ANNUAL REPORT 2016

Moving ahead

SAF Holland


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KEY FIGURES

Results of operations

EUR million

	2016	2015	2014	2013	2012
Sales	1,042.0	1,060.7	959.7	857.0	859.6
Gross profit	206.5	202.9	174.6	155.6	156.2
Gross profit margin in %	19.8	19.1	18.2	18.2	18.2
EBIT	78.4	81.6	56.7	49.3	46.8
EBIT margin in %	7.5	7.7	5.9	5.8	5.4
Adjusted EBIT	90.4	94.0	70.7	59.3	58.2
Adjusted EBIT margin in %	8.7	8.9	7.4	6.9	6.8
Result for the period	43.5	51.7	32.7	24.4	7.4
Adjusted result for the period	53.7	62.2	43.7	28.8	28.4
Undiluted earnings per share	0.98	1.14	0.72	0.54	0.18
Adjusted undiluted earnings per share	1.18	1.37	0.96	0.63	0.68
Dividend per share	0.44[1]	0.40	0.32	0.27	n/a

Net Assets

EUR million

	2016	2015	2014	2013	2012
Balance sheet total	1,014.7	888.5	645.2	536.4	536.7
Equity	305.6	287.8	248.6	222.2	197.9
Equity ratio in %	30.1	32.4	38.5	41.4	36.9
Cash and cash equivalents	344.6	145.7	44.2	23.9	18.6
Net debt	97.1	122.4	137.1	123.0	141.8
Net Working Capital	111.9	116.6	102.7	76.1	82.4
Net Working Capital/sales	11.1	12.0	10.9	9.4	10.2

Financial position

EUR million

	2016	2015	2014	2013	2012
Cash flow from operating activities before income tax paid	106.4	79.5	48.8	63.0	59.5
Cash Conversion Rate[2] in %	117.7	84.6	69.0	106.2	102.2
Net cash flow from operating activities	92.7	63.1	36.0	54.0	54.0
Cash flow from investing activities	89.8	−139.1	−29.5	−23.5	−21.3
Purchase of property, plant and equipment and intangible assets	−25.0	−28.1	−30.1	−23.2	−22.3
Free Cash Flow[3]	67.7	35.0	11.3	30.8	31.7

Yield

in %

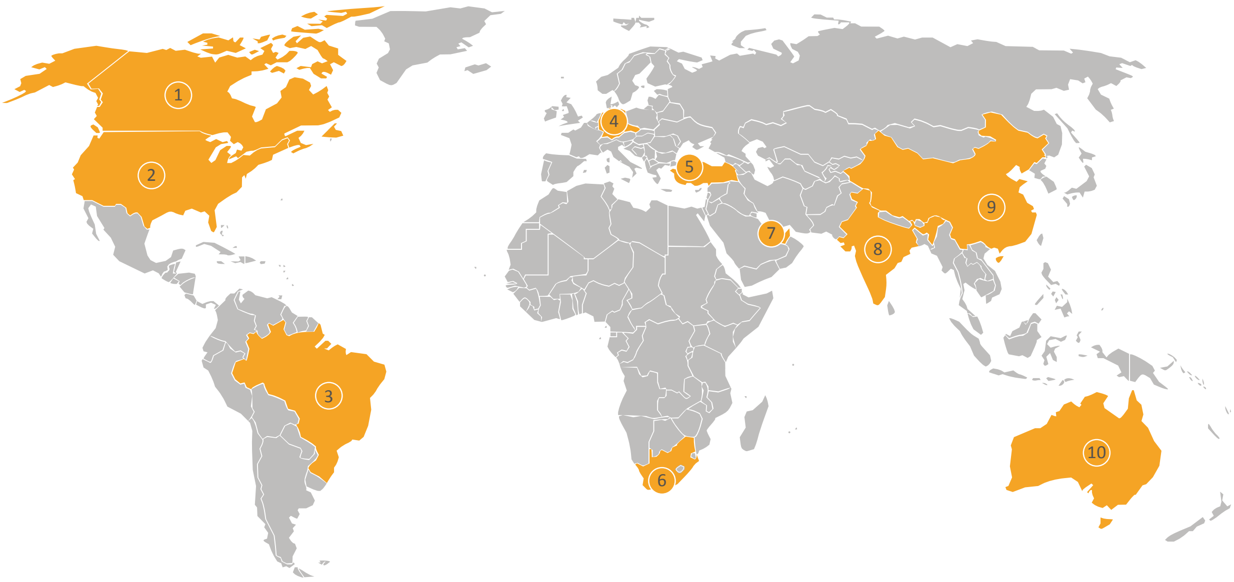
	2016	2015	2014	2013	2012
Dividend yield	3.2	3.2	2.9	2.5	n/a
Return on Capital Employed (ROCE)[4]	9.1	10.7	11.0	11.7	10.9

Employees

	2016	2015	2014	2013	2012
Employees (on average)	3,259	3,325	3,346	3,106	3,118
Sales per employee (kEUR)	319.7	319.1	286.8	275.9	275.7

1 To be proposed at Annual General Meeting 2017
2 Cashflow from operating activities before income tax paid divided by adjusted EBIT
3 Net cash flow from operating activities less investments in property, plant and equipment and intangible assets
4 ROCE=EBIT/(Total assets-current liabilities)

SAF-HOLLAND production locations



1 **CANADA**
Woodstock

2 **USA**
Dumas
Holland
Muskegon
Warrenton North
Warrenton South
Wylie

3 **BRAZIL**
Alvorada
Jaguariúna

4 **GERMANY**
Frauengrund
Keilberg
Singen

5 **TURKEY**
Düzce-Istanbul

6 **SOUTH AFRICA**
Johannesburg

7 **UNITED ARAB EMIRATES**
Dubai

8 **INDIA**
Chennai

9 **CHINA**
Baotou
Xiamen

10 **AUSTRALIA**
Melton

MAGAZINE 2016 SAF-HOLLAND

Moving ahead

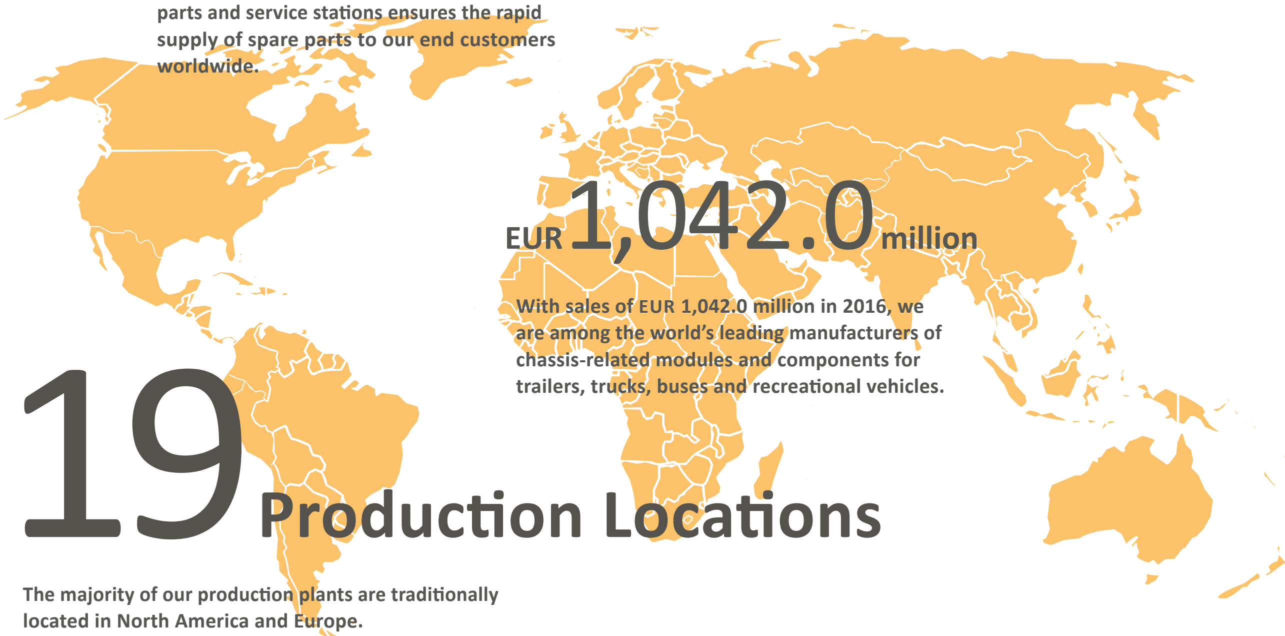
PROFILE

6 Continents

The merger of European-based SAF and North American-based Holland in 2006 created SAF-HOLLAND with operations spanning over six continents.

9,000 Spare Parts and Service Stations

Our reliable network of roughly 9,000 spare parts and service stations ensures the rapid supply of spare parts to our end customers worldwide.



EUR 1,042.0 million

With sales of EUR 1,042.0 million in 2016, we are among the world's leading manufacturers of chassis-related modules and components for trailers, trucks, buses and recreational vehicles.

19 Production Locations

The majority of our production plants are traditionally located in North America and Europe.

3,259 Employees

Over 3,000 employees make SAF-HOLLAND one of the largest suppliers to the commercial vehicle industry today.

SAF-HOLLAND is the largest independent, listed supplier for commercial vehicles in Europe. We develop solutions for the global truck, trailer and bus industries. Our innovative components and systems are our contribution to our customers' global success. In the original equipment business, we supply the major truck, trailer and bus manufacturers. Our extensive, global spare parts and service network ensures customers receive their spare parts quickly. We are one of the few suppliers in our industry that has a broad international footprint in almost all markets worldwide.

“Whether through our organic growth with new products and services, the development of new locations in important future markets or targeted anticyclical acquisitions: 2016 was a year in which we laid the groundwork to set and achieve our ‘Strategy 2020’ growth targets. The new organization, aligned with our customers’ local needs, allows us to profit even more from the growing worldwide demand for transportation. Our aim is to keep moving forward in what we do best without losing our focus.”

Detlef Borghardt, Chief Executive Officer (CEO)

GERMANY

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A conversation with CEO Detlef Borghardt on implementing “Strategy 2020”.

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The construction of a new plant to promote future business in the Middle East.

GERMANY

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USA/CHATTANOOGA

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Equipping 1,800 trailers from U.S. Xpress with axle systems featuring disc brakes.

BRAZIL/ALVORADA

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SAF-HOLLAND expands its product portfolio in South America with its acquisition of KLL.

GLOBALLY

30 Architects of the Future

SAF-HOLLAND employees are driving the trend in digitization forward.

Our annual report is now also available online at ar2016.corporate.safholland.com

Ready for Takeoff

Profitable growth with a focus on new regions – this is the most important goal of SAF-HOLLAND's "Strategy 2020". Before catching a flight at the Frankfurt Airport, CEO Detlef Borghardt explains where the Company stands in the implementation of its strategy and the steps to come.

Mr Borghardt, where are you off to now?
Right after our meeting, I will be flying to our branch office in Beijing. As you know, we intend to boost our growth, not only within, but also outside of our core markets of Europe and North America. As CEO, this means consistently being available locally to talk to our customers and business partners. Despite today's modern means of communication, face-to-face meetings are still the best.

Growth stands at the center of your "Strategy 2020." What progress did you make in 2016?
In 2016, we were able to maintain our level of sales amid a fairly difficult market environment. We were one of the few companies in our industry to achieve this. Even the North American market, which is a very important for us, declined by more than 30 % for trucks and almost 10 % for trailers. We were, however, able to largely compensate for this slump with the very favorable performance in Europe. The development in a number of significant markets such as Brazil, China and Russia was also very modest. Nevertheless, in 2016, we were still able to lay the groundwork for our "Strategy 2020" in some regions – which is an important step in seizing attractive opportunities and generating future growth.

What specifically was achieved in 2016?
This question can only be answered for each region individually, since our growth target is based on a regionally differentiated strategy. Let's start with Europe. Here we added capacity by building a new plant in Düzce, Turkey. Now, not only do we have some added flexibility to respond to order peaks in Europe, but we can now better serve emerging regional markets in Turkey, the Middle East and North Africa, where we have won some major customers. The effects of this will already become evident in 2017 in the form of additional sales. The North American market, on the other hand, will remain challenging. We are responding to this by expanding our structural growth drivers to raise our value added per vehicle, or what we refer to as "content per vehicle."

What you mean by higher "content per vehicle"?
More and more we are delivering not only the axle but the complete overall system consisting mainly of axles, hubs and suspension system that include the brakes. Until now, most of our U.S. customers have been purchasing these components separately. However, with a system approach, customers reap significant benefits not only when it comes to assembly but also in terms of service. And, at the same time, we increase our value added per vehicle by up to 50 percent. The order from U.S. Xpress won in 2016 was a landmark order for the entire market. We will equip 1,800 trailers with an integrated axle and suspension system that includes our latest generation of disc brakes. The transition to this exceptionally high-performance brake technology is now also getting underway in the United States. In Europe today, already more than 80 percent of our axle systems are equipped with disc brakes.

"Now the regions have a voice, which means we can make better decisions when it comes to our strategy in the growth markets."

Detlef Borghardt, Chief Executive Officer (CEO)

What would restrictions on free trade mean for SAF-HOLLAND's success, particularly in the United States?
Restraints in free trade would result in a drop in the share of sea transportation. If domestic production were then to rise, we would see an increase in demand for road transportation which would be positive for our business. In fact, SAF-HOLLAND itself wouldn't feel much of an effect from trade restrictions because we have local production in our sales regions and purchase most of our key supply components in those same markets. In the United States, for example, SAF-HOLLAND is often perceived as a U.S. company. Essentially, I am not too concerned.

I understand, you can achieve quite a lot through organic growth in the core markets of Europe and the United States, but what about the rest of the world? Would acquisitions be necessary?
Well, first let's agree that we have significantly expanded our product portfolio in several regions outside of our core markets and are now able to offer the right products in these markets. A prerequisite for doing this was to strengthen our local development teams. For example, we established our own test center in China. I am very confident that with this approach we will be able to achieve our organic growth target of EUR 1.25 billion in sales by the year 2020.

But let's continue talking about acquisitions. SAF-HOLLAND had to accept defeat this past year with the Haldex offer.
Not at all. We prepared very well for a potential takeover and calculated precisely what we would pay for it. Our offer of 94.42 Swedish krona per Haldex share would have been a fair price. As a bidding war started to emerge, we knew right away that we were not going to join in and could better use our shareholders' funds elsewhere and maintain financial discipline. We emerged from the situation with our heads held high. At the same time, we gained some valuable experience, polished our internal processes and now have something of a blueprint for future large M&A activities.

What is your M & A strategy?
We do not see M&A as a standalone strategy in itself. We have a strategy that can be accelerated through acquisitions when an opportunity presents itself. We use a matrix that defines the eight product lines and eight regions where we intend to actively grow. This results in a total of 64 areas. We also consider acquisitions in those areas where organic growth alone is not strong enough or fast enough for what we want to achieve. But we are not in a hurry. Acquisitions need to pay off.

Does this describe the motive behind the KLL acquisition in Brazil?
Precisely. We took an anticyclical approach when we did this acquisition. The suspension specialist KLL completes our portfolio in the South American market where the trailer business is in the process of transitioning from mechanical to air suspensions. KLL also enhances our product range in the truck and bus segments. KLL had the right products, but after years of market weakness in Brazil, it needed a strong partner. This is when we came into play and ultimately scored.

To facilitate this global expansion, the Company's organization changed in early 2016 from being organized by product area to being organized by region. Has this change been beneficial?
Overall I am very satisfied. Now the regions have a voice, which means we can make better decisions when it comes to our strategy in the growth markets. For example, I travel a lot in Asia but it still makes a difference whether you are coming from abroad or have years of local hands-on experience. Our new structure has made us significantly faster, and we have been able to increase the amount and intensity of our customer contacts. At the same time our business units have overcome their silo mentality and are profiting tremendously from common structures for purchasing and engineering.

What have you learned personally since becoming responsible for the Asia-Pacific region and, with that, the important Chinese market?
I have learned that, in China, in addition to the volume segment which primarily competes on price, there is a growing premium segment for vehicle manufacturers and truckload carriers alike. Their demands are similar to ours: procuring the lightest, safest and best system. Our product range should naturally mirror the segmentation of the market. And this is where we see our strengths.

How do you keep the Company together as a global unit when it has a regional structure?
As part of our regional organization, we have purposely globalized specific functions such as purchasing. This yields synergies, some of which can already be seen in our 2016 results. Other functions such as production and quality assurance are also now operating globally. Our customer base, however, consists of hundreds of companies, most of which are regionally active. Our strength is our diversity. In engineering, this means developing numerous customer-specific applications so that we are also able to meet very individual customer requests. In that sense, we will be expanding our modular system in the future even more.

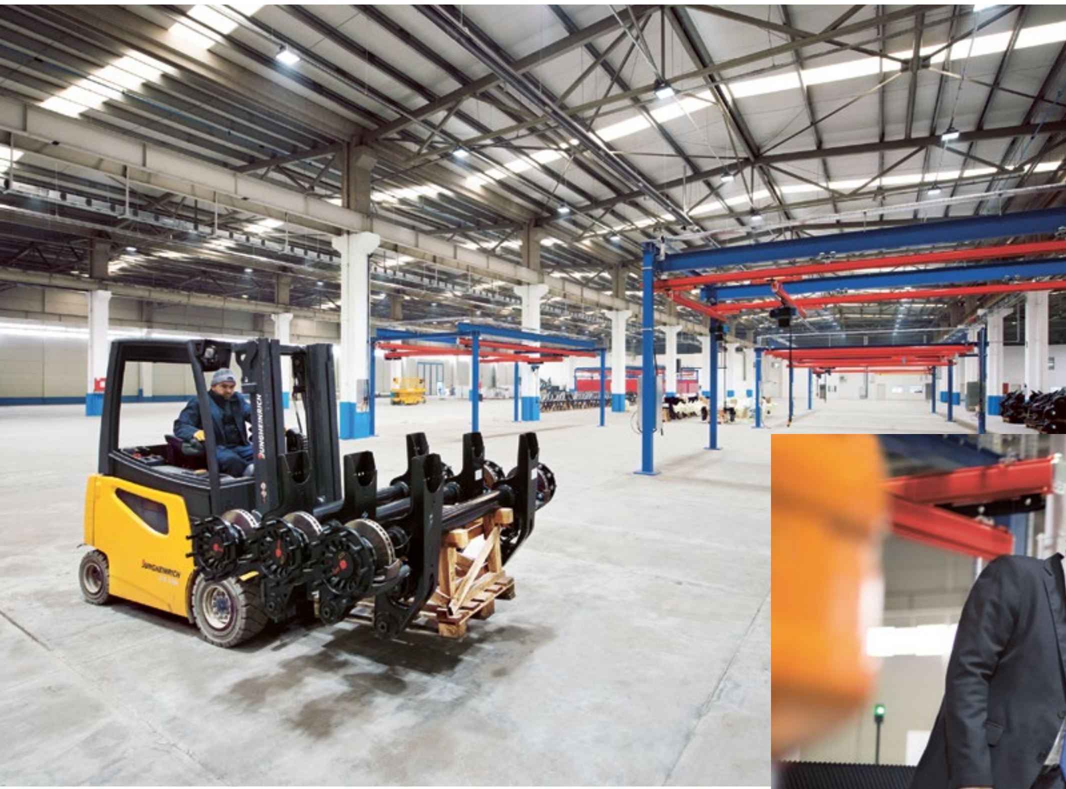
At the IAA Commercial Vehicles fair, the theme of digitization was at the top of the agenda. Is this just temporary hype?
Certainly not. Digitization will progress rapidly in the transportation sector and reach a point where there is no turning back. What this implies for SAF-HOLLAND is first that we will need to equip all of our mechanical components with linked up sensors. One example is the fifth wheel assistant for the U.S. market, which gives the driver an opto-electronic signal when the trailer is improperly coupled. In the future, digitization will mean much more. For example, when we can predict in advance when components will wear out, we will be able to optimally manage our entire aftermarket network and offer valuable added benefits from our data. And we will make a key contribution to lowering the truckload carriers' total cost of ownership – which is really the ultimate success factor in the transportation industry.

Mr Borghardt, thank you for your time – and have a good flight!

CEO Detlef Borghardt meeting customers:
Face-to-face meetings count

The Orient

The Turkish city of Düzce, between Ankara and Istanbul, is the location of SAF-HOLLAND's latest plant built in 2016. The construction of this plant represents another step on the way to achieving the "Strategy 2020" goal of taking advantage of the transportation sector's growth in emerging markets. Despite the currently challenging situation and more pronounced market fluctuations in some regional markets of the Middle East, there are some interesting opportunities waiting in this highly populated region that are worth preparing for.



Production to start
at the new plant
after just one year

Turkey's Managing Director Bilal Azizoglu
We don't have any problem finding qualified employees

DÜZCE-INSTANBUL
Turkey
Production location

Hazelnut plantations, as far as the eye can see. Three out of four of the world's hazelnuts are harvested in Turkey. Ten kilometers from the Black Sea, the region around the city of Düzce is one of the preferred areas for agriculture with its very hot summers and icy cold winters. Yet, it's not the climate that brought Bilal Azizoglu here but the strategic location halfway between Ankara and Istanbul. Under his direction, SAF-HOLLAND's first plant in Turkey, directly at the traffic artery, was established in 2016 and will start production in the first quarter of 2017. A total of 35,000 axle systems are expected to leave this plant every year by 2018.

SAF-HOLLAND's investment in this new plant is also an investment in a growing market. Since the arrival of the new millennium, Turkey has become one of the most vital production centers for Europe's commercial vehicle industry. First came the bus and coach manufacturers, whose final assembly was very labor intensive due to the different configurations. In the meantime, a growing number of heavy-duty commercial vehicles and their trailers are being manufactured in Turkey. In 2015, which was a record year, a total of 275,000 commercial vehicles and roughly 25,000 trailers left production plants. "The Turkish government has invested massively in infrastructure in the past ten years," offered Azizoglu

“Turkey is Europe’s bridge to the Middle East.”

Bilal Azizoglu, Managing Director of SAF-HOLLAND in Turkey

explaining his customers’ investment decisions. “From communication networks to highways, the entire country went through a wave of modernization.” Still, the favorable conditions, which include the direct support of the ministry of economy, were just one aspect. “Turkey is Europe’s bridge to the Middle East,” says Azizoglu. This statement is especially true for vehicle original equipment manufacturers who deliver from Turkey to the Arab peninsula – a region that experienced a construction boom until 2015 that boosted the demand for commercial vehicles. The Iranian market may have a greater role to play in the future. “Of course growth in Iran also depends on future political developments,” says Azizoglu. “The potential for recovery in this country, with more than 75 million inhabitants, is enormous.” This outlook is also reflected in the World Bank’s forecast for economic growth in Iran of 4.6 % in 2017. The Iranian government’s five-year plan even shows a targeted annual growth rate of 8 %. Turkey is also an international hub for the transportation industry. “The food produced in Turkey, for example, is distributed throughout the entire region,” explained Azizoglu. “And, of course, it needs to be transported – preferably by land.” Currently, however, trade is suffering because the war in Syria is blocking one of the most important routes. “It’s only a matter of time before this problem is solved,” says Azizoglu optimistically.

SAF-HOLLAND, on the other hand, wasted no time constructing its new plant, which only took about a year to complete. “We Turks are quick and pragmatic,” says Azizoglu, who himself was born in Schleswig-Holstein, Germany, and later studied in Ankara. It wasn’t only a question of mentality, but also the smooth cooperation between the headquarters in Bessenbach and the colleagues locally that made it possible to work quickly. “We were able to simply ‘copy and paste’ the whole production concept used in Bessenbach,” explained Arne Jörn, Chief Operating Officer responsible for SAF-HOLLAND’s global production system. The machines and equipment for Düzce were newly purchased and configured for production use in Germany. Experienced workers from Bessenbach, some who were even originally from Turkey, came to Düzce to help set up the new plant and training for the new staff. Some of this new staff will also spend time at the Spessart location. Jörn and Azizoglu shared the project management

Customer discussion
Turkey has grown into a center for the commercial vehicle industry

and every week discussed all of the pending issues in detail, for example, the renovation of the rented, three-year-old plant hall, which at one point had failed to meet all of SAF-HOLLAND's requirements. One of the biggest challenges was a process step integrated into the axle production process in Germany: the cathodic dip-paint coating, which is the basis for anti-corrosion protection. Because the necessary equipment ties up a relatively high amount of capital, it was not feasible to set up a duplicate process in Düzce. After conducting a search together, Jörn and Azizoglu finally found a suitable provider in the region.

