the ZF customers and the legal stipulations of the countries in which the product is to be marketed.

Group Directive 06-11 describes the process and handling of customer requirements when dealing with products with integrated software and the objective of this directive is the uniform procedure during development. It applies during the new and further development and encompasses the determination and analysis of the system requirements, the system design, the function and software development activities, as well as system integration, testing, validation, and release.

Group Directive 06-16 anchors the application of safety standards such as IEC 61508 or ISO 26262 during the new and further development of safety-relevant, mechatronic systems. Compliance with the process steps is ensured and documented by the implemented independent reviews.

The objective of Quality Directive QD 83 is to ensure the quality of the purchased items: As ZF products contain 60 percent purchased items on average, this is a key aspect of product responsibility. Therefore, the directive defines comprehensive requirements in order to guarantee smooth operation sequences between the suppliers and ZF as well as to minimize costs. It is regularly updated and must be implemented by all suppliers as an element of purchasing terms and conditions, supply contracts, and general terms and conditions of business.

In 2013, approximately 6 244 employees worked for ZF Research and Development worldwide. ZF will achieve a large part of its increase in R&D personnel abroad by hiring qualified engineers to help address future needs. With investments of EUR 836 million for research and development, ZF once again achieved the target figure of five percent of sales during 2013.

Customer health and safety

PR1: Life cycle stages in which health and safety impacts of products are assessed for improvement

Safety is extremely important across the entire automotive industry. People need to rely 100 percent on the technology wherever passengers and goods are transported. This requirement starts with a matter of course: Safety-relevant systems and components in vehicles must perform their tasks in a reliable manner and may not break down. This also applies to systems and components of suppliers such as ZF. With its product focus on driveline and chassis technology, ZF products are central to vehicle and occupant safety.

ZF applies stringent benchmarks right from component development and during design and materials selection. Our uncompromising standards of product quality also continue during manufacture. At its production locations worldwide, ZF production is based on reliable processes, which ensure the shipped products comply with the specifications agreed with the customer during the development process. This involves the following examples:

- **Adaptive Damping System CDC (Continuous Damping Control):** The electronic control unit accesses key vehicle data and adjusts the damping in fractions of a second to the particular driving situation. The system even significantly increases safety if it is only deployed on a single axle; for this reason, ZF has also recently added the lower-cost system “CDC 1XL” to its product portfolio – both for passenger cars and commercial vehicles.
 - **Active Kinematics Control (Active Rear Axle Kinematics):** An actuator adjusts a control arm while the vehicle is moving to change the toe angle on the rear axle. The control electronics in turn coordinates this barely noticeable steering assistance with the road speed and the steering movement of the front axle. Thus this system also enhances safety and driving dynamics at the same time.
 - **Active Roll Stabilization (ARS):** ZF is utilizing its chassis expertise for active safety systems. It already ensures that the rolling motion of the vehicle body is minimized or eliminated completely during cornering in many vehicles.
- ZF active systems are strategic. This means that they can also be linked with an electronic control network that is more intelligent and acts in a more flexible manner than the sum of the individual system, thus taking active safety in the vehicle to a new level.
- In the field of energy efficiency, ZF contributes to lowering fuel consumption of vehicles, reducing pollutants, and in turn protecting health. The following examples provide proof of this:
- Compared with its 6-speed predecessor model, the **8HP 8-speed automatic transmission** in the entry-level version already reduces fuel consumption and, in turn, emissions by six percent – and by as much as eleven percent if the optional automatic start-stop system is specified.
 - The new **9-speed automatic transmission** for vehicles with front-transverse engines saves up to 16 percent fuel compared with modern-day drive technology for this drive category.
 - The power-split **cPower construction machinery transmission** keeps the engine within the most economical speed range, thus reducing fuel consumption and emissions by 25 percent.
 - With the **electrification of the driveline**, ZF is opening up new savings potential: A passenger car with an 8-speed hybrid transmission as a full hybrid uses up to 25 percent less fuel than a vehicle with a conventional drive and 6-speed automatic transmission. With TraXon, the automatic transmission system for commercial vehicles, ZF is also rolling out the benefits of hybrid technology for heavy commercial vehicles.
 - By using **hybridization in the city bus**, ZF managed to demonstrate 15 percent savings in fuel as part of field trials with the hybrid system HyTronic.
 - The **power-on-demand principle**, i.e. only using energy when it is actually needed, also plays its part in achieving this aim. The electromechanical rear axle

kinematics AKC® supports the driving dynamics and safety of a passenger car. This only affects energy levels when the system is active.