Finding employees, on the other hand, was actually not that difficult. "In Turkey, the commercial vehicle industry is seen as a growing, future-oriented industry," explained Azizoglu. SAF-HOLLAND, as a multi-national company, is particularly attractive for workers." Just one week after publishing the first online job advertisements, there were already 150 applicants. Although not all were qualified, after a strict interview process an initial team was quickly assembled. Experienced people from the automotive industry were hired for key positions in areas such as production and quality management.

"We were able to simply 'copy and paste' the whole production concept used in Bessenbach."

Arne Jörn, Chief Operating Officer of SAF-HOLLAND

Word had spread among the Turkish customer base that SAF-HOLLAND was now producing locally. "The initial reaction was 'When can you start delivering?'", described Azizoglu. Shorter transportation distances greatly increase delivery flexibility, which can be an important advantage, especially in the trailer business. Whereas, previously, two to three weeks would pass between the receipt of an order in Bessenbach and delivery in Turkey, now the time is projected to fall to just two to three days. "We also were able to increase our overall capacity for the European market and thereby reduce the delivery times to our European customers," added Jörn. The service business with Turkish customers is also benefiting from the new location, which has a developed area totaling roughly 1.3 hectares and has significantly more room than the previous location in Istanbul. The Aftermarket warehouse has already moved to the new location. "This is now another area where we

The new plant:

35,000 axles

per year is the future target for the plant in Düzce.

2-3 days

delivery times help increase the flexibility for our regional customers.

Faster delivery
Portions of the aftermarket business will also be located in Düzce

can respond more flexibly to our customer requests," promises Azizoglu.

Like the days of incredible treasures that made the Ottoman empire into a world trade center, this is how Turkey intends to be the bridge for the exchange of goods between Europe and the Middle East today. Be it gold, machine parts or simply hazelnuts. What these goods have in common is that they must be transported – on axles, of course. Good prerequisites for SAF-HOLLAND's new plant.

AN EXTRA BOOST SAF TRAK

Expanding market share in axle and suspension systems for trailers is a key component of “Strategy 2020”. This is why SAF-HOLLAND is concentrating on growth through innovation and new solutions for special customer requirements in its core market of Europe. In 2016, the axle specialist developed its first hydraulically driven trailer axle. These axles help tippers, which often find themselves on rough terrain, gain significant traction, which can otherwise only be achieved with the help of tractors with more than one driven axle line.

Only

200kg

of added weight is contributed by the drive system. The weight of the axle drive is negligible because it is based on SAF-HOLLAND’s existing suspension system technology.

A compact hydraulic motor in the inner wheel provides an extra boost – in this case for the rearmost trailer axle.

Energy from the tractor for the trailer

For added thrust, SAF TRAK uses the hydraulic power available, which is being held ready for use for the tipping cylinder.

Approx.

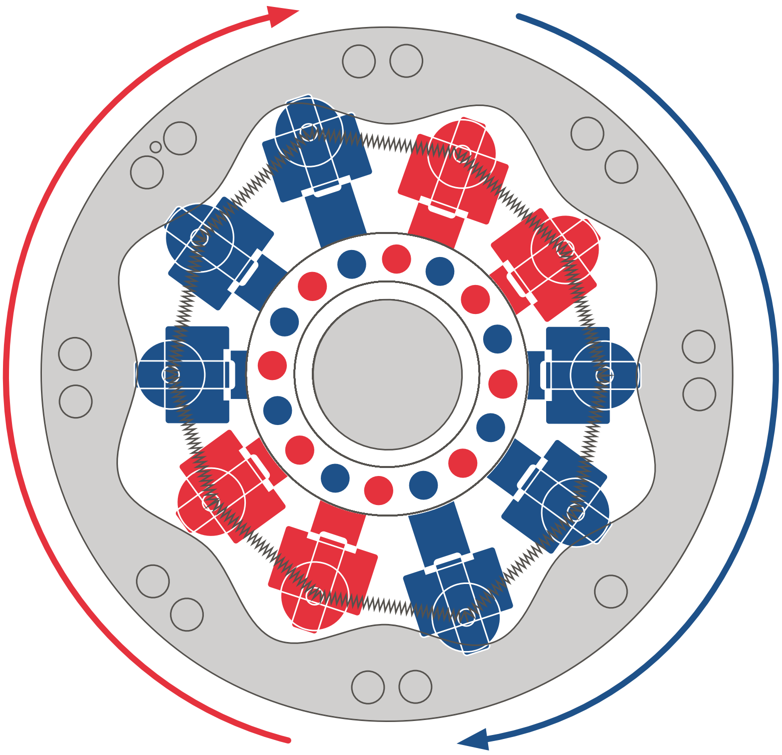
10km/h

is the level currently set to trigger the pull-away assist function. The drive then switches off, and a freewheel function minimizes the drag losses of the hydraulic motors. SAF-HOLLAND's developers are currently working on optimizing the threshold speed which is also depending on the system components.

OFF

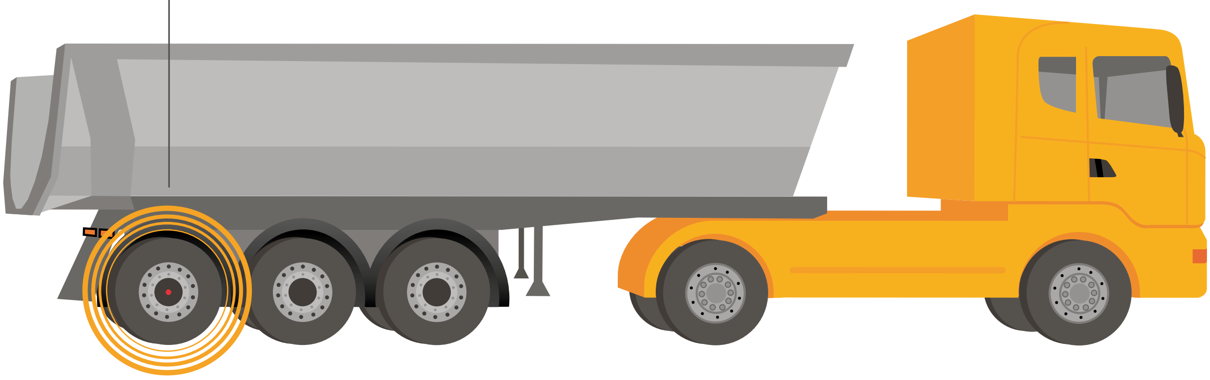
ON

The driver can turn the pull-away assist on and off using a simple switch in the cab.



This is how a hydraulic motor works:

In a radial piston motor, the hydraulic pressure drives the pistons, which act outwardly on a specially curved track. This is how the pistons make the motor rotate.



The hydraulic motors are fitted on the inside of the wheels, usually on the rearmost axle of the trailer. If the tipper is fully loaded, then this axle must endure a particularly high amount of weight. This allows the trailer driver to push the entire vehicle in order to make it up a slope or to free the vehicle from muddy terrain.

“When developing the new trailer drive, our engineers were able to build on the experience already gained from hydraulically driven pendulum axles for vocational vehicles.”

Dr Stefan Wallmeier, Vice President Engineering at SAF-HOLLAND

A gravel pit in the Spessart hills. It’s autumn. A drizzle falls over the countryside softening the soil. Several engineers watch a tipper drive slightly uphill. The drive axle of the tractor starts to slip. The vehicle slows down and eventually gets stuck. “Usually at this point, the driver would ask for help, possibly opting to be towed by a wheel loader,” said Dr Stefan Wallmeier, Vice President of Engineering at SAF-HOLLAND. But in this case, Dr Wallmeier and his team have equipped the tipper with the SAF TRAK. At the push of a button, the driver can activate the wheels rotating on the trailer’s rear axle and boost the vehicle almost effortlessly out of the mud.

The crucial extra boost is ensured by two hydraulic radial piston motors located in the wheel hub of the powered trailer axle. The drive system uses the same hydraulic pressure already provided by the tractor to raise the cart body. A valve block disperses the hydraulic fluid as required either for tipping or powering.

If the driver chooses the trailer’s drive, then hydraulic fluid is directed to a second valve block. This valve block synchronizes the direction of the axle drive with the tractor’s engine control. It can also power the right or the left wheel of the trailer axle separately if required – known as the differential lock function. This function is important if one of the wheels is on a slippery terrain and not able to transmit torque.

Hydraulic motors are well-suited for providing a boost in difficult terrain because of their very high torque. SAF-HOLLAND’s axle drive supplies up to 14,000 Newton meters of additional torque depending on the system pressure. If this force is no longer needed at a speed of roughly 10 km/h after the start-up, SAF TRAK will then proceed to activate a free-wheeling function in which a spring pulls the pistons back in the hydraulic motor to minimize drag losses.

“The core element of the hydraulic trailer drive is our proven INTRA CD suspension system equipped with disc brake technology,” explains Wallmeier. “The unit only needs to be extended at the ends of the axle by adding another stub axle, hub unit prepared to receive the motor, a sealing system and controls.” This is why the hydraulic drive, which won the “Trailer Innovation 2017“ award at last year’s IAA, can also be retrofitted onto existing trailers and combined with numerous tractors. Another plausible use for these drives, aside from their use in tippers, is their use in other vehicles that provide a high level of hydraulic power – for example, agricultural machinery, forestry vehicles and vehicles with moving floor.


LIFT
POINT

XPRESS BRAKING

"More value added per vehicle" is one of the stated objectives of SAF-HOLLAND in order to increase organic sales as part of "Strategy 2020" – particularly when it comes to the North American trailer market. The beginning switch from drum to disc brake technology offers a substantial opportunity to increase the value added per vehicle. SAF-HOLLAND received its first major order in 2016: a total of 1,800 U.S. Xpress trailers were equipped with complete axle and suspension systems including disc brakes, representing a landmark order for the market.

CHATTANOOGA
Tennessee
U.S. Xpress headquarters

Established trust
Gerry Mead, U.S. Xpress (right) and Pat McNamara of SAF-HOLLAND in conversation

In Chattanooga, Tennessee, we meet with Gerry Mead, Senior Vice President of Maintenance at U.S. Xpress. He shares with us his views about innovation, specifically disc brake technology that has generated more and more interest in the North American trailer market. During our visit at U.S. Xpress headquarters, Mead is not going to miss the chance to personally showcase the new trailer equipped with SAF-HOLLAND's new P89 disc brakes. He has been in the business for over 27 years and oversees the fleet of logistics company U.S. Xpress in Chattanooga – a fleet consisting of over 15,000 trailers and almost 7,000 tractors on the move across North America. In March 2016, Mead was honored as Truck Fleet Innovator by the renowned magazine Heavy Duty Trucking. This award was for efficiency and the use of solar technology. Now Mead, together with SAF-HOLLAND, is onto the next innovation breakthrough: disc brakes for U.S. Xpress' fleet of trailers. Though air disc brakes are the standard in Europe, it's still not a large percentage of the market in the United States. Disc brake technology introduced to North America in the early 1970's, suffered from substandard materials and braking equipment that was the wrong size. As a result, the industry stayed with drum brakes which, despite their moderate performance and difficult maintenance, has continued to be the predominate brake technology used in North America.

But not at U.S. Xpress: Mead has 1,800 trailers equipped with disc brakes and each and every brake came from SAF-HOLLAND. U.S. Xpress is now no longer ordering drum brakes for its trailers, and its entire fleet is expected to be converted within the next six years. That's good news in terms of traffic safety:

“At U.S. Xpress, we are proud of our willingness to try new things.”

Gerry Mead, Senior Vice President Maintenance, U.S. Xpress

The fleet
U.S. Xpress has over 15,000 trailers on the road

Gerry Mead
is certain that disc brakes are the right choice

Mike Colaccino
Senior National Account Manager
SAF-HOLLAND Inc.

Pat McNamara
Director National Accounts
SAF-HOLLAND Inc.

“The time has come, and we are well positioned to further the conversations with the key fleets in North America with regards to the P89 disc brake.”

Pat McNamara, Director National Accounts at SAF-HOLLAND Inc.

Working behind the scenes
Disc brakes provide more safety

“The braking distance with disc brakes is significantly shorter than with drum brakes, which is an invaluable advantage,” said Mead adding: “The advantages are there from day one, of which safety plays a key factor in choosing air disc brakes. The benefits of this technology need to be seen from a holistic perspective.”

The fact that the breakthrough for trailer disc brakes is now imminent can be traced to the long-term cost advantage for the fleet operators. The purchase price of disc brakes is higher than that of drum brakes. Yet, disc brakes feature a higher degree of efficiency and durability and require less time for maintenance – time that can be used with the vehicles to earn more money.

“Safety played a key factor in choosing air disc brakes.”

Gerry Mead, Senior Vice President Maintenance, U.S. Xpress

SAF’s P89 disc brake systems are on the rise

10 pounds

less weight per axle is possible with the special lightweight design.

30 %

longer maintenance intervals due to optimized pads.

5-year

comprehensive warrenty which puts the P89 at the forefront of the competition.

Still, it took a very North American approach to persuade Mead even though a European disc brake for trailer axles has been on the US market in a slightly modified form for a long time. The breakthrough at U.S. Xpress can be attributed to the entry cost of the P89 disc brake that is perfectly tailored to customers’ needs. The P89 is part of a complete single source axle and suspension system that SAF-HOLLAND offers and a key reason for Mead’s choice because it gives him a single point of contact and access to SAF-HOLLAND’s close-knit service network. “The right package for the new technology was simply not available until we sat down together in Nashville a year ago. We talked through the project and then sealed it with a handshake,” Mead remembers. SAF-HOLLAND Director of National Accounts, Pat McNamara expects that a number of fleet operators will follow the example of U.S. Xpress. “The time has come”, says McNamara adding, “We are well positioned and excited to further the conversations with the key fleets in North America with regards to the P89 disc brake.

The US market is different and, in many ways, harder – the romanticism of the trucker lifestyle still plays a larger role here than in many countries. When Mead and McNamara talk about future challenges it becomes obvious that the industry won’t run out of ideas. “Telematics solutions for trailers will be the next big trend,” says Mead. And he wants to be there to help shape it: “At U.S. Xpress, we are proud of our willingness to try new things.”

Revving up for Recovery

Through its “Strategy 2020”, SAF-HOLLAND is targeting a combination of organic and external growth. Joint ventures, cooperations and acquisitions will be some of the measures taken to boost growth in new regions and with new products. By acquiring KLL, SAF-HOLLAND took an anticyclical approach to its strategy in South America. Although this region, with more than 400 million inhabitants, is struggling with a crisis, it will still be one of the fastest-growing transportation markets for the next several years.

Rogério Ramos (left) and Juarez Keiserman
Working together on the integration

RIO GRANDE DO SUL
Brazil
KLL Equipamentos para
Transporte Ltda

Anyone flying into São Paulo can notice immediately that there is something amiss in Brazil's transportation sector: the parking lots of the airport-based freight forwarders are filled with trucks lined up closely together. On weekdays, these parking lots are usually empty because all of the vehicles are in use. Even people leaving São Paulo for the port city of Santos can see signs of crisis everywhere. Although São Paulo's Anchieta freeway runs through Brazil's highest industrialized region, many companies are closed with For Sale signs posted on their factory gates. Automakers such as Volkswagen and Mercedes have factory yards filled with unsold vehicles. Even traffic jams are rare. Brazil is in a severe economic crisis. The country's gross domestic product has declined by 7 % since 2014. The transportation sector is also feeling the recession. While in 2011, a total of 207,400 trucks and buses were sold in Brazil, five years later the manufacturers association Anfavea estimates only 67,000 have been sold – a drop of 67 %.

Air suspensions and axles
Complete systems now also supplied out of Brazil

Anticipating the upswing
Long-term demand is set to rise

“The market for air suspensions is still at a very early stage in Brazil, but the trend is irreversible.”

Juarez Keiserman, Managing Director of KLL

One might conclude that the land of the Amazon may have lost its lure for investors in the transportation sector. Not true in the case of SAF-HOLLAND who has acquired a 57.5 % stake in the Brazilian company KLL Equipamentos para Transporte Ltda in 2016. The manufacturer of suspension systems for trucks, buses and trailers is based in Alvorada, Rio Grande do Sul – right next to the headquarters of Brazil’s large freight forwarders and several truck suppliers. Rogério Ramos, Managing Director of SAF-HOLLAND’s Brazilian subsidiary, believes this crisis offers a perfect opportunity to strengthen the Group’s market position in South America: “We are deliberately making an anti-cyclical investment in the largest transportation market in South America boasting more than 200 million inhabitants.”

By acquiring KLL, SAF-HOLLAND has gained much broader access to the Brazilian market than it could have achieved alone. “With KLL, we can enter into business with truck manufacturers directly,” explains Ramos. KLL’s long track record in the industry means it can deliver straight to leading bus and truck manufacturers. Both suppliers are planning a joint expansion, especially in the market for air suspension systems for trucks and buses. “The market for air suspensions in Brazil is still at a very early stage,” noted Juarez Keiserman, founder of KLL 28 years ago, and now a top executive of the combined entity of KLL and SAF-HOLLAND Group. Trucks with squeaky

A brand with tradition
KLL has been operating in Brazil for 28 years

Production in Alvorada
Capacity for future growth

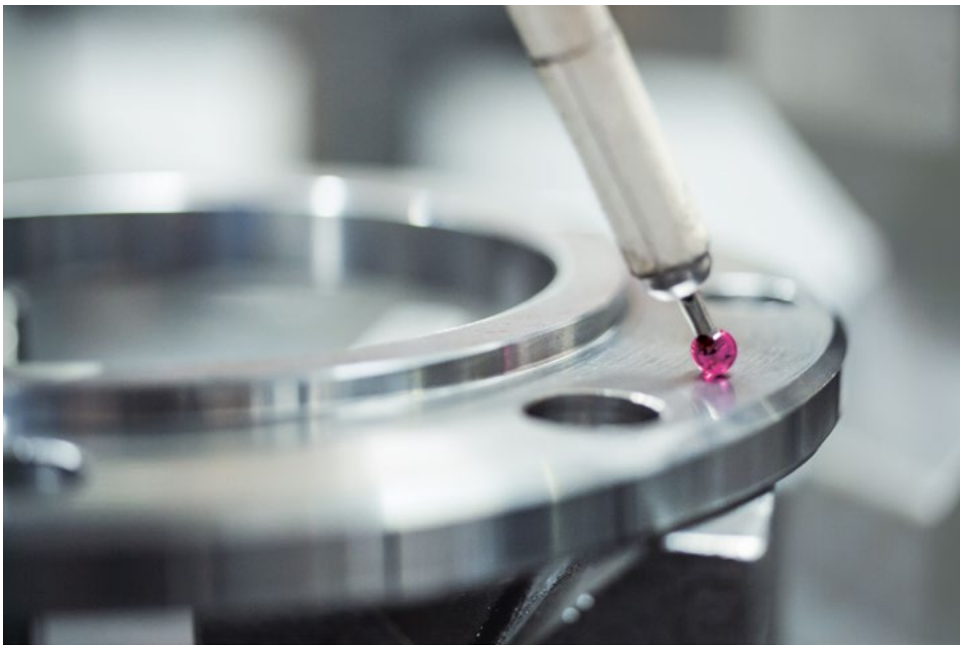
flat springs are still commonplace on Brazil's highways. Only around 16 % of Brazil's trucks are currently equipped with air suspensions. In the European Union, this figure is 95 %. Still, Keiserman is optimistic: "The trend is not reversible, even in Brazil."

Keiserman and Ramos are currently examining how SAF-HOLLAND and KLL in Brazil can integrate their production and raise efficiency. SAF-HOLLAND has had its own production plant in Brazil for the past ten years. At the location in Jaguariúna, 130 kilometers from São Paulo, the Group has mainly been producing axles. KLL is significantly larger: The production plant in Southern Brazil is located on a campus the size of seven soccer fields. The location had 340 employees until 2013. Now there are just 200. KLL has also been caught up in the crisis. The production of suspensions for trailer axles has dropped almost two-thirds. "At the same time, we even managed to increase our market share," says Keiserman.

Now, with the companies' combined product portfolio, Ramos hopes that market share will increase significantly faster with the next economic recovery. "We can offer our entire U.S. and European product range in Brazil", says Ramos. "We can now tailor our product range to meet the demands of the local market." Because the conditions in Brazil are different from those in Europe: The roads are far worse. Large parts of the Brazilian highway network consist of two-lane roads full of potholes. Many routes are on unpaved roads. Because of the country's size, quality service in repair shops is ensured only in coastal urban areas. "We have to 'tropicalize' the products

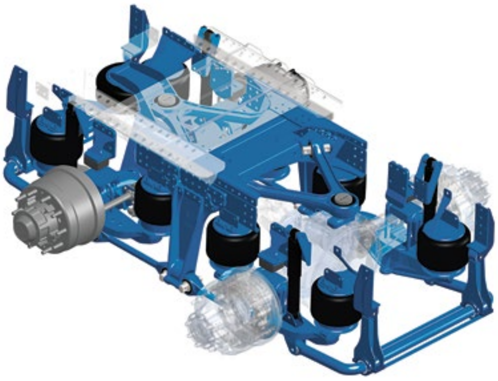
"Truck operators will start investing in their fleets again at the first hint of stabilization."

Rogério Ramos, Managing Director of SAF-HOLLAND do Brasil



Precision counts
Automated measurement of component quality

A standard at KLL: robust air suspensions



- For heavy- and medium-duty vehicles
- Adaptable for 4x2, 6x4 and 6x2 drives

from Europe," says Keiserman. This opens up additional market potential for SAF-HOLLAND in Brazil given the Group's plans to develop products in Brazil, which could also be sold in other emerging markets with similar requirements and infrastructure.

After years of crisis, the Brazilian market may also see a recovery soon thanks to falling interest rates. In 2017, the economy is expected to grow again slightly. The crisis has led to a perceptible increase in the average age of the truck fleet. Ramos predicts: "Truck operators will start investing in their fleets again at the first hint of stabilization." Experts from the Anfavea vehicle association expect growth in the commercial vehicle market to sharply outpace that of the economy as a whole. The industry is looking for 10 % growth in the commercial vehicle market in 2017. "We are optimistic," said one dealer from a large commercial vehicle brand. "For the first time in a long time, we are receiving customer inquiries."

Architects of the Future

The digital networking of commercial vehicles and complete logistics chains has revolutionized the transportation industry. SAF-HOLLAND's ability to utilize this trend and achieve its growth targets as part of its "Strategy 2020" can be illustrated by three of the Company's current projects. Behind each project is a team of dedicated employees, who are already working on making future ideas a reality.

Alex Schöpf
Team Leader Backoffice Sales
Fleets DACH Region
Bessenbach, Germany

“I see *moving ahead* as designing the digitally networked future. The continued development of the ‘SAF-HOLLAND Connect’ app is an important element in making sure we profit from the changing world of digitization.“

SERVICE

The App Connection

In the eyes of Alex Schöpf, an app is never complete. With his specially designed ‘SAF-HOLLAND Connect’ app, he offers fleet operators, repair shops and spare parts dealers real added value. All of whom can use the app to register for repair workshops and spare parts sales training, retrieve spare parts catalogs and maintenance instructions, and receive the latest news feeds. His goal is to further minimize the downtime for trucks and trailers through digitization and faster processes. Since all service processes are linked together, Schöpf’s app pays special attention to interlinking the individual functions.

TECHNICAL INNOVATION

“We see *moving ahead* as driving forward tomorrow’s technologies. With new ideas and new digital approaches, we strive to exceed our customer expectations. One example is the Holland ELI-te™ system, which makes coupling safer for the driver.“

Andrew Wallner and Rich Sibley
Senior Project Engineer & Senior Project Manager
Holland (MI), USA

Mechanisms with sensors = Putting the driver in full control

If a trailer is not correctly coupled to a tractor, it greatly endangers the other drivers on the road. This is the reason drivers are required to check the fifth-wheel coupling to make sure the trailer is attached properly before driving off. Andrew Wallner and Rich Sibley intermeshed mechanical and opto-electronic sensors to an effective digital solution which now supports the driver with the new ELI-te™ (Electronic Lock Indicatortechnology enhanced). When the trailer is coupled safely, the sensor system gives a signal, and four white LED lamps light up, making it much easier to do a visual inspection; when not, red lights flash a warning. The two developers placed a high value on simple installation, which is why they deliberately avoided putting the display in the cab and opted instead to place it near the fifth-wheel coupling for an on-site check – a precaution that is already legally required in the United States.