- In comparison to conventional (for example hydraulic) drives, considerable improvements in drawbar power and consumption reductions of five to ten percent can be achieved with the **electrically powered tractor equipment** with the help of the integrated generator module ZF TERRA+.
- For **all-electric drives for small and medium-sized passenger cars** ZF offers an electric axle drive with 90 kW which displays the kind of acceleration potential already at low speeds that have so far been the preserve of powerful combustion engines.
- **Lightweight construction** is important for the widespread uptake of electric vehicles as well as for further efficiency efforts with conventional drive systems. Here, ZF is pursuing an approach that not only focuses upon lighter materials, it also optimizes components in relation to weight or paves the way for new design options for integrating several functions into a single lighter component. For the FRP hybrid brake pedal featuring fiber-reinforced composite hybrid technology, ZF has already been awarded with two innovation prizes, the Composite Innovations Award CFK Valley Stade and the Gold Award Product Materialica 2011.
- In prior years, ZF has proved that even the chassis boasts significant potential in terms of **lightweight construction**. In addition to component optimization and weight-saving function integration, ZF is also embracing alternative materials, such as the concept of a wheel-guiding transverse leaf spring made of fiberglass.
- The **integration of drive** and chassis in the new “Electric Twist Beam” development has enabled us to produce an electric vehicle drive system suitable for urban use as well as a weight and function-optimized drive concept. The entire vehicle weight is approx. 20 kilograms lighter than a vehicle with central electric drive thanks to the integration of functions (for example no input shafts are required).

PR2: Violations against product responsibility regulations (GRI additional indicator)

Approximately 90 percent of our products relate to the automotive sector. Product nonconformities that caused a vehicle recall did not occur in this reporting year. The reason for high-grade product safety are efficient processes as outlined in the GD 92-13 from the product development, incoming goods inspections, supplier promotion, and production protection to failure analysis in the field.

Product labeling

PR3: Type of product information required by procedures, and percentage of significant products subject to such information requirements

This indicator indirectly affects ZF. It is the vehicle manufacturers who must provide detailed information regarding vehicle CO₂ and pollutant emissions. Naturally, this information must be based upon comprehensive and verified statements as provided by their suppliers. ZF supports the transparency of all required and eligible information and only forwards significant and reliable data to the manufacturers.

Vehicle manufacturers are informed about the substances used in materials and components by the International Material Data System (IMDS). Materials that are harmful to health are fundamentally not used by ZF. ZF's products are labeled with relevant product numbers. To ensure the traceability of products, the product is labeled with the production date, and sometimes a barcode or QR code. ZF maintains suitable disposal directives for products that require special treatment with regards to recycling after their service life expires.

PR4: Non-compliance with obligations to supply information and labeling (GRI additional indicator)

No central collection is taking place at present.

PR5: Practices related to customer satisfaction, including results of surveys measuring customer satisfaction (GRI additional indicator)

An extremely close and long-standing cooperation between manufacturers and suppliers is common in the automotive sector. This particularly applies to the suppli-

ers that provide significant and technologically-complex vehicle components. In doing so, they must be oriented towards the comprehensive specifications of the manufacturers that are often drafted together. Delivery reliability and innovative ability are important criteria for the customers. As a large portion of vehicles innovations originate from the suppliers, the R&D activities are decisive for long-term customer satisfaction and business success. Every new order can be seen as an indicator of customer satisfaction.

Advertising

PR6: Programs for adherence to laws, standards, and voluntary codes related to advertising

We comply with the statutory regulations in our communication activities. This is also fixed in our Corporate Principles: “We respect the ethical standards of the countries we are active in. [...] As a company that is regionally rooted and operates on a global basis at the same time, we assume our global and local responsibility. [...] We wish to be a role model in respectfully dealing with resources and the environment, with employees and partners.” In this context, ZF also adheres to the recommendations of the German Advertising Council.

The “ZF Group sponsoring” Group Directive defines a Group-wide approval process for sponsoring contracts and procedural rules for the granting of tickets that ZF is issued as a result of a sponsoring contract. As a basic principle, the Group Directive states that all sponsoring contracts at ZF must pertain to matters of social, environmental, cultural, sports, and educational significance.

Today, what and how employees communicate on the Internet is also relevant for the reputation of the company. In order to make communication via Twitter, Xing, and other social networks easier for our employees, ZF drafted the “Social Media Guidelines” in 2010: They provide tips and recommendations on how risks, including those to the company, can be avoided on the Internet.

PR7: Incidents of non-compliance with standards concerning marketing communications, including advertising, promotion, and sponsorship (GRI additional indicator)

No central collection is taking place at present. No violations against the recommendations of the German Advertising Council transpired during the reporting period.

Protection of customer data

PR8: Complaints regarding breaches of customer privacy (GRI additional indicator)

The Group Directive regarding data protection ensures a consistent level of data protection in accordance with the EU directive 95/46/EC in all ZF companies. The regional data protection coordinators supervise compliance with national and international data protection regulations and the Group Directive and spot-checks for verification.

The data protection officer of ZF Friedrichshafen AG who is also the Chief Executive Officer of the ZF-internal Data Privacy Protection Committee steers the global perception of the consistent level of data protection.

Compliance with legal regulations

PR9: Fines for non-compliance with laws and regulations

Fines and sanctions due to illegal acts were not recorded centrally in the reporting period. The objective for 2014 is to create the necessary organizational requirements to be able to collect this information from 2015 onwards.

GRI Index and Communication on Progress to UN Global Compact

Index according to GRI (G3)	Degree of fulfillment	Page reference	United Nations Global Compact
1 Strategy and Analysis			
1.1 Statement from the highest decision-makers	●	4	1 - 10
1.2 Most important sustainability effects, opportunities, and risks	●	4f.	
2 Company Profile			
2.1 Company name	●	5	
2.2 Important brands, products, and services	●	5	
2.3 Business units and corporate structure	●	6	
2.4 Company headquarters	●	6	
2.5 Countries with business activities	●	6f.	
2.6 Ownership structure and legal form	●	7	
2.7 Markets served	●	7	
2.8 Size of the reporting organizations	●	7	
2.9 Significant changes during the reporting period	●	8	
2.10 Awards during the reporting period	●	8	
3 Report Facts			
3.1 Reporting period	●	9	
3.2 Publication of the last report	●	9	
3.3 Report cycle	●	9	
3.4 Contacts for questions regarding the report	●	9	
3.5 Procedure for determining report content	●	9	
3.6 Report restrictions	●	9	
3.7 Restrictions of the scope or limits of the report	●	9	
3.8 Foundation for reporting on subsidiary companies and joint ventures	●	9	
3.9 Collection methods and the foundations of data acquisition	●	9	
3.10 Changes compared to earlier reports with regard to new representations and interpretations	●	9	
3.11 Changes compared to earlier reports with regard to topics, scope, measurement methods	●	9	
3.12 GRI index table	●	9, 53-56	
3.13 External verification of the report statements	●	9	
4 Corporate Governance and Commitment			
4.1 Management structure and sustainability responsibility	●	10	1 - 10
4.2 Independence of the Chairman of the Supervisory Board	●	10f.	
4.3 Highest management body in companies without a Supervisory Board	●	11	
4.4 Procedure for dialog between shareholders and employees with the Supervisory Board/Board of Management	●	11	
4.5 Relationship between the Board of Management remuneration and company performance	●	11	
4.6 Procedures in order to avoid conflicts of interests	●	11f.	
4.7 Qualification and expertise of the executive committees in the area of sustainability	●	12	1 - 10
4.8 Mission statement, company values, and codes of conduct	●	12	1 - 10
4.9 Procedure for the management and control of the sustainability performance	●	12f.	
4.10 Procedure for the evaluation of the sustainability performance by the Board of Management	●	13	
4.11 Consideration of the precautionary principle	●	13	7
4.12 Support of external standards, agreements, and initiatives	●	13	1 - 10
4.13 Memberships in associations and interest groups	●	13f.	
4.14 List of the involved stakeholder groups	●	14	1 - 10
4.15 Procedure for the identification of the stakeholders	●	14	
4.16 Stakeholder dialog approaches	●	14f.	
4.17 Statement regarding the central concerns of the stakeholders	●	15	1 - 10