Thomas Holy
Project Manager Operations/Industrial Engineering
Bessenbach, Germany

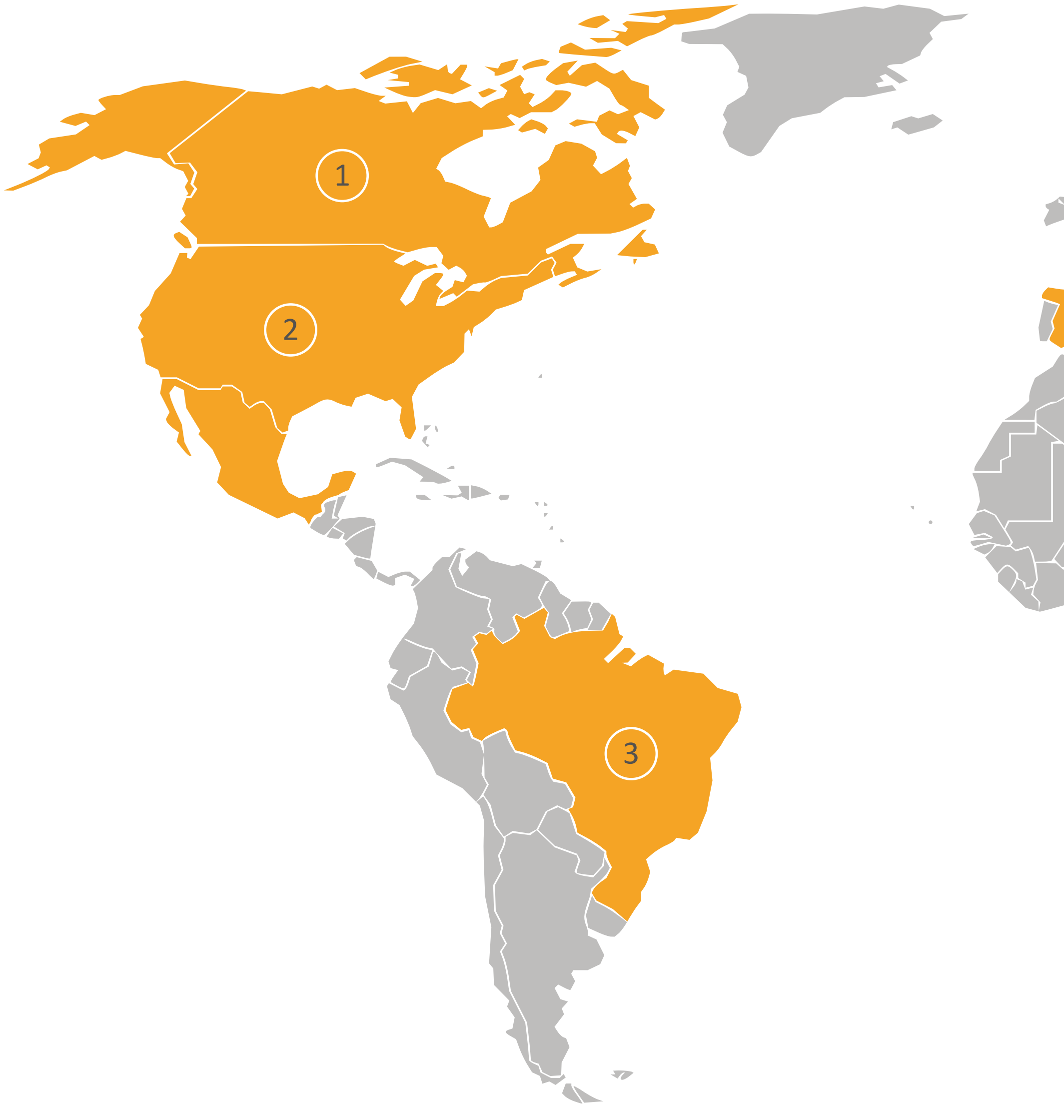
PRODUCTION

"To me, *moving ahead* means moving the Company forward competitively and thereby making a contribution to the future. To achieve this, we have optimized the availability of materials in the axle system assembly process, streamlined and digitized this process and in doing so we have noticeably raised the productivity."

Equipped for the future: Heavy axles assembled easily

There were just ten days to completely dismantle the old assembly lines and set up an all new line based on "lean" principles. When looking back, this is what Thomas Holy believes was the biggest challenge in redesigning the axle system assembly line and the process optimization at Plant 03 in Bessenbach. For this foreman and quality specialist with a Six Sigma black belt, it was the structured preparation and intense team work that made the project a success. The result has been much more efficient processes and cost savings leading to a step up in the location's competitiveness. Production data are now transmitted directly to Radio Frequency Identification (RFID) tags and attached to the axle digitally as it moves its way through assembly. There is a permanent exchange of data among the IT systems ensuring that all the important information is available at all times on the assembly line.

IMPRINT



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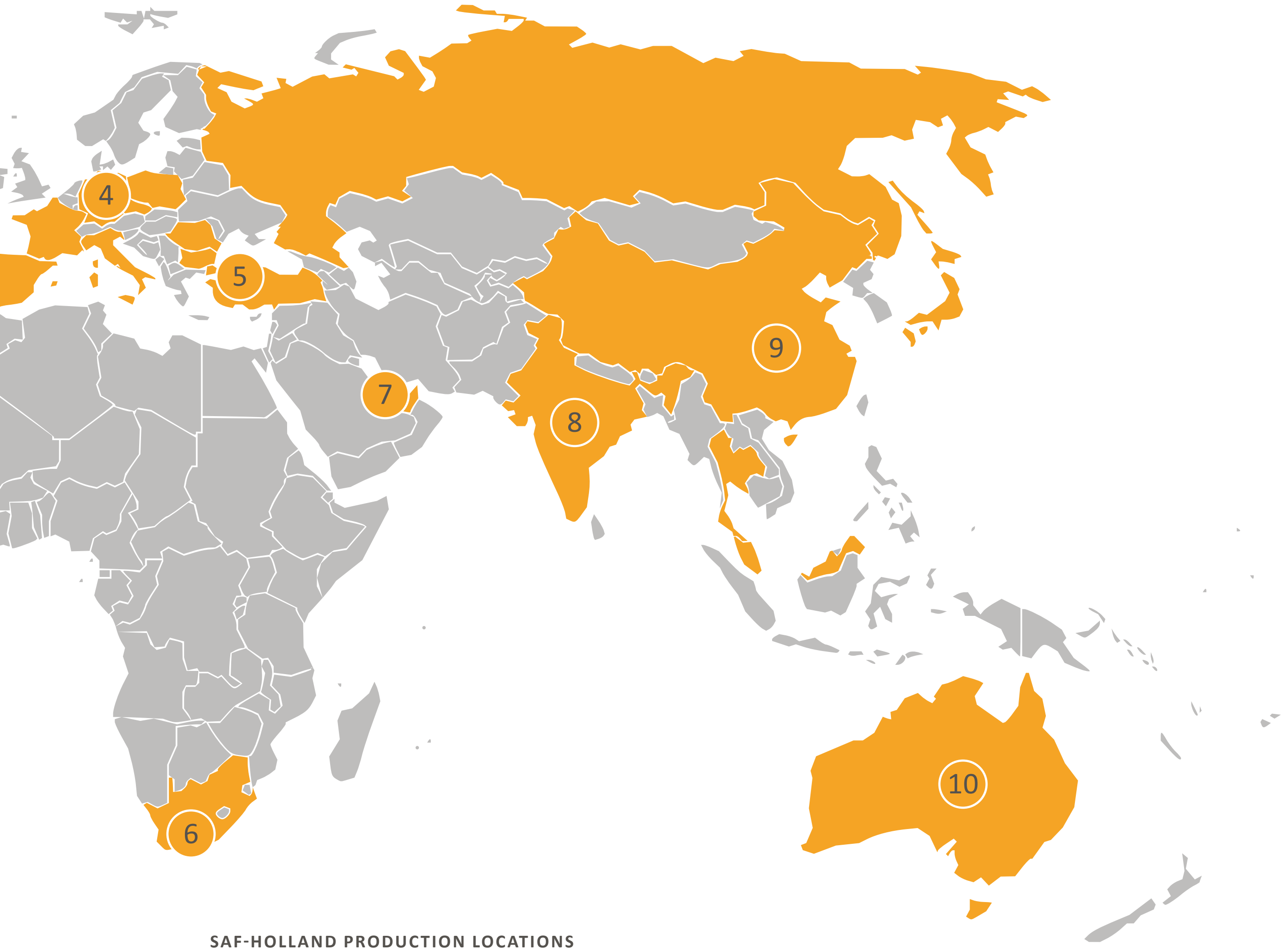
SAF-HOLLAND PRODUCTION LOCATIONS & SUBSIDIARIES



SAF-HOLLAND PRODUCTION LOCATIONS

1 **CANADA**
Woodstock

2 **USA**
Dumas
Holland
Muskegon
Warrenton North
Warrenton South
Wylie

3 **BRAZIL**
Alvorada
Jaguariúna

4 **GERMANY**
Frauengrund
Keilberg
Singen

5 **TURKEY**
Düzce-Istanbul

6 **SOUTH AFRICA**
Johannesburg

7 **UNITED ARAB EMIRATES**
Dubai

8 **INDIA**
Chennai

9 **CHINA**
Baotou
Xiamen

10 **AUSTRALIA**
Melton

SAF-HOLLAND SUBSIDIARIES

AUSTRALIA
Melton

BRAZIL
São Paulo

BULGARIA
Sofia

CHINA
Beijing
Hong Kong
Xiamen

GERMANY
Bessenbach

FRANCE
Ablis

INDIA
Chennai

ITALY
Verona

JAPAN
Tokyo

CANADA
Woodstock

MALAYSIA
Kuala Lumpur

MEXICO
Mexico City

POLAND
Piła

ROMANIA
Ghimbav-Brasov

RUSSIA
Moscow

SPAIN
Barcelona

SOUTH AFRICA
Johannesburg

THAILAND
Bangkok

CZECH REPUBLIC
Napajedla

TURKEY
Düzce-Istanbul

USA
Muskegon

UNITED ARAB EMIRATES
Dubai

Our annual report is now also available online at
www.ar2016.corporate.safholland.com

www.safholland.com

“We have laid the groundwork to achieve our ‘Strategy 2020’ growth targets.”

Detlef Borghardt, Chief Executive Officer (CEO)

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MESSAGE FROM THE CEO

Detlef Borghardt, Chief Executive Officer (CEO)

Ladies and Gentlemen,
Dear Shareholders and Investors,

In my message to you one year ago, I indicated that 2016 would be a challenging year. At that time we expected the North American truck and trailer market to normalize in 2016 after three record years in a row. As you know, there was more than just a correction: the North American market, measured by the production of heavy Class 8 trucks, suffered a sharp decline of almost 30 %. Other important transportation markets, such as those in Australia, Russia, Brazil, and Turkey in the second half-year, were also weak in the 2016 financial year for very different reasons. Given the difficult market environment, we are satisfied with our business performance. Taking into account the sale of our Aerway product line and excluding currency effects, we managed to maintain our level of sales. With an adjusted EBIT margin of 8.7 %, we not only reached our target for the 2016 financial year, but our performance set us apart from others in our industry. We want to ensure that our shareholders participate appropriately in the company's success and are therefore proposing a 10 % higher dividend of 0.44 Euro to the Annual General Meeting on April 27, 2017.

What is the key to our success? For years, SAF-HOLLAND has consistently focused on cost leadership and structural growth by positioning the Group in the market early on with solutions such as axle systems with disc brake technology, lightweight construction and special solutions such as SAF TRAK all with the intention of steadily expanding our sales per vehicle while gaining market share at the same time.

Step-by-step, we are also optimizing our internal processes and structures. After successfully completing the consolidation of the European plant network in the previous year, our focus in 2016 was on implementing the Group's new structure by region and the bundling of the Group's purchasing activities. In addition, our better management of working capital, among other measures, allowed us to significantly increase our free cash flow and reduce our net debt to less than EUR 100 million, despite the takeover of the Brazilian specialist for suspension systems KLL and the payment of a 25 % higher dividend for the year 2015.

In last year's message, I also introduced our "Strategy 2020" which includes our goal to expand sales to around EUR 1.5 billion by the year 2020. A key element of this strategy is generating external growth through joint ventures, collaborations and acquisitions. Last year, we made a takeover offer for Haldex AB, the Swedish supplier of brake systems and modules for air suspensions. The aim of this offer was to create an integrated champion for chassis-related commercial vehicle components. Shortly thereafter, two more bidders appeared with significantly higher offers for Haldex. We decided to maintain our financial discipline and refused to participate in a bidding war. We choose not to increase our offer and eventually withdrew it entirely. This decision was an expression of our strong conviction that takeovers should not only be appropriate in the strategic sense but also pay off from a financial perspective. The fact that we were not able to acquire Haldex is unsatisfying but will not stop us from reaching our 2020 targets. We took our first step in this direction with the aforementioned acquisition of KLL in Brazil – and there is more to come. We will continue to diligently work on these steps in 2017. I can assure you that, in any future acquisitions, we will not lose sight of our M&A principles and will continue to act in the best interests of our shareholders.

Another focal point of our activities in 2017 will be the restructuring of our activities in North America. We want to be more efficient, more flexible and, above all, in closer proximity to our customers to improve our delivery times. To achieve this, we will be centralizing our structures and consolidating the production capacities at our seven existing production locations into five production locations. With the completion of the restructuring measures already under way, we will reduce our direct cost base by a mid-single-digit million US dollar amount annually, thereby ensuring the long-term competitiveness of the North American production network.

In 2017, we expect vastly different market performance on a regional basis with some markets being dominated by political uncertainties that are difficult to assess. The market environment in North America, Brazil and parts of the Middle East should continue to be challenging in 2017 with an improvement expected only in the second half-year. The tax cuts and infrastructure packages currently in discussion in the United States government could certainly have a positive effect on our business. In Europe, we expect the solid development to continue. All in all, we are confident that we will be able to grow the Group's sales this year to between EUR 1,060 and 1,090 million based on constant currency rates and no change in the scope of consolidation supported by market share gains, the introduction of new products and the start of some interesting large orders. The EBIT margin adjusted for special items should again be within the range of 8 % to 9 % in the 2017 financial year. However, from today's standpoint and in light of the anticipated upfront investments necessary to achieve the goals of our "Strategy 2020", we expect the margin to tend towards the middle of this range.

On behalf of my colleagues on the Management Board I would like to take this opportunity to thank our shareholders and bondholders for their confidence in our company. I would also like to express our sincere gratitude to all our employees and employee representatives and especially to our customers, suppliers and technology partners for the good and successful cooperation, which makes SAF-HOLLAND's long-term success possible. We would be very pleased if you would continue to accompany us on the road ahead and in writing the next chapter of the Company's history.

Sincerely,

Detlef Borghardt

Detlef Borghardt
CEO/Member of the Board of Directors

MANAGEMENT BOARD

DETLEF BORGHARDT

Chief Executive Officer (CEO) & President Region APAC/China

- Since July 1, 2011 CEO of SAF-HOLLAND and since January 1, 2016 President Region APAC/China
- Previously various management positions at Alusuisse-Lonza
- Engineering degree in vehicle design from the University of Applied Sciences Hamburg

WILFRIED TREPELS

Chief Financial Officer (CFO) until December 31, 2016

- Since June 20, 2007 Chief Financial Officer (CFO) at SAF-HOLLAND
- Previously Managing Director at Dürr Systems, a subsidiary of Dürr AG
- Degree in business administration from the University of Aachen

DR. MATTHIAS HEIDEN

Chief Financial Officer (CFO) as of March 1, 2017

- Since March 1, 2017 Chief Financial Officer (CFO) at SAF-HOLLAND
- Previously executive finance positions at SAP SE, among others CFO SAP Germany
- Doctorate degree in economics & degree in business administration from the University of Saarland, as well as qualified banker

ARNE JÖRN

Chief Operating Officer (COO)

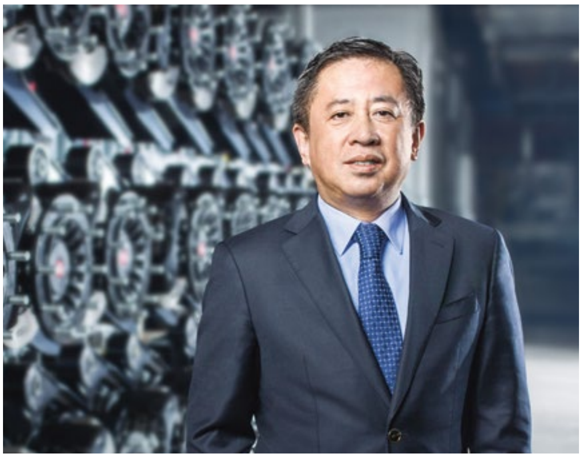
- Since October 17, 2016 Chief Operating Officer (COO) at SAF-HOLLAND
- Previously, among others, operational executive positions at NORGREN, Valeo and STILL
- Degree in Mechanical engineering from the University Braunschweig and REFA-engineer for industrial engineering

ALEXANDER GEIS
President Region EMEA/India

- Since January 1, 2016 President Region EMEA/India
- Since 1995 at SAF-HOLLAND, among others in sales and later responsible for the Aftermarket business
- MBA degree from the University of Maryland

STEFFEN SCHEWERDA
President Region Americas

- Since January 1, 2016 President Region Americas
- Since 1997 in various management roles at SAF-HOLLAND, among others Head of Material Management and Logistics
- Engineering degree from the University Aachen and a MBA degree from the Universities of Augsburg and Pittsburgh



GUOXIN MAO
President Region China

- Since July 1, 2016 President Region China at SAF-HOLLAND
- Previously executive positions in the Automotive and Commercial Vehicle Industry, among others at General Motors and IVECO
- Degree in Mechanical & Electrical Engineering from Shanghai Tongji University & Executive MBA from Singapur Nanyang University

REPORT OF THE BOARD OF DIRECTORS

Bernhard Schneider, Chairman of the Board of Directors

Ladies and Gentlemen,
Dear Shareholders and Investors,

The global commercial vehicle markets remained challenging in the 2016 financial year. Especially in North America, the extent of the market's decline was unexpected compared to the forecasts at the start of the year. In such an environment, SAF-HOLLAND's ability to stay on course was all the more gratifying. Excluding currency effects and taking into account the sale of Aerway in the previous year we managed to maintain our level of sales on an organic basis. Having achieved an adjusted EBIT margin of 8.7 % we reached our earnings target. In keeping with our established dividend policy, we will propose a 10.0 % higher dividend of EUR 0.44 per share for 2016 at our Annual General Meeting on April 27, 2017.

COOPERATION OF THE BOARDS

The Board of Directors carefully carried out its duties in accordance with the law and the Company's Articles of Association during the 2016 financial year. In doing so, the Board of Directors advised the Management Board regularly on the operational management of the business and monitored the execution of transactions. The Management Board informed the Board of Directors of all important events and developments in writing, as well as verbally, on a regular, timely and comprehensive basis. The development of orders, sales and earnings were the focus of these communications. The Board of Directors and the Management Board also consulted closely with one another on the strategic orientation of the SAF-HOLLAND Group. Market developments, aspects of risk management and compliance and the financial position were also discussed and debated with the Management Board. Matters requiring the Board of Directors' approval were submitted by the Management Board on a timely basis and approved following a detailed examination by the Board of Directors.

FOCUS OF DISCUSSIONS

The topic of acquisitions was a focal point of the Board of Director's discussions in the reporting year, particularly the cash offer for Haldex announced in July 2016 and the necessary financing arrangements. The Board of Directors also discussed how to proceed after another bidder had announced a higher offer for Haldex. In August, after careful deliberation, SAF-HOLLAND decided not to raise its offer for Haldex and instead withdrew its offer in the best interest of its shareholders. The Haldex shares acquired ahead of the takeover offer were sold on the stock exchange. The acquisition of the Brazilian suspension specialist KLL was also the subject of intense discussion within the Board of Directors. The acquisition of KLL was announced in September of 2016 and completed in October.

Personnel decisions were also a key topic of the Board of Directors' discussions and included, among others, the succession arrangements for former chief financial officer Wilfried Trepels, who resigned effectively at the end of 2016. A decision was made in October to appoint Dr Matthias Heiden as the new chief financial officer starting as of March 1, 2017. In the interim period, the role of CFO has been assumed by Dr Martin Kleinschmitt, a member of the Board of Directors of SAF-HOLLAND S.A. In October, the Board of Directors also appointed Arne Jörn as chief operating officer to succeed Mike Kamsickas who stepped down in May 2016.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met regularly during the 2016 financial year. Four of the meetings were held in person, one meeting was in the form of a conference call, and a resolution was made using the circular resolutions procedure. Meetings were held at least once per quarter, and all meetings were fully attended by the Board of Directors.

The focus of the meeting on March 9, 2016 was the consolidated financial statements and the Group management report for the 2015 financial year. The Board of Directors approved the financial statements on the recommendation of the Audit Committee following a detailed examination. The Board of Directors also adopted the agenda for the 2016 Annual General Meeting, which included the proposal that the Annual General Meeting elects a new external auditor. The Board also elected Martina Merz as the new deputy chairman of the Board of Directors to take effect at the close of the 2016 Annual General Meeting.

The Board of Directors' second meeting on May 5, 2016, was conducted in the form of a conference call. Agenda items included the report on the business development for the first quarter of 2016 and the appointments of Steffen Schewerda and Alexander Geis as interim-COOs after the departure of Mike Kamsickas. The Board also discussed the reorganization of the corporate structure in China and the formation of a holding company that would combine all of SAF-HOLLAND's subsidiaries in China.

The Board of Directors meeting on August 8–9 dealt with the report for the second quarter of 2016 and specifically the plans to build a new production facility for axle systems in Turkey. The Board of Directors also resolved a change in the management in China and appointed Guoxin Mao as the managing director of SAF-HOLLAND (Xiamen) Co., Ltd and Corpco Beijing Technology and Development Co., Ltd.

On October 7, 2016, the Board of Directors appointed Dr Matthias Heiden as the new CFO, effective March 1, 2017, and Arne Jörn as the new COO of the SAF-HOLLAND Group, effective October 17, 2016, through a circular resolution. Both were also made managing directors of SAF-HOLLAND GmbH.

The two-day meeting of the Board of Directors held on November 8–9, 2016, discussed the report on the business development for the third quarter and the possibility of plant consolidations in North America and especially the related capacity adjustments and potential cost reductions. Other topics discussed at the meeting included the redistribution of responsibilities at the management level as a result of the appointment of the new COO, as well as proposals for the forthcoming 2017 Annual General Meeting with respect to the election of new members to the Board of Directors.

In the year's final meeting on December 6, 2016, in which associate member Jack Gisinger also took part, the Board of Directors resolved to propose to the Annual General Meeting of 2017 the election of not only Jack Gisinger but also Carsten Reinhardt to the Board of Directors. The Board also dealt in depth with the 2017 budget, the medium-term plan until 2021 and the performance targets for the Management Board for the year 2017.

AUDIT COMMITTEE

The work of the Board of Directors is supported by the Audit Committee, which met twice during the reporting year. The Committee dealt in detail with the annual financial statements, quarterly figures, risk management and the results of the audit and compliance reviews. The content of these meetings was presented to the Board of Directors and submitted for the Board's approval when necessary.

CORPORATE GOVERNANCE

In the reporting year, the Board of Directors once again dedicated itself intensively to the topic of corporate governance. The 2016 Declaration of Conformity on the recommendations of the German Corporate Governance Code was submitted by the Board of Directors of SAF-HOLLAND in March 2016. The current Declaration of Conformity submitted in March 2017 can be found on the Company's homepage.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTS REVIEW MEETING

PricewaterhouseCoopers (PWC) audited the December 31, 2016 consolidated financial statements and Group management report prepared by SAF-HOLLAND S.A. The auditor issued an unqualified audit opinion and found that the consolidated financial statements give a true and fair view of the results of operations, net assets, financial position of the SAF-HOLLAND Group. The auditor confirmed that the Group management report, including the Declaration of Conformity on the German Corporate Governance Code, is consistent with the consolidated financial statements.

The consolidated financial statements, Group management report and auditor's reports and documentation were promptly submitted to the members of the Board of Directors. Together with the Audit Committee, the financial statements, reports and documentation were thoroughly reviewed by the Board of Directors. The Board of Directors discussed the results of the audit at its meeting on March 14, 2017. Representatives of the auditing company were present for portions of that meeting and presented their key audit findings and answered board members' questions. The Board of Directors approved both PWC's audit results and the consolidated financial statements as submitted. The Board of Directors endorsed the Management Board's proposal for the appropriation of retained earnings and recommended proposing a 10.0% higher dividend of EUR 0.44 per share for the 2016 financial year at the Annual General Meeting on April 27, 2017.

The Annual General Meeting on April 28, 2016 elected PricewaterhouseCoopers Société coopérative, Luxembourg, as the auditor for the 2016 financial year. By changing the auditor, SAF-HOLLAND is implementing in advance the EU directive that took effect in 2016 requiring auditors of capital market-oriented companies to rotate after ten years. Previously, Ernst & Young S.A., Luxembourg, had been the auditor for SAF-HOLLAND as a listed company for nine years.

EXTENDED TERMS OF OFFICE FOR MEMBERS OF THE BOARD OF DIRECTORS

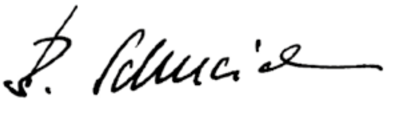
Several members of the Board of Directors had their terms of office confirmed and extended by the Annual General Meeting on April 28, 2016. The terms of office of Anja Kleyboldt and Dr Martin Kleinschmitt, which expired at the end of the 2016 Annual General Meeting, were extended until the end of the Annual General Meeting for the 2018 financial year. Martina Merz's term of office was also prematurely extended until the end of the Annual General Meeting for the 2018 financial year.

A WORD OF THANKS

As of December 31, 2016, Wilfried Trepels, the SAF-HOLLAND Group's long-standing chief financial officer, left the Company on the best of terms with both the Board of Directors and the Management Board to pursue new challenges outside of the Group. On behalf of the entire Board of Directors, I would like to thank him for his many years of outstanding work and particularly for his major contribution to structuring the Group and preparing it for continued profitable growth under our "Strategy 2020". We wish him all the best and every success in his future endeavors.

The Board of Directors would also like to thank all of the employees, the employee representatives and the Management Board for their tremendous dedication and successful contribution during the 2016 financial year.

Luxembourg, March 2017



Bernhard Schneider
Chairman of the Board of Directors

SAF-HOLLAND ON THE CAPITAL MARKET

OVERVIEW OF STOCK MARKET AND SHARE PRICE PERFORMANCE

GERMAN STOCK MARKET BRAVES STRONG POLITICAL TURBULENCE IN 2016

In the year 2016, the German stock market was overshadowed by political events and economic crises for extended periods. Worries of a strong, uncontrolled slowdown in the Chinese economy (a "hard landing") were already growing as the year began. International capital markets took a sharp fall with the DAX dropping roughly 18 %, marking its year low of 8,750 points in February. This was followed by a recovery which was abruptly interrupted by Great Britain's surprising vote to leave the EU ("Brexit"). This downturn, however, was relatively short-lived and the market quickly regained lost ground. Markets became highly volatile in their initial reaction to the unexpected result of the U.S. Presidential election towards the year's end. The infrastructure program and significant tax reductions announced for businesses and individuals in the United States set the stage for a year-end rally starting in the second week of November and led to a renewed sharp rise in the DAX and especially the US indices. The DAX ended the year at 11,481 points, or 6.9 % above the prior year's close. The 2016 performance of the SDAX, the selection index of the Deutsche Börse AG containing 50 smaller companies ("small caps") below the DAX and MDAX, was somewhat lower, and the index climbed 4.6 % for the year.

SAF-HOLLAND SHARES SIGNIFICANTLY OUTPERFORM

In the first half of the year, SAF-HOLLAND's share price came under pressure despite the Company developing significantly better than its end markets. Aside from the overall dismal mood on the capital markets, news of a strong decline in new orders and production figures for heavy trucks and trailers in North America brought added pressure, as did as the weak market performance in key regions such as Brazil, Australia and Russia. These events drove SAF-HOLLAND's shares to a year low of EUR 9.00 in early July with intraday prices that were even lower. The Company's share price began a sharp turnaround following the release of solid business figures for the first half of 2016 and the announcement of a takeover bid for Haldex. SAF-HOLLAND's bid for Haldex unleashed a new wave of consolidation in the industry. At the same time, there was a clear increase in international investor interest in SAF-HOLLAND, its business model and its shares – which were a better value relative to competitors. The initiation of research coverage by three banks/brokers also helped propel SAF-HOLLAND further into the spotlight of large institutional investors. SAF-HOLLAND shares climbed almost 52 % from their year low and reached their high for the year of EUR 13.64 on December 30, the last trading day of the year. As a result, SAF-HOLLAND's shareholders enjoyed a gratifying 9.2 % increase for the year and an attractive 12.4 % total return when including the dividend of EUR 0.40. The outperformance of SAF-HOLLAND's shares was even more evident in comparison to the DAX-sector Automobile industry index, which suffered a decline of 5.6 % in 2016.

SAF-HOLLAND's market capitalization on December 30, 2016 was roughly EUR 619 million based on the shares' year-end closing price of EUR 13.64 and a total of 45,361,112 outstanding shares.

SIGNIFICANT PORTION OF TRADING VOLUME OCCURS ON ALTERNATIVE TRADING PLATFORMS

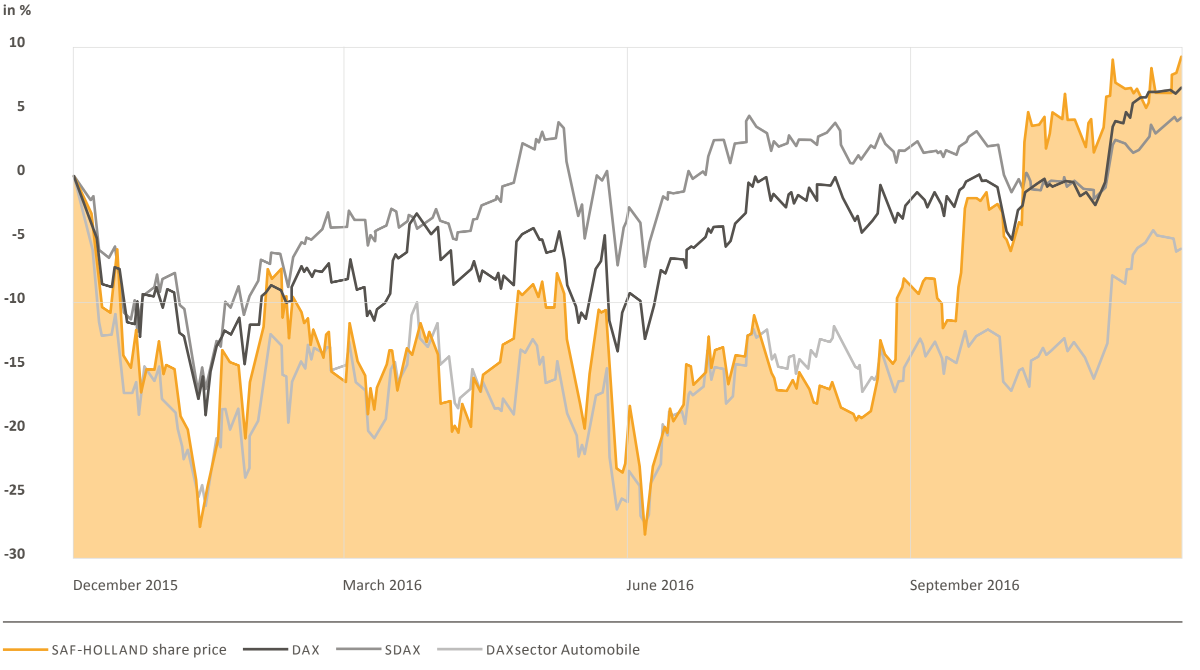
SAF-HOLLAND's share liquidity – an essential investment criteria especially for large institutional investors such as banks, pension funds and asset managers – remained at a high level in the 2016 reporting year, but was still somewhat lower than in the previous year. The decline reflects both the general downward trend in stock exchange volumes and the longer holding periods for major investors. Shares in SAF-HOLLAND had an average daily turnover of 148,600 shares (previous year: 209,500 shares) on all German stock exchanges in 2016. This is equivalent to an average trading volume of EUR 1.6 million (previous year: EUR 2.8 million), which is impressive for a small-cap.

In 2016, SAF-HOLLAND shares were again strongly traded on alternative trading platforms, or dark pools (including BATS Chi-X Europe, Turquoise and Chi-X), recording an additional trading volume of 179,100 shares on average in 2016 (previous year: 211,900). As a result, the trading volume in SAF-HOLLAND shares on the traditional stock exchanges in the past year was lower than on the alternative platforms, where primarily investment banks, brokerage companies and institutional investors trade directly with one another.

POSITION IN INDEX RANKING

In Deutsche Börse AG's most recent index ranking dated December 31, 2016, which determines the composition of the MDAX and SDAX indices, SAF-HOLLAND was ranked 68 (previous year: 66) in terms of free float market capitalization and 67 (previous year: 57) in terms of trading volume. SAF-HOLLAND is, therefore, one of the larger companies in the SDAX. The fact that SAF-HOLLAND did not move up in the ranking despite its better share price performance relative to the DAX and SDAX was due to the high number of stock exchange newcomers (IPOs) and spin-offs of large companies, which moved in ahead of SAF-HOLLAND in the course of 2016.

SAF-HOLLAND's share price performance relative to the DAX, SDAX and DAXsector Automobile



INVESTOR RELATIONS AND CAPITAL MARKET ACTIVITIES

FURTHER EXPANSION IN INVESTOR RELATIONS ACTIVITIES

As part of our investor relations activities, we provide comprehensive, timely and transparent information about our strategic objectives, the Company's ongoing development, current market trends and emerging technologies. In addition to the investor and analyst conference regarding our annual financial statements and regular conference calls on our quarterly results, the focus of our activities is our contact with investors, analysts and other capital market participants at several investor conferences and roadshows. In the year 2016, a number of investors and potential investors alike accepted our invitation to visit our production and engineering facilities to form their own impressions.

SAF-HOLLAND continued to expand its investor relations activities during the 2016 financial year. In a total of eight roadshows and ten investor conferences held in Germany and abroad, the Management Board and IR team presented the Company's current business performance, growth outlook and strategic goals. As in the previous year, the focus of activities was not only in Germany but also other international financial centers such as London, Paris and the United States. Other roadshow locations in 2016, particularly in the context of the takeover offer for Haldex, included the Scandinavian financial markets of Denmark, Sweden and Finland. Roadshows were also held in Geneva, Zurich, Dublin and the Benelux countries. Investor interest in SAF-HOLLAND shares was evident by the high number of company visits. The individual and group discussions with investors and analysts focused on questions about the development of the end markets, the Company's future prospects and current technology trends, especially those related to the issues of weight reduction and digitization in the transport industry.

A further highlight of last year's activities was the Capital Markets Day in September, which took place during the IAA Commercial Vehicles trade fair. The event's new format was very well received. After an extensive tour of the booth and a technology briefing, visitors had the opportunity to pose questions in individual and small group discussions not only to the CEO and CFO but also to members of the Management Board with regional responsibilities.

Detailed and up-to-date information on the Company's shares and corporate and convertible bonds can be found on SAF-HOLLAND's Investor Relations website at http://corporate.safholland.com/en/investor-relations. The website provides key figures and current financial news, as well as the ability to download reports, presentations and conference call recordings.

PREDOMINATELY POSITIVE ANALYST RATINGS

SAF-HOLLAND is covered by both national and international banks and research firms who regularly publish research reports on the Company. As in the prior year, three new banks/brokers initiated coverage of the Company raising the total number to 14.

At the end of 2016, eleven of the fourteen analysts either recommended buying the shares or expected the shares to outperform the overall market. Three analysts recommended holding the shares. The corresponding price targets ranged between EUR 11.00 and EUR 18.00.

Current analyst ratings

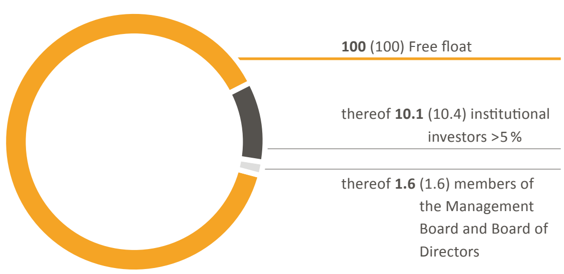
12/21/2016	Bankhaus Lampe	Buy
10/19/2016	Berenberg	Buy
11/14/2016	Commerzbank	Hold
12/07/2016	Deutsche Bank	Hold
11/10/2016	equinet	Buy
05/09/2016	Exane BNP Paribas	Outperform
11/10/2016	Hauck & Aufhäuser	Buy
08/15/2016	HSBC	Hold
09/23/2016	Kepler Cheuvreux	Buy
11/10/2016	Macquarie Capital	Outperform
11/10/2016	M.M. Warburg	Buy
11/10/2016	Montega	Buy
11/11/2016	ODDO Seydler	Buy
07/26/2016	Quirinbank	Buy

STABLE SHAREHOLDER STRUCTURE

SAF-HOLLAND's shares are widely held. According to the definition of Deutsche Börse AG, 100 % of the Company's shares are freely floating. The shareholders base consists primarily of institutional investors such as fund managers, asset managers, banks, insurance companies and private investors from both Germany and abroad. Major shareholders are primarily capital investment companies from Great Britain, the United States, France, Scandinavia and the Benelux countries, whereby the proportion of North American and Scandinavian investors has increased the most this past year. The Company noticed a growing interest from long-term investors such as insurance companies. At the end of 2016, fund managers Delta Lloyd Asset Management N.V. as well as FMR LLC both held stakes of more than 5 % in SAF-HOLLAND S.A.'s share capital. Members of the Management Board and the Board of Directors of SAF-HOLLAND S.A. together held 1.6 % of the outstanding shares.

Shareholder structure 2016

in %



Status: December 31, 2016

2016 ANNUAL GENERAL MEETING RESOLVES TO INCREASE DIVIDEND TO EUR 0.40 PER SHARE

The Annual General Meeting of SAF-HOLLAND S.A. on April 28, 2016 resolved to pay a dividend in the amount of EUR 0.40 per share for 2015 (previous year: EUR 0.32). Shareholders accepted the Board of Directors' proposal to increase the dividend payment by 25 %. The total dividend payout of EUR 18.1 million (previous year: EUR 14.5 million) represented a payout ratio of almost 39 % (previous year: 44 %) of the available net earnings generated in the 2015 financial year. The available net earnings were determined by adjusting the result for the period by accounting-related and non-cash income from the valuation of intercompany foreign currency loans in the amount of EUR 4.7 million after taxes that occurred in the 2015 financial year. This payout ratio essentially met the general target of distributing 40 % to 50 % of the available net earnings as a dividend. The dividend yield based on the year-end closing price for SAF-HOLLAND shares in 2015 was 3.2 % (previous year: 2.9 %).

The Annual General Meeting elected Pricewaterhouse-Coopers Société coopérative, Luxembourg, as the new auditor for the 2016 financial year after ERNST & YOUNG S.A. had served as the auditor of the listed company SAF-HOLLAND for nine years. In changing its auditor, SAF-HOLLAND has opted for the early implementation of the EU directive that entered into force in 2016, which amends the current auditor guidelines and instructs capital market-oriented companies to change their auditor at least every ten years.

The Annual General Meeting also decided to extend the Board of Directors mandates of Anja Kleyboldt, Martina Merz and Dr Martin Kleinschmitt until the end of the Annual General Meeting that resolves on the adoption of the financial results for the 2018 financial year.

Keys share information

WKN/ISIN	A0MU70/LU0307018795
Ticker symbol	SFQ
Number of shares	45,361,112
Designated sponsors	Commerzbank AG, ODDO SEYDLER BANK AG, Kepler Cheuvreux
Year high/low[1]	EUR 13.64/EUR 9.00
Year-end closing price[1]	EUR 13.64
Market capitalization	EUR 618.7 million

[1] XETRA closing price

CORPORATE BOND OVERVIEW

Since 2012, SAF-HOLLAND has listed a corporate bond in the Prime Standard segment for corporate bonds of the Frankfurt Stock Exchange. The bond has a total nominal value of EUR 75.0 million, a coupon of 7.0 % and matures on April 26, 2018.

In the year 2014, SAF-HOLLAND also issued convertible bonds with a total nominal amount of EUR 100.2 million as a private placement. The convertible bonds, which are traded in the open market on the Frankfurt Stock Exchange, mature on September 12, 2020 and have an annual interest rate of 1.0 %. No bonds were converted during the 2016 financial year.

The corporate and convertible bonds' prices, most important key figures and terms and conditions are available on the Company's investor relations website under the menu item "Share and Bonds".

COMPANY'S BBB CREDIT RATING RECONFIRMED

In 2016, the rating agency Euler Hermes reconfirmed SAF-HOLLAND's "BBB" investment grade rating. In an analysis dated April 6, 2016, Euler Hermes also said it expects SAF-HOLLAND to maintain this rating over the coming twelve months. The Euler Hermes assessment assumes slightly higher business risk caused by cyclical fluctuations in the commercial vehicle sector, but also highlights that the high barriers to market entry and the more economically stable spare parts business partially compensate for this risk. The rating agency assessed the Group's financial risk as low given its solid capital structure and financial flexibility.

MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

The SAF-HOLLAND Group, located in Luxembourg, is the largest independent, listed commercial vehicle supplier in Europe that is focused on the trailer markets. With sales of approximately EUR 1,042.0 million in 2016 and on average more than 3,200 employees, the Company is one of the world's leading manufacturers of chassis-related systems and components, primarily for trailers, trucks and buses. The product range comprises axle and suspension systems, fifth wheels, kingpins and landing gear and is marketed under the SAF, Holland and Neway brands. SAF-HOLLAND sells its products to Original Equipment Manufacturers (OEMs) on six continents. The aftermarket business delivers the Group's spare parts to the service networks of Original Equipment Suppliers (OES) as well as to end customers and service centers through its extensive global parts distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is broadly positioned internationally in almost all markets worldwide.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

SAF-HOLLAND's business model is distinguished by its focus on products that are crucially important to truck and trailer manufacturers in terms of quality, performance, innovation and standard of safety. SAF-HOLLAND's trailer products contribute roughly one-third of the total value of a standard trailer. SAF-HOLLAND's lightweight components and their inherent weight savings are setting industry standards and allowing end customers to optimize their total cost of ownership.

SAF-HOLLAND sells not only to vehicle manufacturers but also has direct access to its end customers – the fleet operators. For many products, it is the fleet operators themselves who determine the majority of trailer specifications, such as those for axle and suspension systems and choose their own suppliers at the same time. The direct contact is what keeps SAF-HOLLAND close to customers so that it can offer the right solutions for the customers' ever-changing demands.

Apart from the original equipment business, another key component of the Company's business model is the aftermarket business. With around 9,000 spare parts and service stations worldwide, SAF-HOLLAND possesses the largest and densest spare parts and service network in both Europe and North America. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers and also represents a high barrier to entry for potential competitors. Because the demand in the aftermarket business lags that of the original equipment business, cyclical fluctuations in the original equipment business can be smoothed out to help keep SAF-HOLLAND's business model in balance.

LOCATIONS AND MARKETS: GLOBAL PRESENCE IN ALL MAJOR MARKETS

SAF-HOLLAND is present in all of the major truck and trailer markets worldwide. The Company has 19 production locations on six continents. The focus of production has traditionally been in the entrenched markets of North America and Europe. SAF-HOLLAND has also established production facilities in Brazil, South Africa, Turkey, India, China, Australia and the United Arab Emirates. This structure has made the Company one of the most geographically diverse suppliers in its sector.

SAF-HOLLAND also has one of the broadest spare parts and service networks of most of its competitors comprising around 9,000 spare parts and service stations as well as dealers and repair shops in over 80 countries. SAF-HOLLAND is densely represented throughout its core markets of Europe and North America.

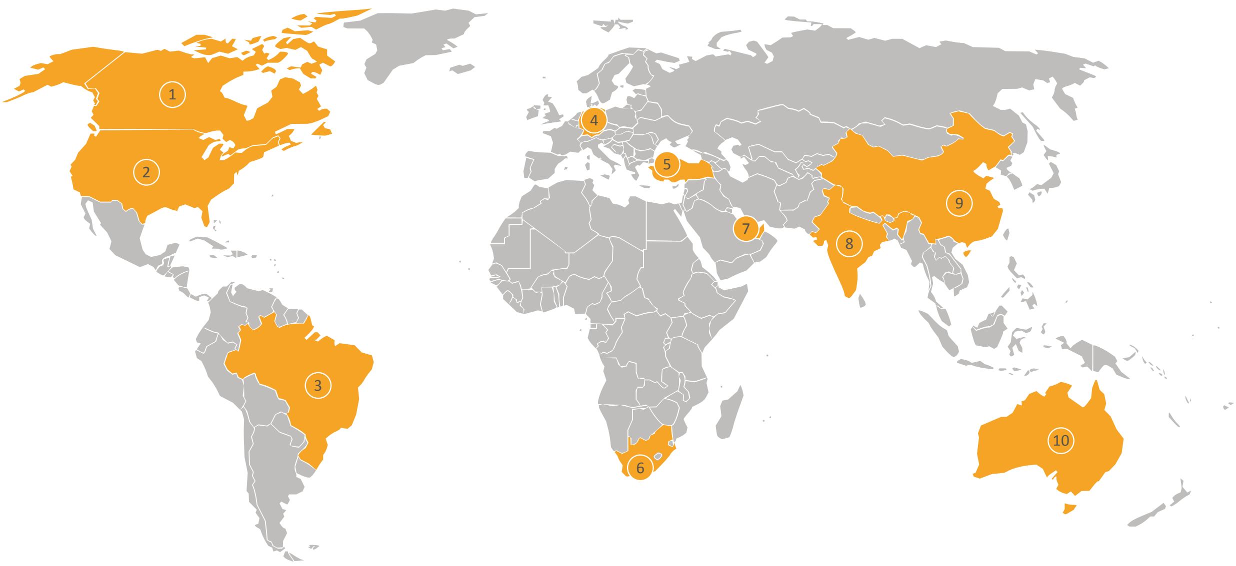
The Group's key sales markets are still in Europe and North America. SAF-HOLLAND's activities outside of these established markets are mainly concentrated in the BRIC countries and Australia. In China and Brazil, SAF-HOLLAND is not only active in the truck and trailer sector but also in the growing segment for bus suspensions.

PRODUCTS AND CUSTOMERS: CUSTOMIZED PRODUCTS TO MEET THE SPECIFIC NEEDS OF CUSTOMERS

SAF-HOLLAND's key products include axle and suspension systems, landing gear, kingpins for trailers, fifth wheels for trucks and suspension systems for vocational trucks and buses. While the trailer business spans several hundred original equipment manufacturers and a number of fleet operators, the customer base for truck components consists of a much lower number of large, globally operating truck manufacturers as well as smaller regional providers and manufacturers of vocational trucks.

SAF-HOLLAND markets its products for original equipment manufacturers under three umbrella brands worldwide: SAF, Holland and NEWAY. The SAF brand features axle and

SAF-HOLLAND production locations



1 **Canada**
Woodstock

2 **USA**
Dumas
Holland
Muskegon
Warrenton North
Warrenton South
Wylie

3 **Brazil**
Alvorada
Jaguariúna

4 **Germany**
Frauengrund
Keilberg
Singen

5 **Turkey**
Düzce-Istanbul

6 **South Africa**
Johannesburg

7 **United Arab Emirates**
Dubai

8 **India**
Chennai

9 **China**
Baotou
Xiamen

10 **Australia**
Melton

suspension systems for trailers, the Holland logo is used on products with coupling and lifting technology, and NEWAY is the brand for suspensions for trucks and buses. At the local level and mainly in the Middle East and East Africa, SAF-HOLLAND also uses the TRILEX brand.