Index according to GRI (G3)		Degree of fulfillment	Page reference	United Nations Global Compact
Economic Performance Indicators				
Management approach		●	16	1, 6, 7
EC1: Financial profit data		●	17	
EC2: Financial implications and other risks and opportunities due to climate change ¹		◐	17	7
EC3: Coverage of the organization's defined benefit plan obligations		●	18	1, 6
EC4: Government grants		●	18	
EC5: Relationship between standard salaries and the local minimum wage		●	18	1, 6
EC6: Procurement from local suppliers		●	18f.	
EC7: Hiring of local staff ²		◐	19	6
EC8: Investments in local community welfare		●	19f.	
EC9: Indirect economic impacts		●	20	
Ecological Performance Indicators				
Management approach		●	21 f.	7-9
Aspect	EN1: Materials used	●	23	8, 9
Materials	EN2: Percentage of recycled input materials used ³	◐	23	8, 9
	EN3: Direct energy consumption	●	23f.	8
	EN4: Indirect energy consumption	●	23f.	8
Aspect	EN5: Energy saving measures	●	23-25	7
Energy	EN6: Energy saving measures with products	●	25f.	9
	EN7: Reduction of indirect energy consumption	○		8
Aspect	EN8: Water consumption and sources	●	26	8
Water	EN9: Influence on water sources	●	26f.	8
	EN10: Scope of water recycling	●	27	8
	EN11: Activities in protected areas ⁴	◐	27	8
	EN12: Impacts upon protected areas	●	27	8
Aspect	EN13: Protected or restored habitats	●	27f.	8
Biodiversity	EN14: Actions and plans regarding biodiversity	●	27f.	8
	EN15: Species on the "Red List"	○		8
	EN16: Direct and indirect greenhouse gas emissions	●	28f.	8, 9
	EN17: Other greenhouse gas emissions ⁵	○		8
	EN18: Initiatives to reduce greenhouse gas emissions	●	28	7-9
Aspect	EN19: Emissions of ozone-depleting substances	●	28, 30	8
Emissions	EN20: Further emissions in the air	●	28, 30	8
	EN21: Wastewater discharges ⁶	◐	28f., 31	8
	EN22: Waste generation	●	29, 31	8
	EN23: Releases of hazardous substances	●	31 f.	8
	EN24: Transported waste shipped internationally	○		
	EN25: Impacts of the wastewater discharges	●	32	
Aspect	EN26: Initiatives to minimize environmental impacts of products and services	●	32	7-9
Products	EN27: Products and packaging reclaimed	●	32	
	EN28: Fines and sanctions due to environmental violations	●	32	
Others	EN29: Transport-related environmental impacts	●	32f.	8
Aspects	EN30: Operating expenditure and investments in environmental protection	●	33	7, 8

1 The financial impacts of climate change on the company are not reported on for confidentiality reasons.

2 We do not report on the percentage of locally appointed executive managers as the required data are subject to the nondisclosure agreement.

3 We do not report on the percentage of recycling material used as the required data is not available in sufficient quality. They should reserve the right to report on other decisions up to 2016.

4 We do not report on details on locations based in protected areas as the location profiles do not reveal any significant relevance. The main aspect of "biodiversity" will be reviewed as part of the changeover to reporting to GRI G4.

5 The emissions in accordance with Scope 3 are currently not reported on as the data is not yet available in the itemized report required by the GRI. In 2014, a pilot project will be conducted for a large-scale location. The results of this project will be reported on in 2015.

6 The data on wastewater quality is not currently reported on in the itemized report required by the GRI. The changeover started as of the 2013 reporting year. After sufficient consolidation of the data, it will be reported on from 2016 in the GRI structure.