SAF-HOLLAND supplies spare parts dealers and repair shops as well as large fleet operators from its global spare parts and service network. The product range includes original spare parts for trucks and trailers as well as products from the brands SAUER GERMANY QUALITY PARTS and GoldLine. These brands are designed particularly for markets with a high share of older vehicles where customers focus mainly on durability and low prices. Spare parts from third parties are also sold.

SAF-HOLLAND's product brands

Trailer axles and suspension systems	**Coupling and lifting technology**	**Suspensions for vocational trucks and buses**
Innovative fleet-optimized trailer axles, brakes and suspension systems to maximize transport efficiency	Reliable, proven fleet solutions for safe and efficient coupling and lifting using innovative technology and global expertise	Durable, tested for fleet use and extremely powerful air suspensions with outstanding design features and broad operational usage in vocational trucks and buses

LEADING MARKET POSITION

SAF-HOLLAND faces oligopolistic competitive structures in both Europe and North America – its two most important sales markets today. The three largest suppliers hold roughly 80–90 % of the market share in nearly all product segments.

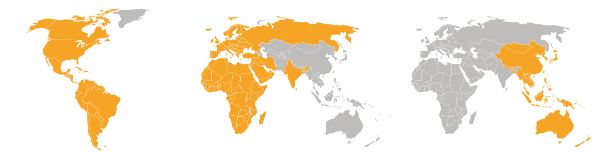
In Europe, SAF-HOLLAND is a leader in all of the relevant market segments and ranks as one of the top three suppliers in each of these markets. SAF-HOLLAND is a leader in axle and suspension systems for trailers in Europe. In North America, SAF-HOLLAND holds leading positions for fifth wheels, landing gear and kingpins.

ORGANIZATIONAL STRUCTURE

Since the 2016 financial year, SAF-HOLLAND has had a regionally focused Group structure comprised of the three regions EMEA/India, Americas and APAC/China, each consisting both of the original equipment and aftermarket businesses. Each division is fully responsible for its own results and controls all the necessary resources. Cross-unit functions and key tasks to support the business units are centrally organized within the Group.

Regionally focused structure since 2016

Americas	EMEA/India	APAC/China



all product groups	all product groups	all product groups

The Management Board's responsibilities are organized accordingly. In addition to the three members with functional responsibility (CEO, CFO and COO), the Americas and EMEA/India regions are each represented by their own board members. The APAC/China region will be directed by the chief executive officer until further notice. The plan over the medium term is to break down the Group's activities further and expand the Management Board to a total of eight members. Each of the five core regions would then have their own members representing them on the Management Board (Americas, Europe, Middle East/Africa/India, APAC and China).

LEGAL GROUP STRUCTURE

SAF-HOLLAND S.A. is a company incorporated under the laws of Luxembourg, whose shares are listed exclusively in Germany. As the parent company of the Group, it holds all shares in SAF-HOLLAND GmbH, which in turn holds the interests in all of the local subsidiaries.

Legal group structure

in %

- **SAF-HOLLAND S.A.**
  - 100 % **SAF-HOLLAND GmbH**
    - 100 % SAF-HOLLAND Polska Sp. z o.o.
    - 100 % SAF-HOLLAND France S.A.S.
    - 100 % SAF-HOLLAND Bulgaria EOOD
    - 100 % SAF-HOLLAND Romania SRL
    - 100 % SAF-HOLLAND España S.L.U.
    - 100 % SAF-HOLLAND Italia s.r.l. unipersonale
    - 100 % SAF-HOLLAND Czechia spol.s.r.o
      - 100 % SAF-HOLLAND Russland s.r.o
    - 100 % SAF-HOLLAND do Brasil Ltda.
      - 57.5 % KLL Equipamentos para Transporte Ltda.
    - 100 % SAF-HOLLAND South Africa Ltd.
    - 100 % Jinan SAF AL-KO Axle Co., Ltd.
    - 100 % OOO SAF-HOLLAND Rus
    - 100 % SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi
    - 100 % SAF HOLLAND Middle East FZE
    - 100 % SAF-HOLLAND Austria GmbH
    - 80 % Corpco Tech, China
    - 10 % SQG S. u. G. gem. GmbH
    - 100 % **SAF-HOLLAND Inc.**
      - 100 % SAF-HOLLAND Canada, Ltd.
      - 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
      - 100 % SAF-HOLLAND (Malaysia) SDN BHD
      - 100 % SAF-HOLLAND (Thailand) Co., Ltd.
      - 100 % SAF-HOLLAND Verkehrstechnik GmbH
      - 100 % SAF-HOLLAND Int. de Mecixo S. de R.L. de C.V.
        - 100 % SAF-HOLLAND International Services Mexico S. de R.L. de C.V.
      - 100 % SAF-HOLLAND Hong Kong Ltd.
      - 50 % SAF-HOLLAND Nippon, Ltd.
      - 34 % Castmetal FWI S.A.
      - 100 % SAF-HOLLAND India Pvt. Ltd.
      - 100 % SAF-HOLLAND (Xiamen) Co., Ltd.

In addition to the investments in the respective local subsidiaries, SAF-HOLLAND holds a strategic equity interest of over one-third of the French company Castmetal FWI S.A. since 2006. The other shares in the joint venture are held by the SAFE-Group, a producer of technical components made of cast steel and plastic injection molding for various industrial applications. The joint venture supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market. In addition, SAF-HOLLAND has held 57.5 % of the shares in the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. since October 2016. The remaining 42.5 % of the shares can be purchased through a put-/call-option at a later time.

ECONOMIC AND LEGAL INFLUENCES

One of the main factors influencing SAF-HOLLAND's business is the development of global transportation volumes. Cargo volumes are continuously growing worldwide driven by rapid population growth and the economy's growing urbanization and globalization. In emerging countries, the expansion of road networks is also driving exceptionally strong growth in the transportation of goods. These demographic and economic developments are leading to higher demand for tractors, trailers and buses, which in turn benefits SAF-HOLLAND.

Legal and regulatory requirements can promote higher product sales. For example, fuel consumption and emissions requirements for commercial vehicles are continually increasing worldwide. This increases the need for weight-reduced components – a development that benefits SAF-HOLLAND because its components are among the lightest on the market. Similar considerations apply in relation to the safety requirements. This area is also seeing more stringent regulations internationally, which again opens up attractive opportunities for SAF-HOLLAND because its products can help meet the more stringent safety standards.

STRATEGY AND OBJECTIVES

GROWTH "STRATEGY 2020"

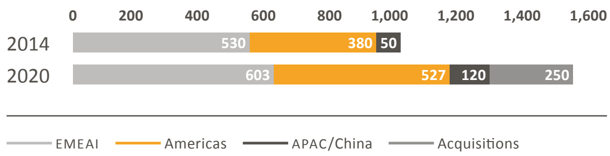
With the introduction of Growth "Strategy 2020" in 2015, SAF-HOLLAND has aligned its business to the global megatrends. The world's growing population and increase in purchasing power – especially in the middle class – are the key drivers for the expected increase in consumption. Rising demand for goods leads to steadily increasing transportation volumes and requires a substantial investment in transportation equipment, particularly in trucks and trailers, which are found at the beginning and end of every supply chain. This market growth is mainly seen in the emerging economies, particularly in the Asia Pacific, Middle Eastern and African markets.

In anticipation of this development, SAF-HOLLAND laid the groundwork early on in order to transform itself from an international company to a global group. The objective is to significantly expand the Group's presence in the emerging markets by expanding the product portfolio and entering new regional markets outside of the core markets of Europe and North America. A further strategic objective is the expansion of the aftermarket business across all regions. Over the medium term, this business is expected to constitute at least one-quarter of the Group's sales.

Based on sales of around EUR 960 million in financial year 2014, SAF-HOLLAND is targeting organic Group sales in 2020 of approximately EUR 1,250 million, representing organic sales growth of a good 4 % p.a. on average. Complementary collaborations, joint ventures and acquisitions are expected to add sales of roughly EUR 250 million and should boost total Group sales to an estimated EUR 1,500 million. The share of sales generated outside of today's core markets of Europe and North America is expected to rise from its current level of around 10 % to a total of 30 % under Growth "Strategy 2020". SAF-HOLLAND has already taken an important step in this direction by completing its acquisition of KLL in 2016, a leading supplier in Brazil of air suspension systems for trucks and buses as well as axles and mechanical and air suspension systems for trailers. We see tremendous medium-term sales potential in Brazil – a country with more than 200 million people and the largest economy and transportation market in South America.

"Strategy 2020" sales targets

EUR million



The adjusted EBIT margin is expected to reach an average level of at least 8 % by the year 2020. SAF-HOLLAND expects earnings per share to rise around 75 % compared to its level in 2014 and reach about EUR 1.20 by 2020. This target fully takes into account the higher number of shares resulting from the conversion rights of convertible bonds issued in 2014.

The Group plans to retain its high level of capital efficiency despite strong growth. The annual investment volume in the coming years is expected to hold steady at 2.5 % of sales with the ratio of net working capital to sales largely stable at around 12 %. The Group will continue to strive for a maximum leverage ratio (net debt/EBITDA) of 2.0, whereby a level of approximately 2.5 would be tolerated temporarily for larger acquisitions.

PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

Achieving profitable growth and a sustainable rise in the Group's enterprise value is the focus of the Group's corporate management. Financial indicators are the primary tools used to assess current business development, determine the future strategy and make investment decisions. The following are the key financial performance indicators for the management of the SAF-HOLLAND Group:

— Sales
— Adjusted EBIT (earnings before interest and taxes, adjusted for depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocation, impairment reversals on intangible assets as well as restructuring and integration costs) or derived from it the adjusted EBIT margin
— Earnings per share
— Net working capital (current assets less cash and cash equivalents, current non-interest-bearing liabilities and other current and non-current provisions) and the net working capital ratio (ratio of net working capital to the fourth quarter's sales extrapolated for the full year)

Financial performance indicators

EUR million

	Target 2020	2016	2015	2014	2013	2012
Sales	1,250–1,500	1,042.0	1,060.7	959.7	857.0	859.6
Adjusted EBIT	≥100–120	90.4	94.0	70.7	59.3	58.2
in % of sales	≥8%	8.7	8.9	7.4	6.9	6.8
Diluted earnings per share in EUR	~1.20	0.85	0.99	0.69	0.54	0.18
Net working capital	150–180	111.9	116.6[1]	102.7	76.1	82.4
in % of sales	12	11.1	12.0	10.9	9.4	10.2

[1] Excluding receivables of EUR 2.0 million from the sale of a property in Wörth, Germany.

SAF-HOLLAND budgets, calculates and monitors the sales, adjusted EBIT and adjusted EBIT margin at both the Group and segment levels. The calculation of earnings per share and net working capital, however, is conducted only at the Group level.

Other important financial performance indicators considered in corporate management are the investment volumes, leverage ratio, equity ratio, liquidity, cash flow from operating activities and return on investment (ROI).

NON-FINANCIAL PERFORMANCE INDICATORS

As non-financial performance indicators, SAF-HOLLAND relies primarily on data such as delivery reliability, quality, sales volume, personnel, customer structure and satisfaction and market share development. The parameters gathered are recorded separately for the different regions and product groups. This makes it not only possible to recognize developments at an early stage but also to address them specifically.

INTERNAL GROUP CONTROL SYSTEM

Every year, SAF-HOLLAND prepares a medium-term plan for the forthcoming five years in addition to a yearly budget. A quarterly forecast is also prepared for the respective financial year based on the Group's current business development.

The Management Board and the Board of Directors monitor the achievement of financial performance indicators using a target/actual comparison. The progress made in achieving the strategic objectives is reviewed and analyzed regularly in the meetings of the Management Board and the Board of Directors.

INDUSTRY AND COMPANY-SPECIFIC EARLY INDICATORS

The primary company-specific early indicators are order intake and order backlog. These indicators are gathered for the respective Group companies and indicate the level of capacity utilization to be expected and the likely development of sales and earnings.

Management also continuously monitors and analyzes the statistics and forecasts for the overall economic development of the relevant countries and regions and the developments in the global truck and trailer markets – especially incoming orders and registration figures.

RESEARCH AND DEVELOPMENT

INNOVATIVE SOLUTIONS TO EXTEND OUR TECHNOLOGICAL LEADERSHIP

We consider ourselves as one of the technological leaders in our industry. We rely on innovative technologies and solutions to secure our long-term competitive position and increase our development edge. Our research and development activities are of significant strategic importance.

Our research and development expenses in the reporting year amounted to EUR 19.7 million (previous year: EUR 20.9 million). We also capitalized development costs of EUR 3.7 million (previous year: EUR 3.7 million), which resulted in a capitalization ratio of 15.8 % (previous year: 15.0 %). These were offset by the amortization of capitalized development costs in the amount of EUR 0.7 million (previous year: EUR 0.5 million). The R&D ratio based on Group sales amounted to 2.2 % (previous year: 2.3 %). At the end of the 2016 financial year, there was a total of 192 (previous year: 191) employees in the development, design and testing areas.

Multi-year overview of research and development

	2016	2015	2014	2013	2012
R&D expenses including capitalized development costs (EUR million)	23.4	24.6	21.9	19.1	19.4
R&D ratio (expenses as a percentage of sales)	2.2	2.3	2.3	2.2	2.3
Number of employees in the area of development, design and testing	192	191	171	164	160

Our development activities are not only focused on developing new products but also on adapting existing solutions to customer-specific or regional market requirements. This is why our teams of developers and engineers are not only located in our centers in Germany and the United States but are present worldwide. Direct proximity to our customers ensures that the specific market knowledge of the local units flows directly into our products.

OUR GOAL: OPTIMIZING OUR FLEET CUSTOMERS' TOTAL COST OF OWNERSHIP

The goal of our research and development activities is to offer our customers innovative products that ensure their fleets operate efficiently while optimizing their total cost of ownership. To achieve this goal, we have made the following areas the focus of our R&D activities:

— Weight reduction through the use of lightweight components: This allows larger loads and results in lower fuel consumption.
— Durability: Extended mileage and reduced maintenance expenses result in lower operating costs.
— Safety: The highest degree of driving safety and reliability ensure that our customers continue to meet increasingly stringent global safety standards.

WIDE RANGE OF INNOVATIVE SOLUTIONS AT THE IAA COMMERCIAL VEHICLES 2016

During the reporting year, SAF-HOLLAND presented a large number of development-stage product innovations at trade fairs in both Germany and abroad. Some of the most important trade fair appearances included the Mid-America Trucking Show in Louisville, Kentucky; the IANA Intermodal Expo in Houston, Texas; Automechanika in Frankfurt, Germany; and above all the IAA Commercial Vehicles fair in Hanover, Germany. SAF-HOLLAND presented a total of 14 new solutions from the product, component and services area at the IAA alone. These solutions were largely related to the Company's core products such as axles, suspensions, brakes and fifth-wheel couplings. New functionalities were also presented, specifically those offering added value to our end customers.

SAF TRAK

One of the many highlights at the IAA included the trailer axle concept SAF TRAK for which SAF-HOLLAND received the coveted "Trailer Innovation 2017" award for the chassis category. SAF TRAK is a hydraulically driven trailer axle. As a start assistant, the SAF TRAK System assists tractors on gradients and difficult road surfaces, especially at construction sites and landfills, using a hydraulically driven motor. Details on how the SAF TRAK operates can be found in the image section of this annual report.

After the SAF TRAK concept was presented for the first time in April 2016 at the bauma trade fair, a leading trade fair for construction machinery, SAF TRAK was subsequently presented to several customers who made valuable suggestions for the product's further development. The concept was also well-received by trade publications. With SAF TRAK, SAF-HOLLAND is able to give an impressive demonstration of its system capabilities beyond those related to mechanical components. Series production of SAF TRAK is scheduled to start at the end of 2017.

INTRA LIGHT & INTRA CD LIGHT

We presented further groundbreaking product innovations at the IAA Commercial Vehicles fair with the introduction of two new axle systems from the INTRA series. Axle systems for use in curtainsiders (INTRA light) or tippers (INTRA CD Light) are impressive due to their significantly lower weight, which allows an even higher payload with less fuel consumption. The INTRA Light adds additional weight savings of up to 20 kilograms per axle, or 60 kilograms per trailer, compared to a standard INTRA system. The INTRA CD Light, which is especially designed for difficult terrain and emphasizes durability, offers additional weight savings of up to 11 kilograms per axle, or 33 kilograms per trailer, compared to a standard INTRA CD. These products are scheduled to launch in Europe in 2018.

THE P89 DISC BRAKE

Another highlight in the reporting year was the North American introduction of our latest generation of disc brake technology, the P89 disc brake. SAF-HOLLAND's P89 trailer disc brake stands out due to its sharply improved braking performance, high running performance, long life and ease of maintenance. At the same time, it offers a price advantage of up to 40 % compared to the market's other currently available disc brakes and therefore represents a compelling alternative to drum brakes, also in terms of price. In July 2016, SAF-HOLLAND received the first large order to equip 1,800 trailers with this new generation of disc brakes from U.S. Xpress, one of the largest truckload carriers in the United States. In the image section of this annual report, we provide further information about this order and show the importance U.S. Xpress believes brake disc technology has for the North American market.

PERSISTENT HIGH NUMBER OF PRIORITY APPLICATIONS IN THE 2016 FINANCIAL YEAR

The number of priority applications validates our innovative strength and the effectiveness of our research and development activities. With 36 new international applications acquired in the reporting year, we have continued to expand our portfolio of priority applications. Since a priority application always signifies an initial filing of a patent family, the increase described was also accompanied by a number of related sub-applications and extensions.

Number of priority applications

	2016	2015	2014	2013	2012
Number of priority applications	36	30	41	26	20

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

SAF-HOLLAND is a Société Anonyme (S.A.) under Luxembourg law. Management and control of the Company are organized differently than in the case of German stock corporations. Whereas corporate law in Germany calls for a two-tier model with a Management Board and Supervisory Board, the management structure of an S.A. follows the single-tier principle of the Anglo-American board system.

BOARD OF DIRECTORS

The business of SAF-HOLLAND S.A., a holding company without its own operating business, is managed by the Board of Directors. The focus of the Board of Directors' activities is first and foremost the SAF-HOLLAND Group's strategic direction and the supervision of the business activities of the operating companies.

The Board of Directors may consist of external members (non-executive directors) and the Company's operating managers (executive directors). The Board elects a chairperson and deputy chairperson from its own members as appropriate. In accordance with the Articles of Association, the Board's decisions are made with a simple majority. To carry out its duties, the Board of Directors sets up an Audit Committee, similar to the Audit Committee of the Supervisory Board.

At SAF-HOLLAND, the Board of Directors currently consists of seven members. Five of these members, including the Chairman Bernhard Schneider, are non-executive directors. The sixth member is Chief Executive Officer Detlef Borghardt (CEO) of SAF-HOLLAND. By having this structure, there is one member of the Board directly involved in the Company's day-to-day business. In addition, Jack Gisinger, who has been an associate member of the Board of Directors since December 6, 2016, will be nominated to the Board of Directors at the Annual General Meeting on April 27, 2017. Until December 31, 2015, Jack Gisinger had been a member of SAF-HOLLAND's Management Board and the president of the Powered Vehicle Systems business unit.

At the end of the Annual General Meeting on April 28, 2016, Ms Martina Merz took over the office of deputy chairman of the Board of Directors from Mr Sam Martin.

Further information on the activities of the Board of Directors during the 2016 financial year can be found in the corresponding report on page 123.

Board of Directors

as of December 31, 2016

Bernhard Schneider	Chairman of the Board of Directors
Martina Merz	Deputy Chairman of the Board of Directors
Detlef Borghardt	Member of the Board of Directors
Jack Gisinger	Associate Member of the Board of Directors
Dr Martin Kleinschmitt	Member of the Board of Directors
Anja Kleyboldt	Member of the Board of Directors
Sam Martin	Member of the Board of Directors

MANAGEMENT BOARD

The executive board of SAF-HOLLAND GmbH is the top operational management body of the SAF-HOLLAND Group. It acts like the management board of a German stock cooperation (Vorstand) and is responsible for the operational management of the Group. The worldwide Group activities are further coordinated by the Management Board in which, besides the members of the executive board of SAF-HOLLAND GmbH, also further members of the management from the different regions of the Group are represented. The members of the Management Board are appointed by SAF-HOLLAND S.A. The Board of Directors, the executive board of SAF-HOLLAND GmbH and the Management Board respectively maintain a close, continuous and faithful working relationship.

At the beginning of the year 2016, the Management Board was reconfigured to reflect the change in SAF-HOLLAND Group´s organizational structure according to regions. In addition to the three members with functional responsibility (CEO, CFO and COO), the Americas and EMEA/India regions are now each represented by their own presidents. The APAC/China region will be directed by the CEO until further notice. At the end of 2016, SAF-HOLLAND's Management Board consisted of the following six members:

Management Board
as of December 31, 2016

Detlef Borghardt	Chief Executive Officer President Region APAC/China
Wilfried Trepels	Chief Financial Officer (until December 31, 2016)
Arne Jörn	Chief Operating Officer
Alexander Geis	President Region EMEA/India
Guoxin Mao	President Region China
Steffen Schewerda	President Region Americas

PERSONNEL CHANGES TO THE MANAGEMENT BOARD DURING THE 2016 FINANCIAL YEAR

In May 2016, Mike Kamsickas resigned from his position as chief operating officer for personal reasons. In October 2016, the Board of Directors appointed Arne Jörn as his successor. Guoxin Mao, President of the Region China, was appointed as a member of the Management Board on August 9, 2016. Wilfried Trepels gave notice of his resignation from SAF-HOLLAND in September 2016 to take effect as of the end of that year. On March 1, 2017, Dr Matthias Heiden assumed the position of chief financial officer. In the interim period, Dr Martin Kleinschmitt temporarily assumed the function of CFO.

BASIC ELEMENTS OF THE REMUNERATION SYSTEM

Members of the Board of Directors receive remuneration for their service and additional payment for assuming additional tasks such as chairing the Audit Committee. The CEO of the Management Board does not receive additional compensation for his work on the Board of Directors.

The Management Board's performance-related remuneration system is based on agreed short- and medium-term targets. Management Board members also have a share-based compensation component that is based on the Company's medium- to long-term success. Further details on share-based compensation for Management Board members can be found in the notes to this annual report on page 71.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

As a Luxembourg société anonyme (S.A.) listed solely in Germany, SAF-HOLLAND is neither subject to the Luxembourg nor the German standards for corporate governance. Nevertheless, the Board of Directors, the Management Board and the executive board of SAF-HOLLAND GmbH are committed to responsible and transparent corporate governance, business integrity, sustainability and compliance with ethical values. Therefore, SAF-HOLLAND complies with the recommendations and suggestions of the German Corporate Governance Code on a voluntary basis to the extent allowed by Luxembourg corporate law and the Company's single-tier board structure. The existing limitations are reflected in the Declaration of Conformity pursuant to Section 161 AktG, which we submit on a voluntary basis.

The Declaration of Conformity submitted by the Board of Directors in March 2017 is permanently available on our website at http://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

COMPLIANCE IS BASED ON A COMPREHENSIVE CODE OF CONDUCT

Corporate integrity has the highest priority at SAF-HOLLAND. Therefore, we believe the concept of compliance refers not only to compliance with the applicable national and international laws and regulations but also signifies a commitment to ethical and moral values. We have therefore set up a compliance organization to support our employees in meeting these requirements.

The head of the Compliance & Legal Affairs department oversees the compliance management and reports directly to the chief financial officer. The Internal Audit department supports the head of the Compliance & Legal Affairs department in carrying out her duties.

Our Code of Conduct combines the compliance requirements that are binding for SAF-HOLLAND as a company, our management as well as for each individual employee.

The Code of Conduct includes but is not limited to regulations on

— the prohibition of illegal business practices, such as illegal cartel agreements, bribery, corruption and insider transactions;
— the prohibition of unlawful discrimination, child or forced labor as well as the infringement of the intellectual property rights of third parties; and
— the right of all employees to fair treatment, equal opportunities and occupational safety.

The Code of Conduct is available to our employees in our Group languages of English and German. In the event of questions or suspected cases, employees can contact the head of the Compliance & Legal Affairs department at any time.

Other compliance issues, such as the handling of receiving benefits and insider information are regulated by Group-wide binding guidelines and memorandums. If there were any changes in the legal framework, such as the implementation of the European Union regulation on market abuse (MAR) during the 2016 financial year, the corresponding information is updated, and the employees affected are informed.

TARGET FOR THE SHARE OF WOMEN IN MANAGEMENT POSITIONS

The law for the equal participation of women and men in executive positions has been in force in Germany since May 2015. As a company incorporated under Luxembourg law, SAF-HOLLAND S.A. is not subject to the provisions of German law. Only the German locations of SAF-HOLLAND GmbH fall under the scope of German law. Nevertheless, the Group is committed to the principle of diversity when filling management positions at the Company and especially strives to increase the level of female representation in various areas of the Group.

With female representation on the Board of Directors of roughly 29 % on December 31, 2016, SAF-HOLLAND S.A. nearly meets the female quota for supervisory boards of a minimum 30 % required under German law. SAF-HOLLAND has also set targets at its German locations for female representation in the second and third management levels below the Management Board (Vice Presidents and Directors). The Company is striving to reach a female quota of 12.5 % at each of these management levels by mid-2022. The quota among directors is expected to reach 9 % as early as mid-2017. This target compares with the level of female representation in Germany's overall workforce of currently just under 12 %. At the end of 2016, the level of female representation in management positions was 5.6 %.

ANNUAL GENERAL MEETING

The shareholders of SAF-HOLLAND exercise their voting rights at the Annual General Meeting. Each share is entitled to one vote. The Annual Ordinary General Meeting takes place each year within the first six months of the financial year on the fourth Thursday in April. The Board of Directors presents the annual and consolidated financial statements to the shareholders. The Annual General Meeting decides on the adoption of the SAF-HOLLAND S.A. annual financial statements, the appropriation of profits, as well as the discharge of the members of the Board of Directors and the auditor, who is in fact appointed by the Annual General Meeting. The Annual General Meeting resolves changes to the Articles of Association and important corporate actions including, among others, the election of members to the Board of Directors and extensions in terms of office.

The convening of the Annual General Meeting, the meeting's agenda, and related documents are published on the company's website. The relevant deadline for shareholder verification is the end of the 14th day prior to the Annual General Meeting (the record date). Shareholders may exercise their voting rights through a proxy of their choice, a company-appointed proxy or in writing.

TRANSPARENCY

SAF-HOLLAND is committed to providing its shareholders and the public equal access to comprehensive and timely communication. All annual and quarterly reports, ad hoc announcements, press releases, investor presentations and any notifiable changes in voting rights are on SAF-HOLLAND's newly designed website in the German and English languages. The Company's website also provides information on the Group and its organizational structure, the financial structure, the Articles of Association, the members of the Board of Directors and Management Board and upcoming and past Annual General Meetings. The regular financial reporting dates are available in the financial calendar. Conference calls for analysts, investors and journalists are held for important events.

ACCOUNTING AND AUDITING

The consolidated financial statements and interim reports of SAF-HOLLAND S.A. are prepared by the Management Board in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union.

The consolidated financial statements have been audited by PricewaterhouseCoopers Société coopérative, Luxembourg, who was selected by the 2016 Annual General Meeting. The consolidated financial statements were audited in accordance with the provisions of the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. The auditors assured the Board of Directors of their independence and objectivity prior to accepting the audit mandate. The financial statements are reviewed, approved and published by the Board of Directors no longer than 90 days after the end of the financial year.

MANAGERS' TRANSACTIONS

Managers of the Company are obliged under Article 19 of Regulation (EU) No. 596/2014 on market abuse (Market Abuse Regulation) to disclose to SAF-HOLLAND S.A. and the CSSF (Commission du Surveillance du Secteur Financier) transactions for their own account in shares or debt instruments of SAF-HOLLAND S.A., related derivatives or other related financial instruments if the value of the purchase or sale reaches or exceeds EUR 5,000 within one calendar year. This obligation also applies to persons closely related to managers. SAF-HOLLAND reports these transactions immediately following their disclosure to the Company.

We did not receive any notifications of transactions concluded by managers during the 2016 reporting year. All current and past notifications are available on our website at http://corporate.safholland.com/en/investor-relations/publications/announcements.

INFORMATION ACCORDING TO ARTICLE 11 (1) AND (3) OF THE LUXEMBOURG TAKEOVER LAW FROM MAY 19, 2006

a) The information referred to in Article 11 (1) (a) of the Takeover Law (capital structure) is on page 13 of this annual report.

b) The transfer of shares is not limited under the Company's Articles of Association.

c) In accordance with the requirements of Article 11 (1) c of the Takeover Law, the major shareholdings as defined by Directive 2004/109/EC as amended (Transparency Directive) are as follows:

Name of the shareholder	Shares[1,2]	% share of voting rights[1]
Delta Lloyd Asset Management N.V.	2,297,665	5.07 %
Fidelity Management and Research Limited Liability Company	2,283,397	5.03 %

[1] As of December 31, 2016
[2] Total number of SAF-HOLLAND shares: 45,361,112

d) There are no shareholders who have special powers of control.

e) Control rights related to the issue of shares to employees are directly exercised by the relevant employees.

f) The Company's Articles of Association impose no voting rights limitations.

g) As of December 31, 2016, the Company was not aware of any agreements between shareholders that would lead to a restriction on the transfer of shares or voting rights as defined by Directive 2004/109/EC as amended (Transparency Directive).

h) The members of the Board of Directors in accordance with Article 7.1 and 7.4 and in conjunction with Article 17.10 of the Articles of Association and Article 67 (2) of the Luxembourg Law of August 10, 1915 on commercial companies, as amended, may be elected by a simple majority (i.e., 50 % plus one of the voting rights present or represented at the general meeting of shareholders) at a general meeting of shareholders or removed from office with or without specifying a reason. There is no quorum requirement. The term of office for a member of the Board of Directors may not exceed six years, although re-election is possible. Should a member of the Board of Directors leave the Company, the remaining members may choose a substitute member by a simple majority vote until the next general meeting of shareholders.

Any amendment to the Company's Articles of Association made by the general meeting of shareholders shall require a two-thirds majority of the voting rights present or represented at the meeting provided there is a quorum of 50 % of the share capital at the general meeting of shareholders. Should the quorum requirement not be met in the initial general meeting of shareholders, a second general meeting of shareholders may be convened for the same purposes for which there is no quorum requirement.

i) The Board of Directors is endowed with wide-ranging powers to exercise all administrative tasks in the interest of the Company. Information regarding the powers of the Board of Directors to issue, redeem and repurchase shares can be found in the Notes to the Consolidated Financial Statements in the section entitled "Equity" contained in this annual report.

j) In October 2012, the Company issued a corporate bond with a nominal value of EUR 75 million, a coupon of 7 % and maturing in 2018. In the event of a change of control, as defined in detail in Article 5 (3) (b) of the bond's terms and conditions, each bondholder has the discretionary right to declare due any or all of the bonds plus the interest accrued up to the chosen redemption date. After a change of control, the chosen redemption date is specified by the Company and communicated in an announcement to the bondholders. The redemption date is a business day between at least 60 to not more than 90 calendar days following the announcement's publication.

The Company issued a convertible bond with a nominal value of EUR 100.2 million, a coupon of 1 % and maturing in 2020. As described in greater detail in Article 10 (7) of the convertible bond's terms and conditions, in the event of a change of control, each holder of such a convertible bond may exercise the discretionary right to declare due on the effective date all or a part of the holder's convertible bonds not previously converted or repurchased.

After a change of control, the effective date is specified by the Company and communicated in an announcement to the bondholders. The effective date is a business day between at least 40 to not more than 60 calendar days following the announcement's publication. The Company will redeem the convertible bonds declared due by the bondholder on the effective date at their nominal value plus any interest that may have accrued. The conversion price will be adjusted by the calculation agent for each conversion right exercised on or before the effective date in accordance with Article 10 (3) of the convertible bond's terms and conditions.

The Company has issued several tranches of a promissory note totaling EUR 200 million with differing maturities. In the case of a change of control, the contractual terms of the respective notes, as described in detail in Article 13 (3) and (4) of the respective contractual terms and conditions, grant each noteholder the right to declare due in whole the noteholder's portion of the note and to demand immediate repayment at the nominal value plus any interest that may have accrued and any other amounts owed in accordance with the respective promissory note agreement.

The current credit agreements with various banks (syndicated loans) relating to drawn and undrawn lines of credit in a total volume of EUR 156 million also include provisions in the event of a change of control. Following a change of control, the Company must immediately inform the agent of that event. The creditors have the discretionary right to declare due via the agents all outstanding credit lines plus any interest that may have accrued and all other amounts owed in accordance with the respective loan agreements, provided they notify the agents within a period of 30 days. The agent is obliged to inform the Company of this notification within ten days.

Under two loan agreements dated June 13, 2016, the Company, together with SAF-HOLLAND Inc., is acting as a guarantor to IKB Deutsche Industriebank AG with SAF-HOLLAND GmbH as the borrower. Each of the loans amount to EUR 25 million and are to be repaid no later than June 26, 2026.

The Company is not party to any other important agreements that take effect, change or terminate upon a change of control in the Company following a takeover bid.

k) There are no agreements between the Company and members of the Board of Directors or employees that provide for compensation arrangements for the members of the Board of Directors or the employees in the event of a takeover offer if the employment relationship is terminated without good cause or as a result of a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC DEVELOPMENT: WORLD ECONOMY CONTINUES TO GROW MODERATELY

The world economy continued its moderate recovery in 2016. At 3.1 %, global growth remained close to the previous year's level (3.2 %). Although the acceleration in growth projected at the start of the year by the International Monetary Fund (IMF) failed to materialize, several uncertainties did fade throughout the course of the year. Fears of a growth slump in the emerging markets were left unvalidated. The commodity markets experienced a significant recovery, and concerns about potential added pressure on the world economy from the political crises in the Middle East and the Ukraine and the forthcoming Brexit have decreased. Even a second interest rate increase by the U.S. Federal Reserve was not enough to cause any upset.

Economic development was stable in the eurozone where growth – supported by the ultra-loose monetary policy of the European Central Bank and the low oil price – reached 1.7 % and was exactly in line with the IMF's expectations at the start of the year. Growth in the United States, on the other hand, was muted at just 1.6 % compared to the IMF's expectation of 2.6 % as the year began. The United States was burdened by the slow recovery in the manufacturing industry and especially the weakness in the energy sector from falling commodity prices. The economic performance of the large emerging markets was varied. Whereas the Chinese economy was able to achieve growing stability over the course of the year, Brazil and Russia continued to struggle with a recession.

INDUSTRY DEVELOPMENT: STRONG REGIONAL DEVELOPMENTAL DIFFERENCES; EUROPE SHINES AS A PILLAR OF GROWTH

The development of the global commercial vehicle markets varied greatly in 2016. The Western European truck and trailer market provided the largest growth stimulus while the North American heavy truck (Class 8) market underwent a correction that was stronger than expected and had an increasing impact on the trailer market as the year progressed. The development in the emerging markets was also mixed. China reported positive growth rates while the important Brazilian market remained under pressure. Russia, on the other hand, saw the first signs of recovery. Australia, another important market for SAF-HOLLAND, also started to stabilize in mid-2016.

STRONG GROWTH IN THE EUROPEAN COMMERCIAL VEHICLE MARKET

According to estimates by the market research institute CLEAR, the Western European trailer market raised production by 8.0 % in 2016, marking the fourth consecutive year of growth. Growth in Germany, which is by far the single largest market, amounted to 9.3 %. Double-digit growth rates were achieved in both the Italian and Spanish trailer markets, whereas momentum in the Eastern European trailer market was more subdued. CLEAR estimates production in Eastern Europe grew by 2.8 %. Poland continued its upward trend of the past few years and registered an increase of 18.5 %. Trailer production in Russia grew 17.1 %, but started from a very low level. Production in this market was just half of the level recorded in 2011.

The European truck market also achieved gratifying growth rates this past year. According to the European Automobile Manufacturers Association (ACEA) trade association, new registrations of commercial vehicles of all types increased by 11.6 % across the European Union in 2016. In the heavy-duty truck segment (over 16 t), which is the relevant vehicle category for SAF-HOLLAND, new registrations increased an impressive 12.3 %. Momentum normalized in the course of the year as expected and after an increase of 17.8 % in heavy truck registrations in the first half of the year, growth in the second half amounted to just 7.1 %.

After several years of declining registration figures, the Russian market for heavy trucks managed to stabilize in 2016 at a low level. After getting off to a weak start in the year, the decline in registrations was offset in the months that followed with registrations for the year 4.2 % higher year-on-year.

MARKET CORRECTION IN NORTH AMERICA

The correction expected for heavy trucks in North America materialized in 2016 with Class 8 production figures falling 29.4 % to roughly 228,000 units. According to market research institute ACT Research, the correction was even stronger than had been expected at the start of the year (250,000 to 270,000 units expected). The correction resulted from excess capacity after the record numbers of new registrations in the past several years. Growth was also held back by the reluctance of many of the fleet operators to invest as a result of the relatively slow momentum of the U.S. manufacturing industry. New orders for Class 8 trucks fell by roughly 35 %, whereby this figure is exaggerated due to the high number of cancellations. In addition, incoming orders have been bottoming out at a low level since the second quarter.

New orders for trailers only started to weaken in early 2016 and ended up falling around 30 % for the full year. High order backlogs have allowed trailer manufacturers to limit production declines to 7.1 %, or approximately 358,000 units.

The Brazilian market remained weak in 2016. Despite the insignificant absolute levels reached after years of decline, the Brazilian market for heavy trucks recorded another 18.5 % drop in registrations in 2016.

MARKET DEVELOPMENTS IN APAC/CHINA VARY

The situation in most of the truck and trailer markets in the ASEAN countries remained challenging in the year 2016. The development of the single largest market, China, was different with truck sales increasing last year by 8.8 %, according to data from the manufacturers association CAAM. Heavy trucks even registered a rise of 33.1 %. The bus segment, on the other hand, recorded a year-on-year sales decline of 8.7 %.

Due to the beginning of a gradual recovery in commodity prices, the Australian market, which is an important market for SAF-HOLLAND, stabilized in the course of 2016 after getting off to a slow start. Registration figures for heavy trucks for the full year were at the prior year's level. Registration figures in Australia, however, are still around 20 % below their level prior to the financial market crisis.

KEY EVENTS DURING THE 2016 FINANCIAL YEAR

CASH OFFER TO ACQUIRE HALDEX

In July 2016, SAF-HOLLAND S.A. announced a cash offer for the acquisition of all issued and outstanding shares of the publicly listed Swedish company Haldex AB through its wholly owned subsidiary SAF-HOLLAND GmbH. The objective of the takeover offer was to create an integrated provider for chassis-related components for commercial vehicles. The total value of the offer for the Haldex shares was approximately EUR 442.1 million. The offer's acceptance period was August 1–24, 2016.

Following the announcement of a higher offer for Haldex from another bidder in early August, SAF-HOLLAND disclosed on August 11, 2016 that it will not increase its bid in response and decided to withdraw its offer. This decision reflects SAF-HOLLAND's clear M&A principles, one of which is that acquisitions must add both strategic and financial value. SAF-HOLLAND is committed to these principles because it believes they are in the best interest of its shareholders.

GROUNDBREAKING ORDER FOR DISC BRAKE TECHNOLOGY IN NORTH AMERICA

SAF-HOLLAND secured a groundbreaking order in July from U.S. Xpress, one of the largest truckload carriers in the United States. For the first time, U.S. Xpress will equip 1,800 of its newly ordered trailers with the latest SAF-HOLLAND P89 disc brake technology marking its change to disc brakes from drum brakes, which are still widely used in the United States. SAF-HOLLAND has been a pioneer in disc brake technology in Europe for many years and possesses extensive know-how in this area. The Company expects this structurally expanding market segment to increase the sales potential in North America in the next few years, particularly in light of the fact that the use of disc brake technology in SAF-HOLLAND's axle systems can also increase the value sold-in per vehicle. More information on the order from U.S. Xpress can be found in the image section of this annual report.

MAJORITY TAKEOVER OF BRAZILIAN COMPANY KLL

In early September, SAF-HOLLAND signed the agreements to acquire a 57.5 % stake in the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. (KLL). The acquisition was completed on October 5, 2016 and, since that date, KLL has been included in the scope of consolidation. The remaining 42.5 % stake will continue to be held by the founding family. SAF-HOLLAND can purchase these shares at a later time through a put-/call-option.

KLL is one of Brazil's leading suppliers of air suspension systems for trucks and buses as well as mechanical and air suspensions and axles for trailers. KLL currently employs around 200 staff. The customer base includes nearly all major manufacturers of trucks, buses and trailers in Brazil. This acquisition gives SAF-HOLLAND direct access to key truck customers for its truck-related product range and at the same time positions SAF-HOLLAND as a market leader for air suspension systems for buses. SAF-HOLLAND is also expanding its market share in trailer axle and suspension systems and is enhancing its technology portfolio through the addition of mechanical suspension systems. In the course of the acquisition, SAF-HOLLAND is consolidating its existing activities in Brazil yielding both cost savings and efficiency gains.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

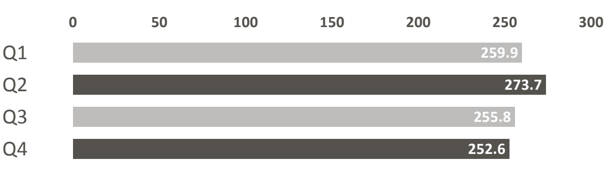
FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

GROUP ACHIEVES FULL-YEAR 2016 SALES AND EARNINGS TARGETS

In the 2016 financial year, SAF-HOLLAND successfully countered many of the effects of the weak environment in several of the transportation markets worldwide. The Group's positive development in Europe, market share gains and the increase in the aftermarket business enabled SAF-HOLLAND to maintain essentially stable organic sales. As a result, organic sales – representing sales excluding negative currency effects of EUR 12.7 million and the contribution to sales from the purchase of KLL – reached a level of EUR 1,052.9 million. This amount represents a marginal year-on-year decline of 0.1 %. Important to note is that the AerWay product line, which still contributed about EUR 6.8 million to Group sales in 2015, was sold at the end of 2015. The acquired suspension specialist KLL contributed EUR 1.8 million to Group sales in the fourth quarter of 2016. Based on the above, SAF-HOLLAND reached the lower end of its Group sales target range of EUR 1,050 to EUR 1,070 million. Initially, the Company had forecast steady to slightly higher organic sales in the range of EUR 1,050 to EUR 1,070 million. SAF-HOLLAND gave a more specific forecast with the publication of the half-year results in August 2016 stating it expected to reach to the lower end of the forecast range as a result of the progressively weaker-than-expected market environment in North America in 2016.

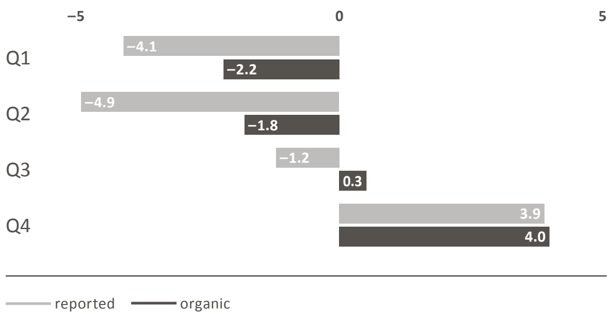
Sales by quarter 2016

EUR million



Sales by quarter (YoY) 2016

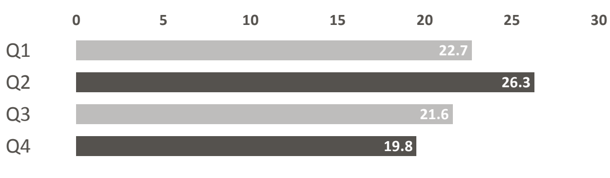
in %



The SAF-HOLLAND Group's regional sales development reflected the market's development as a whole. Although SAF-HOLLAND's development in the Americas region was significantly better than the market in terms of truck and trailer production, the performance still did not satisfy the Company's own expectations. The Group was able to offset some of the pronounced weakness in North America with strong demand in Europe. In the APAC/China region, sales were slightly better than expected but had little effect on the Group's sales overall.

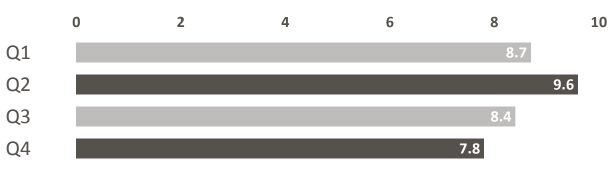
Adjusted EBIT by quarter 2016

EUR million



Adjusted EBIT margin by quarter 2016

EUR million



SAF-HOLLAND's adjusted EBIT margin of 8.7% for the 2016 financial year meant it had also achieved its target for an adjusted EBIT margin tending rather towards the upper half of the range of 8–9%. After announcing the original 8–9% target range, the Group gave a more specific target in August 2016 stating it expected to reach the upper half of that range. In achieving its earnings target, the Group was faced not only with a difficult market environment but also several unexpected factors. For example, typhoon damage and the introduction of SAP in China, which resulted in the recognition of extraordinary write-downs on inventories and old stock, as well as one-time expenses from warranties, together amounted to a total charge of EUR 1.6 million and brought down earnings.

In North America, the Group was confronted not only with a steep decline in production rates for trucks and trailers but also a steady rise in steel prices during the year. This development adversely affected earnings because price increases are typically only passed on to customers after a certain time period.

	Actual 2015	Forecast 2016 (March 2016)	Revision August 2016	Actual business development 2016
Sales	EUR 1,060.7 million	Between EUR 1,050 and EUR 1,070 million (organic)	Lower end of range of EUR 1,050 and EUR 1,070 million	EUR 1,042.0 million (reported) EUR 1,052.9 million (organic)
Adjusted EBIT margin	8.9%	8–9%	Upper half of the 8–9% range	8.7%
Net working capital ratio	12.0%	12–13%	–	11.1%

NET WORKING CAPITAL BETTER THAN EXPECTED

We exceeded our target for capital efficiency in the 2016 financial year. Due to the planned increase in sales contributions from new regions, we were projecting a slight rise in the net working capital ratio limited to a range of 12 to 13% after amounting to 12.0% in the 2015 financial year. With our achievement of 11.1% as of the end of 2016, we not only reached this target but also managed to substantially improve this ratio compared to the end of 2015. By tying up less working capital and making lower payments for investments compared to the prior year, the Group was able to achieve significantly higher free cash flow in 2016.

SALES AND EARNINGS PERFORMANCE

ORGANIC SALES HOLD STEADY IN 2016

Despite declines in most of the commercial vehicle markets worldwide in 2016, Group sales held steady at a high level. Sales in 2016 reached EUR 1,042.0 million (previous year: EUR 1,060.7 million), or 1.8% lower than the previous year. Items affecting sales included negative currency effects of EUR 12.7 million and the absence of sales and earnings contributions from the divested AerWay product line, which had a slightly lower margin than the Group's average and had still contributed EUR 6.8 million to sales in the Americas region in 2015. The first-time consolidation of the Brazilian suspension specialist KLL Equipamentos para Transporte Ltda. in October (sales contribution of EUR 1.8 million) could only partially compensate for the AerWay effect. Organic sales, which do not include negative currency effects or the contribution to sales from the purchase of KLL, nearly matched last year's level and amounted to EUR 1,052.9 million in the 2016 financial year.

After a decline in sales in the first nine months of 3.4%, SAF-HOLLAND achieved organic sales growth in the fourth quarter of 2016 of 3.9% for a total of EUR 252.6 million (previous year: EUR 243.2 million), despite clear weakness in the US market in the same period. On an organic basis, sales grew 4.0%. The negative currency effects of EUR 0.6 million and slightly positive effect of EUR 0.3 million from the change in the scope of consolidation had little impact on a quarterly basis.