Index according to GRI (G3)	Degree of fulfillment	Page reference	United Nations Global Compact
Social Performance Indicators			
Work Practices and Humane Employment			
Management approach	●	34f., 37	1, 3, 6
LA1: Total workforce data	●	36	
LA2: Employee turnover ⁷	◐	36	6
LA3: Company benefits provided to full-time employees	●	37	
LA4: Percentage of employees covered by collective bargaining agreements	●	37	1, 3
LA5: Minimum notice periods regarding operational changes	●	37	1, 3
LA6: Percentage of the workforce represented in health and safety committees	◐	37	
LA7: Accident statistics	●	37f.	1
LA8: Business health management services	●	38f.	
LA9: Occupational health and safety works agreements	●	39	
LA10: Vocational training statistics ⁸	○		
LA11: Lifelong learning and knowledge management	◐	40	
LA12: Percentage of performance evaluations and development planning	◐	40f.	
LA13: Composition of governing committees in terms of diversity and equal opportunity ⁹	◐	41 f.	1, 6
LA14: Ratio of basic salary and remuneration of women to men ¹⁰	◐	42	1, 6
Human Rights			
Management approach	●	43f.	1-6
HR1: Investment agreements with human rights clauses	●	43f.	1-6
HR2: Suppliers and contractors that have undergone human rights screening	●	43f.	1-6
HR3: Human rights policies and procedures training for employees	◐	44	1-6
HR4: Incidents of discrimination and adopted measures ¹¹	○		1, 2, 6
HR5: Operating activities with significant risk regarding the freedom of association of the employees ¹²	◐	44	1-3
HR6: Operations with significant risk of child labor	●	45	1, 2, 5
HR7: Operations with significant risk of forced labor ¹²	◐	45	1, 2, 4
HR8: Human rights policies and procedures training for security personnel	○		1, 2
HR9: Incidents of violations involving rights of indigenous people	●	45	
Society			
Management approach	●	46	1-10
SO1: Consequences of operating activities for the community	●	47	
SO2: Percentage of business units investigated for corruption risks	●	47f.	10
SO3: Percentage of employees trained in the organization's anti-corruption policies	●	48	10
SO4: Actions taken in response to incidents of corruption	●	48	10
SO5: Involvement in policy development	●	48	1-10
SO6: Contributions to political parties, politicians, and related institutions	●	48	
SO7: Lawsuits against the company as a result of anti-competitive behavior	●	48	
SO8: Fines and sanctions due to illegal acts ¹³	○	48	

7 We do not currently report on age groups and gender-related turnover rates as the relevant data is not yet available consistently on a global scale. We plan to report on this from 2015.

8 A central assessment of the number of participants and training hours is not yet possible on a Group-wide basis. For 2014, we wish to analyze and report on the education and vocational training data for selected programs.

9 We do not report on the percentage of women in management positions, about the age structure, and about minorities in our workforce. This information must be treated confidentially and is not collected for reasons of rights to privacy.

10 Quantified data on salaries is not published as it is subject to confidentiality.

11 We do not currently report on incidents of discrimination as the required data is not consistently available throughout the Group. ZF will provide all suppliers with the ZF Business Partner Principles in the course of 2014. These expect companies to prevent any form of discrimination. Compliance with this requirement is checked with a supplier self assessment. Results are expected to be available and published in 2016.

12 We do not currently report on the risks associated with forced labor and the potential violation of the right to exercise freedom of association as the required data is not consistently available throughout the Group. The ZF Business Partner Principles expect the avoidance of forced and child labor, as well as the guarantee of freedom of association at all ZF suppliers. Compliance with this requirement is checked with a supplier self assessment. Results are expected to be available and published in 2016.

13 Worldwide issued fines and sanctions due to illegal acts are not recorded across the Group. During the course of 2014, we are planning to establish the organizational requirements to report on this data from 2015.

Index according to GRI (G3)	Degree of fulfillment	Page reference	United Nations Global Compact
Product Responsibility			
Management approach	●	49, 51 f.	1, 8
PR1: Responsibility for the environment, health, and safety	●	50 f.	1, 8
PR2: Violations against product responsibility regulations	●	51	
PR3: Duty to supply information regarding product responsibility	●	51	8
PR4: Non-compliance with obligations to supply information and labeling	○		
PR5: Practices to determine customer satisfaction	◐	52	
PR6: Advertising, marketing, sponsoring standards	●	52	
PR7: Violations against advertising, marketing, sponsoring standards	●	52	
PR8: Complaints regarding breaches of customer privacy	○		
PR9: Fines and sanctions due to violations of legal directives regarding the utilization of products and services ¹⁴	○	52	

¹⁴ Fines and sanctions due to illegal acts were not centrally collected in the reporting period. The objective for 2014 is to create the necessary organizational requirements to be able to collect this information from 2015 onwards.



Statement GRI Application Level Check

GRI hereby states that **ZF Friedrichshafen AG** has presented its report "Sustainability Report 2013" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 12 June 2014

A handwritten signature in black ink, appearing to read "Ásthildur Hjaltadóttir".

Ásthildur Hjaltadóttir
Director Services
Global Reporting Initiative



The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 30 May 2014. GRI explicitly excludes the statement being applied to any later changes to such material.

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The report is available in German and English; both versions are available online for download at www.zf.com.

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