Sales by business area

EUR million

	2016		2015	
Original equipment	772.2	74.1 %	792.7	74.7 %
Spare parts	269.8	25.9 %	268.0	25.3 %
Total	**1,042.0**	**100.0 %**	**1,060.7**	**100.0 %**

ORIGINAL EQUIPMENT BUSINESS: SOLID SALES GROWTH IN THE EMEA/INDIA REGION; STRONG FINAL QUARTER IN THE APAC/CHINA REGION DRIVEN BY REGULATION

Sales in the original equipment business resumed growth in the fourth quarter, marking the first time in the 2016 financial year. Sales rose by 3.5 % to EUR 187.9 million (previous year: EUR 181.5 million). A chief contributor was the double-digit growth in the APAC/China region. The recent entry into force of the GB 1589 standard in China triggered a distinct acceleration in demand in the fourth quarter, particularly for trailer components. Further information on the effects of this standard is presented in the section on the development of the APAC/China segment on page 41.

Sales in the original equipment business for the full year declined 2.6 % to EUR 772.2 million (previous year: EUR 792.7 million) mainly due to negative currency and consolidation effects (e.g., absence of the AerWay product line). SAF-HOLLAND achieved solid growth in the EMEA/India region where demand for truck and trailer components remained robust. Worth mentioning is the positive development in Eastern Europe outside of the Russian Federation. Markets in the Middle East such as Turkey and Saudi Arabia, on the other hand, were significantly weaker in the second half of the year.

In the Americas region, the original equipment business experienced a decline throughout the whole of 2016. Although the orders for trailers and Class 8 trucks increased in the fourth quarter of 2016, customer call orders were weaker again toward the end of the year in North America. Some of the major US truck and trailer manufacturers halted production longer than usual over the holidays.

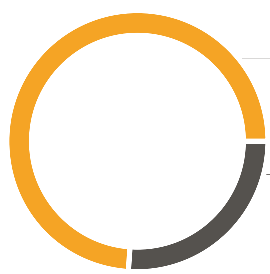
FULL-YEAR SALES IN THE SPARE PARTS BUSINESS SLIGHTLY HIGHER

Sales in the spare parts business in the 2016 financial year were 0.7 % higher amounting to EUR 269.8 million (previous year: EUR 268.0 million). Sales growth stemmed primarily from the EMEA/India region. This rise was the result of the higher demand from fleet operators for spare parts following the rise in transportation volumes in a majority of the region's core markets, as well as higher sales of products under the SAUER GERMANY QUALITY PARTS brand for older trucks and trailers in their "second life." The APAC/China region even achieved double-digit growth in 2016, albeit starting from a very low level. This region's activities are currently focused on establishing a base of installed products and customers to provide a foundation for the aftermarket business. The spare parts business in the Americas regions, in contrast, performed in line with the market for commercial vehicle spare parts and declined by a mid single-digit percentage amount in 2016. Demand for spare parts was very restrained after record new registrations in 2014 and 2015, particularly in the heavy Class 8 truck segment. As a rule, demand for service and spare parts increases only two to three years after the new vehicles are registered.

In the fourth quarter of 2016, sales of the spare parts business increased 4.9 % to EUR 64.7 million (previous year: EUR 61.7 million). The better sales development in comparison to the first nine months (–0.6 %) was not only the result of solid demand from the EMEA/India region but also a slight pickup in the spare parts business in the Americas region.

Share of Group sales by business area 2016

in %



OPERATING RESULT CONTINUES AT A HIGH LEVEL

Income Statement

EUR million

	2016		2015	
Sales	1,042.0	100.0%	1,060.7	100.0%
Cost of sales	–835.5	–80.2%	–857.8	–80.9%
Gross profit	**206.5**	**19.8%**	**202.9**	**19.1%**
Other operating income	1.2	0.1%	3.3	0.4%
Selling expenses	–60.7	–5.8%	–61.4	–5.8%
Administrative expenses	–50.9	–4.9%	–44.6	–4.2%
Research and development costs	–19.7	–1.9%	–20.9	–2.0%
Operating result	**76.4**	**7.3%**	**79.3**	**7.5%**
Finance result	–13.5[1]	–1.3%	–4.0[2]	–0.4%
Share of net profit of investments accounted for using the equity method	2.1	0.2%	2.3	0.2%
Result before taxes	**65.0**	**6.2%**	**77.6**	**7.3%**
Income taxes	–21.5	–2.1%	–25.9	–2.3%
Result for the period	**43.5**	**4.2%**	**51.7**	**4.9%**
Number of shares[3]	45,361,112		45,361,112	
Basic earnings per share in EUR	**0.98**		**1.14**	
Diluted earnings per share in EUR	**0.85**		**0.99**	

[1] As of 2016, the vast majority of unrealized exchange gains and losses from the valuation of intercompany foreign currency loans is no longer recognized in the finance result. Accordingly, unrealized exchange gains from the valuation of intercompany foreign currency loans of EUR 1.0 million in 2016 (Q4/2016: unrealized exchange gains of EUR 2.7 million) were recognized directly in other comprehensive income at the rate on the reporting date.
[2] The finance result for the 2015 financial year includes unrealized exchange gains from the valuation of intercompany foreign currency loans at the rate on the reporting date of EUR 6.8 million (Q4/2015: unrealized exchange gains of EUR 1.8 million).
[3] Weighted average number of ordinary shares.

EARNINGS DEVELOPMENT INFLUENCED BY HALDEX TRANSACTION AND VALUATION OF INTERCOMPANY FOREIGN CURRENCY LOANS

Earnings development in 2016 was strongly influenced by one-time expenses for the Haldex takeover bid that was ultimately withdrawn, the acquisition of KLL and a change in the recognition of unrealized exchange gains and losses from the valuation of the predominant portion of the intercompany foreign currency loans, which have been accounted for as part of a net investment in a foreign operation since the beginning of the 2016 financial year. Since that time, they have been directly recognized under other comprehensive income (OCI). Transaction-related costs brought down the result before taxes by an amount of EUR 4.1 million. In the previous year, unrealized exchange gains from the valuation of intercompany foreign currency loans totaling EUR 6.8 million were recognized in the finance result. In 2016, however, this position no longer had any significant effect. The above factors, which significantly burdened the Group's earnings, were partially offset by a EUR 3.6 million improvement in gross profit.

SIGNIFICANT IMPROVEMENT IN GROSS MARGIN

Despite a EUR 18.7 million decline in Group sales, gross profit rose to EUR 206.5 million (previous year: EUR 202.9 million), representing a gross margin improvement of 70 basis points in the 2016 financial year to 19.8% (previous year: 19.1%). This increase resulted mainly from savings generated from the plant consolidation in the EMEA region, process improvements, better production network efficiency and lower costs from the greater bundling of purchasing activities within the Group. Some of this improvement was offset by the insufficient market-related utilization of the production capacity in North America. The company managed to curtail the impact of this factor on profits, however, because we had started to adjust our capacity at an early stage. The problems with capacity utilization in Brazil were similar to those in North America. A negative effect on gross margins resulted from a gradual rise in steel prices in North America during the year, which typically can only be passed on to customers at a later stage. In China, we were also required to recognize extraordinary write-downs on inventories and old stock due to typhoon damage and valuation adjustments made in the course of introducing SAP, as well as one-time expenses from warranties, which together totaled EUR 1.6 million. These write-downs had a negative impact on the gross margin.

The gross margin in the fourth quarter of 2016 was significantly higher year-on-year and reached 19.2% (previous year: 18.1%). This rise was due not only to the effects already described but also to a favorable product mix.

OPERATING RESULT DECLINES DUE TO TRANSACTION COSTS

Stringent cost controls were responsible for limiting the overall rise in operating expenses, particularly in the case of selling expenses, which declined slightly in the 2016 financial year to EUR 60.7 million (previous year: EUR 61.4 million). Selling expenses as a percentage of Group sales remained stable at 5.8 %.

SAF-HOLLAND's Group-wide research and development costs were slightly lower than in the previous year amounting to EUR 19.7 million (previous year: EUR 20.9 million). The fact that a high number of development projects were completed helped reduce these costs. The R&D expense ratio excluding capitalized development costs was 1.9 % (previous year: 2.0 %). Development costs in the amount of EUR 3.7 million (previous year: EUR 3.7 million) were capitalized while scheduled amortization of development costs amounted to EUR 0.7 million (previous year: EUR 0.5 million). Including capitalized development expenses, R&D costs in 2016 amounted to EUR 23.4 million (previous year: EUR 24.6 million) yielding an R&D ratio of 2.2 % (previous year: 2.3 %).

The sharp rise in administrative expenses in the 2016 financial year to EUR 50.9 million (previous year: EUR 44.6 million) is mainly due to one-time effects from the takeover bid for the Swedish company Haldex AB and the acquisition of the Brazilian suspension specialist KLL (legal and consulting costs and brokerage fees, among others). In calculating the adjusted earnings figures, an adjustment was made for one-time transaction costs that came to a total of about EUR 4.1 million. Subsequent transaction costs of EUR 0.7 million were recognized in the fourth quarter along with EUR 0.9 million in transaction costs initially recognized under finance expenses in the third quarter and later reclassified to administrative expenses in the fourth quarter.

Other operating income declined to EUR 1.2 million in 2016 (previous year: EUR 3.3 million). This decline was largely a result of posted income of EUR 1.4 million from fixed asset disposals in the prior year 2015 resulting from the sale of the AerWay product line and real estate at the former location in Wörth am Main, Germany, that was no longer needed as a result of plant consolidation.

The total of these factors more than offset the improvement in the gross margin. The operating result came in at EUR 76.4 million in the 2016 financial year (previous year: EUR 79.3 million). The operating income margin was almost unchanged at 7.3 % (previous year: 7.5 %). The slight decline in the margin compared to the prior year was mainly the result of lower other operating income in the amount of EUR 1.2 million (previous year: EUR 3.3 million) and the one-time transaction expenses for Haldex and KLL totaling EUR 4.1 million. Results also came under pressure from the aforementioned extraordinary write-downs on inventories and old stock, as well as from one-time expenses for warranties in China. Despite their one-time nature, these charges were not adjusted in the calculation of adjusted earnings. In the fourth quarter of 2016, the operating result reached EUR 16.1 million (previous year: EUR 14.6 million), which was 10.3 % above the prior year's level.

WEAKER FINANCE RESULT LARGELY DUE TO CHANGES IN ACCOUNTING OF EXCHANGE GAINS FROM THE VALUATION OF INTERCOMPANY FOREIGN CURRENCY LOANS AND THE HALDEX TRANSACTION

The finance result in 2016 was EUR –13.5 million (previous year: EUR –4.0 million). This decline largely resulted from the change in the accounting of unrealized and non-cash exchange gains and losses from the valuation of intercompany foreign currency loans. The finance result in the previous year still included an exchange gain of EUR 6.8 million. Since the beginning of the 2016 financial year, translation effects from the valuation of the predominant portion of the intercompany foreign currency loans are accounted for as part of a net investment in a foreign operation and directly recognized in other comprehensive income (OCI). Consequently, this item no longer had an appreciable effect on results in 2016.

The effects resulting from the takeover offer for Haldex are fully recognized in the financial statements for the year 2016 and resulted in a slightly positive effect on the finance result. The Group had acquired approximately 3.6 % of the Haldex shares before issuing the takeover bid. The Group sold all of these shares on the stock market in the fourth quarter because the position was no longer of strategic importance and due to the potential risk of antitrust issues, which was to be eliminated in accordance with the Group's risk management system. The sale resulted in a gain of EUR 5.7 million. This gain was partly offset by transaction expenses of EUR 5.1 million incurred to hedge the potential purchase price in Swedish krona of the planned acquisition of Haldex for the purpose of transaction security.

In 2015, SAF-HOLLAND created the financing basis for the acquisitions planned under "Strategy 2020" and specifically for the financing of the takeover bid for Haldex by issuing a promissory note. This issue caused a rise in net interest income and expenses in the 2016 financial year to EUR –11.7 million (previous year: EUR –8.8 million). Important to note is that only a very minimal amount of interest was generated from investing the liquid assets from the promissory note.

The finance result in the fourth quarter of 2016 was EUR –3.2 million (previous year: EUR –1.5 million). This year-on-year decline largely resulted from the change in the accounting treatment of unrealized and non-cash exchange gains and losses from the valuation of intercompany foreign currency loans mentioned above. The fourth quarter of 2015 still contained a gain of EUR 1.8 million versus an insignificant amount of income in the fourth quarter of 2016. The sale of the Haldex shares in the fourth quarter of 2016 also generated a finance expense of EUR 0.9 million because the average price of the shares sold was below the price used to measure the shares' value on the September 30, 2016 reporting date. These expenses compare to a positive effect of EUR 0.9 million from the reclassification of transaction costs contained in the third quarter's finance result to administrative costs. Net interest income and expenses in the fourth quarter amounted to EUR –3.2 million (previous year: EUR –2.5 million).

2016 BASIC EARNINGS PER SHARE OF EUR 0.98 AND ADJUSTED EARNINGS PER SHARE OF EUR 1.18

The result before taxes in 2016 decreased to EUR 65.0 million (previous year: EUR 77.6 million). This decline was higher on a percentage basis than the decline in the operating result and was the outcome of the effects on the finance result already described.

The tax rate for the whole of 2016 remained essentially unchanged at 33.1 % (previous year: 33.4 %). The Group tax rate in the fourth quarter was disproportionately high as a result of the earnings development at some of the subsidiaries and the recognition of trade taxes on the gain from the sale of the Haldex shares.

The result for the period fell accordingly by 15.9 % in the 2016 financial year to EUR 43.5 million (previous year: EUR 51.7 million). It is important to note that the previous year's result still included roughly EUR 4.5 million in non-cash exchange gains (after taxes) from the valuation of intercompany foreign currency loans.

Based on an unchanged number of ordinary shares outstanding of 45.4 million, basic earnings per share for the 2016 financial year were EUR 0.98 (previous year: EUR 1.14), and diluted earnings per share amounted to EUR 0.85 (previous year: EUR 0.99).

DIVIDEND SET TO INCREASE BY 10 %

SAF-HOLLAND's dividend policy provides for a dividend distribution to shareholders of generally 40 to 50 % of the available net earnings. Available net earnings do not take into account purely accounting and non-cash effects such as the gain from the valuation of intercompany foreign currency loans in the 2015 financial year. Accordingly and taking into account the strong development of free cash flow, the Board of Directors will propose a 10.0 % higher dividend of EUR 0.44 per share (previous year: EUR 0.40) to the Annual General Meeting on April 27, 2017. This amount is equivalent to a total distribution of around EUR 20.0 million (previous year: EUR 18.1 million) and a payout ratio of 46.4 % (previous year: 38.6 %) of available net earnings. Based on SAF-HOLLAND's 2016 year-end share price of EUR 13.64, the dividend represents an attractive dividend yield of 3.2 % (previous year: 3.2 %).

Reconciliation of adjusted earnings figures

EUR million

	2016	2015[2]	2015
Result for the period	43.5	51.7	51.7
Income taxes	21.5	25.9	25.9
Finance result	13.5[1]	4.0	4.0[3]
Depreciation and amortization from PPA	5.3	7.0	7.0
Restructuring and transaction costs	6.6	5.4	5.4
Adjusted EBIT	**90.4**	**94.0**	**94.0**
in % of sales	8.7	8.9	8.9
Depreciation and amortization	17.3	15.3	15.3
Adjusted EBITDA	**107.7**	**109.3**	**109.3**
in % of sales	10.3	10.3	10.3
Depreciation and amortization	–17.3	–15.3	–15.3
Finance result	–13.5[1]	–10.7	–4.0[3]
Adjusted result before taxes	**76.9**	**83.3**	**90.0**
Income taxes	–23.2	–25.7	–27.8
Adjusted result for the period	**53.7[4]**	**57.6[5]**	**62.2[5]**
in % of sales	5.2	5.4	5.9
Number of shares[6]	45,361,112	45,361,112	45,361,112
Adjusted basic earnings per share in EUR[7]	**1.18**	**1.27**	**1.37**
Adjusted diluted earnings per share in EUR[8]	**1.03**	**1.10**	**1.18**

1 As of the 2016 financial year, the vast majority of unrealized exchange gains and losses from the valuation of intercompany foreign currency loans are no longer recognized in the finance result. Accordingly, unrealized exchange gains from the valuation of intercompany foreign currency loans of EUR 1.0 million in 2016 (Q4/2016: unrealized exchange gains of EUR 2.7 million) were recognized directly in other comprehensive income at the rate on the reporting date.
2 For better comparability, the 2015 finance result – as of the line item adjusted EBITDA – is presented in accordance with the method used in 2016. As a result, unrealized exchange gains of EUR 6.7 million in 2015 (Q4/2015: unrealized exchange gains of EUR 1.8 million) are no longer recognized under this item.
3 The finance result for the 2015 financial year includes unrealized exchange gains of EUR 6.8 million (Q4/2015: unrealized exchange gains of EUR 1.8 million) from the valuation of intercompany foreign currency loans at the rate on the reporting date.
4 A uniform tax rate of 30.20% was assumed to calculate the adjusted result for the period.
5 A uniform tax rate of 30.90% was assumed to calculate the adjusted result for the period.
6 Weighted average number of ordinary shares.
7 The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR –0.8 million (previous year: EUR 0.1 million).
8 Calculated taking into account 8.1 million shares equivalents (previous year: 8.1 million) and EUR 1.2 million (previous year: EUR 1.2 million) of earnings contribution from the convertible bonds issued in 2014 and non-controlling interests of EUR –0.8 million (previous year: EUR 0.1 million).

2016 FINANCIAL YEAR ADJUSTED EBIT MARGIN OF 8.7% WITHIN TARGET RANGE

EBIT adjusted for purchase price allocation effects (depreciation and amortization from PPA) and restructuring and transaction costs of EUR 11.9 million (previous year: EUR 12.4 million) declined 3.8% and amounted to EUR 90.4 million (previous year: EUR 94.0 million) in 2016. At 8.7% (previous year: 8.9%), the adjusted EBIT margin was in the upper half of the target range of 8 to 9%, as forecasted. Around EUR 0.7 million of the restructuring and transaction costs were attributed to the acquisition of KLL and a further EUR 3.4 million was attributed to the takeover offer for Haldex.

The adjusted EBIT in the fourth quarter of 2016 was EUR 19.8 million (previous year: EUR 20.4 million) yielding an adjusted EBIT margin of 7.8% (previous year: 8.4%). At EUR 3.0 million, adjustment items were well below the previous year's figure (EUR 4.5 million) and included the effects from the purchase price allocation (EUR 1.3 million compared to EUR 2.1 million) and restructuring and transaction costs of EUR 1.7 million (previous year: EUR 2.4 million). In connection with the acquisition of KLL, further transaction costs of EUR 0.3 million were incurred in the fourth quarter of 2016. Compared to the fourth quarter of 2015, adjusted EBIT was somewhat lower mainly as a result of income of EUR 1.4 million from fixed asset disposals related to the sale of the AerWay product line and property at the former location in Wörth, Germany, that was no longer needed. There was no corresponding income in the fourth quarter of 2016. In addition, KLL, which in the fourth quarter was included in the Group's result for the first time, generated an operating loss of EUR 0.4 million on the basis of adjusted EBIT in the fourth quarter as a result of the ongoing weak market environment in Brazil.

As a result, the adjusted result before taxes for the financial year amounted to EUR 76.9 million (previous year: EUR 90.0 million). The decline was primarily due to the weaker finance result (EUR –13.5 million compared to EUR –4.0 million). The previous year's finance result benefited significantly from the unrealized exchange gains from the valuation of intercompany loans already described.

If the unrealized gain in 2015 had been recognized in other comprehensive income (in line with the accounting in 2016), the adjusted result before taxes in 2015 would have been EUR 83.3 million. On a comparable basis, the adjusted result before taxes in 2016 would have declined by 7.7% to EUR 76.9 million (previous year: EUR 83.3 million) mainly due to the lower other operating income and the higher interest expenses which increased by EUR 2.9 million.

ADJUSTED RESULT FOR THE PERIOD DECLINES 13.7%

After taxes, the adjusted result for the period in 2016 was EUR 53.7 million (previous year: EUR 62.2 million). As in the case of the result before taxes, this decline was largely due to the unrealized exchange gains from the valuation of intercompany foreign currency loans still contained in the prior year.

On a comparable basis, that is, if the unrealized exchange gains had been recognized in other comprehensive income in 2015 as well, the adjusted result for the period would have declined 6.8% from EUR 57.6 million in 2015 to EUR 53.7 million.

Adjusted basic earnings per share for the 2016 financial year amounted to EUR 1.18 (previous year: EUR 1.37), while adjusted diluted earnings per share totaled EUR 1.03 (previous year: EUR 1.18).

BUSINESS DEVELOPMENT BY REGION: STRONG BUSINESS IN EMEA/INDIA LARGELY COMPENSATES FOR WEAK MARKET IN THE AMERICAS

Overview of regions

EUR million

	EMEAI		Americas		APAC/China		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Sales	568.8	540.0	402.3	449.4	70.9	71.3	1,042.0	1,060.7
Cost of sales	–451.6	–444.2	–326.9	–359.5	–57.0	–54.1	–835.5	–857.8
Gross profit	**117.2**	**95.8**	**75.4**	**89.9**	**13.9**	**17.2**	**206.5**	**202.9**
in % of sales	20.6	17.7	18.7	20.0	19.6	24.2	19.8	19.1
Other operating income and expenses	–58.9	–50.9	–45.4	–46.1	–11.8	–11.9	–116.1	–108.9
Adjusted EBIT	**58.3**	**44.9**	**30.0**	**43.8**	**2.1**	**5.3**	**90.4**	**94.0**
in % of sales	10.3	8.3	7.4	9.7	3.0	7.5	8.7	8.9

EMEA/INDIA REGION: BETTER PROFITABILITY; STRONG GROWTH IN PARTS OF EASTERN EUROPE

In the 2016 financial year, sales in the EMEA/India region rose 5.3% to EUR 568.8 million (previous year: EUR 540.0 million). On a currency-adjusted basis, sales rose to EUR 574.2 million (previous year: EUR 540.0 million) for an increase of 6.3%. This growth reflects the better economic development in parts of the region resulting in a stronger demand for transportation capacity and a rising demand for trailers from fleet operators. SAF-HOLLAND registered rapid growth in Southern Europe, particularly in Italy and Spain, as well as in several Eastern European countries such as Poland. The Russian subsidiary was able to increase sales for the first time in years, albeit from a low basis after years of market weakness. The subsidiaries in the Middle East region developed well overall winning large contracts from major original equipment manufacturers in the 2016 financial year. The steady growth in the EMEA/India region in recent years has resulted in a high utilization of the region's current capacity. Production capacity in Europe has been gradually expanded in anticipation of the growth planned in the years ahead. SAF-HOLLAND has also built a new production facility for axle systems in Turkey in close proximity to its customers. This facility will expand the existing capacity in the EMEA/India region by up to 15%. One advantage of the facility's location in Dücze is lower transportation costs, which also benefits customers; another is the ability to make faster deliveries to adjacent sales markets from production facilities close by. Despite today's difficult political and economic conditions in some of the Middle Eastern countries, we see promising potential from the emerging business with vehicle manufacturers in both Turkey and neighboring Iran. SAF-HOLLAND has already acquired some interesting orders from these areas.

Adjusted EBIT in the EMEA/India region rose 29.8% to EUR 58.3 million (previous year: EUR 44.9 million). The adjusted EBIT margin reached 10.3% (previous year: 8.3%). The margin improvement resulted above all from an advantageous product mix and economies of scale, which can be attributed to major contracts in the regions of the Middle East and Africa, among others.

The solid business development of the first nine months continued during the fourth quarter of 2016. In the period from October to December 2016, sales grew 6.2 % (currency-adjusted 6.5 %) to EUR 138.0 million (previous year: EUR 130.0 million). Adjusted EBIT was EUR 13.7 million (previous year: EUR 9.3 million), and the adjusted EBIT margin reached 9.9 % (previous year: 7.2 %).

AMERICAS REGION: MARKET SHARE GAINS AMID A DIFFICULT ENVIRONMENT

Sales in the Americas region in the 2016 financial year declined by 10.5 % to EUR 402.3 million (previous year: EUR 449.4 million). Sales on an organic basis declined 8.5 % after adjusting for negative currency effects of EUR 4.7 million and negative effects of EUR 5.0 million from divestiture of a product line as well as the change in the scope of consolidation (EUR –6.8 million from the sale of the AerWay product line in 2015; EUR +1.8 million sales contribution from KLL in 2016). As a result of this performance, SAF-HOLLAND significantly outperformed the overall market.

The comparatively better development of SAF-HOLLAND in the Americas region can be attributed to market share gains. In the 2016 financial year, SAF-HOLLAND not only won a pioneering order for disc brake technology from U.S. Xpress but also received a contract from Navistar making SAF-HOLLAND a standard equipment supplier for the prestigious North American truck manufacturer. The spare parts business, in contrast, was difficult. After record new registrations in the years 2014 and 2015, today's average fleet age is relatively low resulting in a correspondingly low level of demand for spare parts. The spare parts business did, however, for the first time report again a year-on-year growth in the fourth quarter, which marked the first time in 2016.

Given the persistently difficult market environment in Brazil, the sales of the Brazilian subsidiary in 2016 remained at a very low level. The activities in Brazil have been consolidated since the fourth quarter of 2016 after the acquisition of the suspension specialist KLL, which should lead to cost savings and efficiency gains.

The adjusted EBIT for the Americas region reached EUR 30.0 million (previous year: EUR 43.8 million) resulting in an adjusted EBIT margin of 7.4 % (previous year: 9.7 %). Although the Group was able to reduce costs significantly through early capacity adjustments, better efficiency and strict overall cost control, the negative effect on earnings from the persistently weak market environment during the year could not be offset completely. These factors prompted SAF-HOLLAND's decision in January 2017 to restructure its North American plant network and adjust its production capacity to coincide with the changed market environment by consolidating its total seven production plants into five locations. Further information about these changes can found in the section entitled "Events after the balance sheet date" on page 54.

The region's results were also influenced by higher steel prices in North America. Higher material prices are typically passed on to customers only after a certain time delay, which temporarily led to a burden on earnings in the reporting year. Many of the price adjustments were passed on to customers in the fourth quarter.

Sales in the Americas region in the fourth quarter of 2016 declined 6.2 % (7.0 % on an organic basis) to EUR 92.6 million (previous year: EUR 98.7 million). Adjusted EBIT was EUR 5.7 million (previous year: EUR 10.0 million), and the adjusted EBIT margin reached a level of 6.2 % (previous year: 10.1 %).

APAC/CHINA: BUSINESS IN CHINA PICKS UP AT THE YEAR'S END

In the full year of 2016, sales in the APAC/China region were almost stable at EUR 70.9 million (previous year: EUR 71.3 million). On a currency-adjusted basis, sales grew 3.1 %. After business in the first three quarters being dominated by weaker economic development in most ASEAN markets and declines at our subsidiary Corpco due to the subdued environment in the Chinese bus market, sales increased sharply in the fourth quarter by 51.7 % to EUR 22.0 million (previous year: EUR 14.5 million). On a currency-adjusted basis, sales rose even 54.8 % to EUR 22.4 million. The pick-up resulted from the introduction of the new GB 1589 standard in China, which limits the weight and length of truck and trailer combinations (further information can be found in the "Risks and Opportunities Report" on page 46). This new standard caused a significant increase in customer interest at the end of the reporting year that could continue in 2017 as fleet operators make the appropriate adjustments or increase investments in new semi-trailers and trailers.

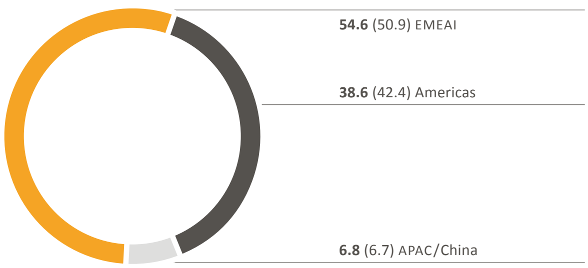
Our established China business with trailer axle systems and components at the Xiamen site continued to be well utilized as a result of this greater demand and resulted in significantly higher sales in the fourth quarter. The Australian subsidiary also reported an improvement in sales during the fourth quarter but starting from a low base.

The result of the APAC/China region was impacted by two special factors in the 2016 financial year. The buildings at the Xiamen location in Southern China were hit by a severe typhoon in the third quarter, which damaged portions of the inventory. In addition, inventory adjustments were carried out in the course of introducing SAP in China. One-time expenses for warranties in China and inventory corrections at the Corpco location in Baotou were necessary in the fourth quarter. These factors resulted in a negative impact on the result for the 2016 financial year totaling EUR 1.6 million and led to a 2016 adjusted EBIT for the region of EUR 2.1 million (previous year: EUR 5.3 million), as well as an adjusted EBIT margin of 3.0 % (previous year: 7.5 %).

The region's adjusted EBIT in the fourth quarter of 2016 was EUR 0.4 million (previous year: EUR 1.1 million) yielding an adjusted EBIT margin of 1.8 % (previous year: 7.6 %).

Regional share of Group sales 2016

in %



NET ASSETS

BALANCE SHEET CONTINUES TO BE DOMINATED BY HIGH LIQUIDITY

As of the December 31, 2016 reporting date, total assets increased 14.2 %, or EUR 126.2 million, to EUR 1,014.7 million (December 31, 2015: EUR 888.5 million). Most of this increase was accounted for by the build-up of liquidity in the amount of EUR 83.8 million. The first-time consolidation of KLL also resulted in an increase in total assets of EUR 25.6 million.

At EUR 344.6 million, liquid assets were the largest single asset item (December 31, 2015: EUR 260.7 million; EUR 145.7 million thereof were cash and cash equivalents and EUR 115.0 million other short-term investments). By maintaining significantly higher liquidity, SAF-HOLLAND has the financing necessary to carry out the acquisitions planned under its "Strategy 2020". Despite the payment of the net purchase price of EUR 7.5 million for KLL, liquid assets increased by EUR 39.8 million in the fourth quarter of 2016 alone. In addition to strong free cash flow of EUR 29.2 million, this rise was also derived from the cash proceeds from the sale of the Haldex shares (EUR 19.0 million) in the fourth quarter.

Other current assets (excluding other short-term investments and cash and cash equivalents) increased overall by EUR 16.4 million. The majority of this increase resulted from inventories, which increased by EUR 13.0 million to EUR 131.0 million (December 31, 2015: EUR 118.0 million). There was a corresponding increase in days inventory outstanding as of December 31, 2016 to 58 days (previous year: 53 days). An amount of EUR 4.8 million was attributable to the first-time consolidation of KLL. The appreciation of the US dollar and Canadian dollar against the euro in comparison to the end of 2015 also resulted in a currency-related increase in inventory. In addition, intermediate goods were stocked up in preparation for the start of production at the new Turkish plant, which meant that the reduction in inventory (September 30, 2016: EUR 124.6 million, or 54 days) originally targeted for the fourth quarter could not be achieved. The build-up in inventory, however, was accompanied by an even stronger increase in trade payables resulting in an overall reduction in working capital in 2016.

Trade receivables for the full year were virtually unchanged at EUR 116.7 million (previous year: EUR 116.5 million). The days sales outstanding fell as of December 31, 2016 to 42 days (December 31, 2015: 43 days), thereby achieving the Group's target to significantly reduce trade receivables (reduced by EUR 23.2 million) compared to their level on September 30, 2016 (EUR 139.9 million, or 49 days). At the end of September, SAF-HOLLAND still had an above-average share of outstanding receivables in regions where longer payment periods are customary.

Current financial assets at the end of 2016 were EUR 1.0 million (previous year: EUR 3.1 million). As of September 30, 2016 (EUR 21.2 million) this position still contained the Haldex shares acquired in advance of the takeover offer. These shares were then sold during the fourth quarter of 2016.

Non-current assets increased and amounted to EUR 406.3 million at the year's end (December 31, 2015: EUR 380.3 million). This rise was mainly due to the first-time consolidation of KLL, which led to an increase in this item of EUR 18.3 million. A total of EUR 12.8 million of this amount is attributed to property, plant and equipment, EUR 2.8 million to goodwill and EUR 2.4 million to other intangible assets. Consequently, goodwill increased to EUR 56.1 million (previous year: EUR 53.0 million) and intangible assets rose to EUR 149.5 million (previous year: EUR 145.4 million). The rise in property, plant and equipment to EUR 144.3 million (previous year: EUR 127.8 million) resulted both from KLL and the construction of the new plant in Turkey. Depreciation and amortization of intangible assets and property, plant and equipment in the amount of EUR 22.6 million was slightly below the level of additions, which totaled EUR 25.0 million.

Overview of net assets

EUR million

	12/31/2016	12/31/2015
Total assets	1,014.7	888.5
Equity	305.6	287.8
Equity ratio	30.1 %	32.4 %
Adjusted equity ratio[1]	45.1 %	45.3 %
Net debt[2]	97.1	122.4

[1] Adjusted for cash and cash equivalents and other short-term investments above the figure targeted by SAF-HOLLAND of approximately EUR 7 million.
[2] Taking into account cash and cash equivalents and other short-term investments (December 31, 2016: EUR 0.0 million; December 31, 2015: EUR 115.0 million).

ADJUSTED EQUITY RATIO REMAINS STABLE AT 45 %

Equity as of December 31, 2016 was higher at EUR 305.6 million (previous year: EUR 287.8 million). This rise reflected primarily the result for the period of EUR 43.5 million generated in the 2016 financial year and was partly offset by the dividend distribution for the 2015 financial year of EUR 18.1 million. There was also a negative effect of EUR 18.2 million on equity resulting from the valuation of the call option for the remaining 42.5 % interest in KLL, for which a corresponding liability had to be recognized. This effect was partially offset by positive exchange differences of EUR 5.3 million arising from the translation of foreign operations and a EUR 3.9 million increase in non-controlling interests following the first-time recognition of non-controlling interests in KLL. As of the end of 2016, the equity ratio was 30.1 % compared to its level of 32.4 % on December 31, 2015. Equity rose by EUR 9.8 million in comparison to September 30, 2016, due to the result for the period of EUR 7.2 million generated in the fourth quarter. The negative effect on equity from the valuation of the KLL call option recognized in the fourth quarter of 2016 was largely offset by changes in accumulated other comprehensive income, which mainly affected the revaluation of defined benefit plans and exchange differences from the translation of foreign business operations.

The balance sheet ratios as of December 31, 2016 and the end of the 2015 financial year were influenced by the liquidity held. When total assets are adjusted for cash and other short-term investments, which exceed the target of roughly EUR 7 million set by SAF-HOLLAND, the calculated equity ratio as of December 31, 2016 is 45.1 % compared to 45.3 % as of December 31, 2015. This level is significantly above the Group's targeted level of around 40 %.

NET DEBT IN 2016 FALLS BY APPROXIMATELY EUR 25 MILLION

Non-current liabilities increased as of the end of 2016 and amounted to EUR 555.4 million (December 31, 2015: EUR 475.4 million). Most of this change stemmed from non-current interest-bearing loans and bonds, which increased to EUR 435.6 million (December 31, 2015: EUR 379.3 million) mainly due to the assumption of a long-term loan (EUR 50.0 million) in the second quarter of 2016. There was also an increase in other financial liabilities to EUR 18.2 million (previous year: EUR 0.7 million) attributed to the valuation as of December 31, 2016 of the call option for the remaining outstanding interest of 42.5 % in Brazilian KLL described above.

The rise in current liabilities of EUR 28.4 million to EUR 153.7 million (previous year: EUR 125.3 million) is primarily a result of the year-on-year increase in trade payables (EUR 106.7 million compared to EUR 89.9 million as of December 31, 2015). Trade payables declined only slightly by EUR 1.0 million in the fourth quarter of 2016, which was significantly less than the decline in the fourth quarter of 2015 (EUR 12.9 million). This development mainly triggered the improvement in working capital as of year-end 2016 and more than compensated for the effect of higher inventories.

Total current and non-current liabilities from interest-bearing loans and bonds amounted to EUR 441.7 million as of December 31, 2016 (previous year: EUR 383.2 million). Net debt (less cash and cash equivalents and other short-term investments) was reduced during the year by EUR 25.3 million to EUR 97.1 million (December 31, 2015: EUR 122.4 million). The reduction in net debt was a direct result of the free cash flow generated in the 2016 financial year minus the dividend payment and the payment for the acquisition of KLL. Net debt in the fourth quarter declined by EUR 33.1 million not only as a result of the free cash flow generated in the quarter but also the sale of the Haldex shares. The Group's total liquidity as of the December 31, 2016 reporting date amounted to EUR 492.6 million versus EUR 409.2 million at the end of 2015.

FINANCIAL POSITION: CASH FLOWS

IMPROVEMENT IN NET WORKING CAPITAL AND DISCIPLINED INVESTMENT SPENDING BOOST FREE CASH FLOW TO EUR 67.7 MILLION

Net cash flow from operating activities increased to EUR 92.7 million in the 2016 financial year (previous year: EUR 63.1 million). The year-on-year improvement resulted from significantly lower additional funds tied up in net working capital as a result of better working capital management. The change in provisions, inventories, trade receivables and trade payables yielded a net cash inflow of EUR 1.9 million versus a net outflow of EUR 25.9 million in the previous year. This inflow allowed the net working capital ratio (the ratio of net working capital to the fourth quarter sales extrapolated for the full year) to decline to 11.1 % at the end of 2016 (previous year: 12.0 %) and achieve a level even below our targeted rate for the 2016 financial year of 12 to 13 %. The change in net working capital resulted in a cash inflow of EUR 19.5 million in the fourth quarter of 2016 (previous year: EUR 13.4 million) and net cash flow from operating activities of EUR 38.8 million (previous year: EUR 33.1 million).

As described in the section “Net Assets,” the improvement in net working capital in the 2016 financial year was mainly the result of higher trade payables, which led to a cash inflow of EUR 12.7 million (previous year: EUR –8.6 million). A further positive effect of EUR 1.5 million (previous year: EUR –6.5 million) stemmed from the rise in other provisions and pensions. These positive effects compare with a cash outflow of EUR 8.2 million (previous year: inflow of EUR 4.3 million) from the change in inventories. The change in trade receivables led to a cash outflow of EUR 4.1 million, which was significantly lower than in the previous year (EUR 15.0 million).

Cash flow before changes in net working capital in 2016 was slightly below the prior year’s level (EUR 105.4 million) amounting to EUR 104.4 million. Most of the decline in the result before taxes to EUR 65.0 million (previous year: EUR 77.6 million) was offset by a higher level of depreciation and amortization of intangible assets and property, plant and equipment of EUR 22.6 million (previous year: EUR 21.7 million) and particularly net finance income and expenses of EUR 13.5 million (previous year: EUR 4.0 million). Allowances of current assets were little changed and amounted to EUR 4.5 million (previous year: EUR 4.6 million).

The cash conversion rate (cash flow from operating activities before income taxes paid divided by adjusted EBIT) as an indicator of the Company’s ability to generate cash inflows from the operating business increased in 2016 to 117.6 % (previous year: 84.6 %).

Overview of financial position

EUR million

	2016	2015
Cash flow from operating activities before income taxes paid	106.4	79.5
Cash conversion rate[1]	117.7 %	84.6 %
Net cash flow from investing activities	89.8	–139.2
Investments in property, plant and equipment and intangible assets	25.0	28.1
in % of sales	2.4 %	2.6 %
Net cash flow from financing activities	15.3	176.2
Free cash flow[2]	67.7	35.0

[1] Cash flow from operating activities before income taxes paid divided by adjusted EBIT.
[2] Net cash flow from operating activities less investments in property, plant and equipment and intangible assets.

INVESTMENT VOLUME OF EUR 25 MILLION IN THE 2016 FINANCIAL YEAR

Net cash flow from investing activities in 2016 was EUR 89.9 million and EUR –139.2 million in 2015. Both of these amounts, however, were affected by the purchase (in 2015) and sale (in 2016) of other short-term investments of EUR 115.0 million in each year. Excluding these effects, net cash flow from investing activities in 2016 would have amounted to EUR –25.2 million (previous year: EUR –24.2 million).

Investments in property plant and equipment and intangible assets added up to EUR 25.0 million in 2016 (previous year: EUR 28.1 million). The Group’s strict investment discipline meant that the planned level of investments of roughly EUR 28 million was not fully realized, despite the construction of the new plant in Turkey. This level of investment is equivalent to an investment ratio of 2.4 % (previous year: 2.6 %). In addition, the acquisition of KLL in early October 2016 resulted in a payment of EUR 7.5 million. The purchase of Haldex shares (cash outflow of EUR 13.4 million in the second quarter of 2016) and the subsequent sale of these shares in the fourth quarter (cash inflow of EUR 19.0 million) had a positive net effect on net cash flow from investing activities of EUR 5.6 million in the 2016 financial year.

Net cash flow from investing activities in the fourth quarter of 2016 was EUR 2.2 million (previous year: EUR –118.4 million) and was mainly influenced by the sale of the Haldex shares and the acquisition of KLL. As described above, the same quarter in the previous year contained the purchase of other short-term investments in the amount of EUR 115.0 million.

FREE CASH FLOW INCREASES TO EUR 67.7 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) increased significantly in the 2016 financial year and reached EUR 67.7 million (previous year: EUR 35.0 million). The main reasons for this rise were better working capital management and a lower level of investment. The free cash flow generated not only financed SAF-HOLLAND's dividend payment and the acquisition of KLL but also allowed the Company to visibly reduce its net debt. Free cash flow in the fourth quarter of 2016 was EUR 29.2 million (previous year: EUR 26.3 million).

Cash flow from financing activities in 2016 amounted to EUR 15.3 million (previous year: EUR 176.2 million) as a result of the lower assumption of current and non-current financial liabilities in the amount of just EUR 50.0 million in the 2016 financial year after EUR 200.0 million in 2015. In the previous year, SAF-HOLLAND issued a promissory note giving it the financing necessary to carry out the acquisitions planned under its "Strategy 2020". The cash outflow for the dividend payment amounted to EUR 18.1 million (previous year: EUR 14.5 million). In addition, there was a payment in 2016 for the redemption of foreign currency derivatives in the amount of EUR 5.1 million mainly in the context of the termination of the hedge for the presumed purchase price payment for Haldex in Swedish krona. Cash flow from financing activities in the fourth quarter of 2016 amounted to EUR –3.1 million (previous year: EUR 198.6 million). The fourth quarter of 2015 contained the assumption of a promissory note already described.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2016 FINANCIAL YEAR

The industry environment in the 2016 financial year proved once again to be challenging. Still, we are satisfied with our results. By generating almost stable organic sales and an adjusted EBIT margin of 8.7 %, we have fully achieved our targets. In terms of capital efficiency, we were even able to significantly exceed our forecast with a net working capital ratio of 11.1 % and thereby achieve a marked improvement in free cash flow. These figures show that with our balanced regional positioning, we are able to stay on course even in a difficult environment, expand our market position and generate solid results.

The overall good results, however, cannot hide the fact that we are not entirely satisfied with our results last year in North America. Therefore, SAF-HOLLAND made a decision in January to restructure the North American plant network and provide it with a sustainable foundation for the future.

We also achieved important strategic milestones in the reporting year. By acquiring KLL, we are not only strengthening our position in the important Brazilian market but also taking the first key step in pursuing our growth "Strategy 2020". Another one of our key strategic decisions was to abandon our efforts to acquire Haldex as it became apparent that a takeover would only be possible at conditions that are not economically feasible for the Group. We believe SAF-HOLLAND is in an ideal financial position to seize the emerging opportunities in the years ahead and benefit from the structural growth in our markets.

RISK AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

SAF-HOLLAND has a comprehensive risk management system anchored in its key operational and decision-making processes and implemented by the Company's Management Board on a Group-wide basis. The purpose of the risk management system is to identify potential risks at an early stage by continuously monitoring the relevant markets, regions, customers, suppliers and internal processes so that effective corrective measures can be initiated. The risks identified that are considered significant because of their size and are likely to occur are systematically and uniformly recognized, analyzed and evaluated as best as possible and then communicated. The risk management system intentionally omits risks that are general and non-specific to the Company (macroeconomic risks) or impossible to monitor (natural catastrophes). The risk management system is exclusively devoted to detecting risks and not recognizing opportunities.

A risk management handbook is continuously updated for effectiveness and appropriateness and available Group-wide. This handbook defines the risk management processes, mandatory limits, use of financial instruments for financial risk control and provides supplementary Group guidelines to ensure that procedures are uniformly applied throughout the Group.

Risk assessment is based on the respective loss potential and probability of occurrence, both at the Group level and the level of the individual subsidiaries. Control instruments and, if possible, corrective measures have been specified for each risk. Individual risks are combined into risk areas, each with their own defined risk policy.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH RESPECT TO THE GROUP ACCOUNTING PROCESS

All of the essential Group reporting activities, including the consolidation of financial data and the preparation of quarterly and annual financial statements, are centralized in the Group accounting department. Key financial data gathered from the individual segments and subsidiaries are reported to this department for the purpose of consolidation in accordance with uniform guidelines and defined processes.

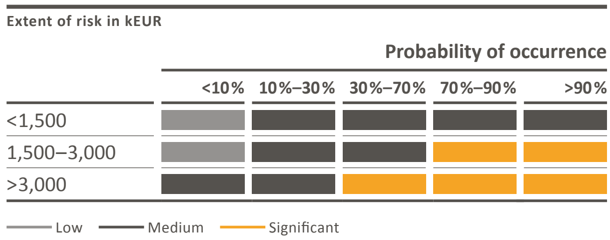
An internal control and risk management system is used to ensure the reliability of financial reporting and the compliance of the Group's accounting and financial statements with IFRS requirements. This system features both integrated and independent process monitoring as well as surveillance measures such as spot checks, plausibility checks and IT-based validation processes. The authorization procedure for accessing the accounting system is clearly defined and the four-eye principle is applied.

The Board of Directors bears the overall responsibility for the internal control and risk management system. The independent Internal Audit department is responsible for the effectiveness of the internal control and risk management system and the compliance with the system's guidelines, regulations and instructions. The accounting system for the business segments and subsidiaries is also included in these reviews. The Internal Audit department then forwards its audit reports to the respective divisional managers, the Management Board and auditors and reports directly to the Board of Directors. The Board of Directors and the Audit Committee receive regular reports on the results of the Internal Audit department. The audit of the consolidated financial statements by independent auditors provides additional external monitoring of the Group's accounting process.

OVERALL RISK ASSESSMENT

The criteria "probability of occurrence" and "extent of risk" are used to evaluate risks. In addition to assessing risks based on these criteria, we also subdivide the risks into "low," "medium" and "significant" risks as shown in the graph below. The extent of the risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) prior to risk mitigation.

Risk categories



The SAF-HOLLAND Group's overall risk potential at the end of the 2016 financial year amounted to around EUR 35 million (gross), which is slightly higher than in the previous year (around EUR 31 million). Therefore, based on the Group's business volume and economic situation, we believe the Group's overall risk position, in terms of risks that can be directly influenced by the Group, is manageable and easy to control. Sufficient precautions were taken for these risks in the form of depreciation, amortization, impairments and provisions. Strategic risks comprised the Group's most important risk area in the past financial year and represented around one-third of the overall risk potential. Strategic risks have gained in importance compared to the previous year because they appear to have increased as a result of the Group's dependence on individual customers and due to the competitive situation. This rise in strategic risks was somewhat offset by the decline in other risks. No risks have been yet identified that would endanger the Group's continued existence or that of a key Group company.

RISK OVERVIEW

Risk areas	Individual risks	Individual risk 2016 compared to previous year[1]	Total risk 2016 compared to previous year[1]
Strategic risks	Customer dependency risk	higher	
	Competitive risk	higher	
	Vertical integration	higher	higher
Legal and regulatory risks	Trademark and patent protection risks	higher	
	Liability risks	higher	
	Trade risks	unchanged	
	Other regulatory risks	lower	unchanged
Technology risks	Marketing risks	unchanged	
	Risks from technological progress	lower	
	Risks from the loss of a cooperation	unchanged	unchanged
Operating risks	Procurement risks	unchanged	unchanged
IT risks	System outage and cybercrime risks	unchanged	unchanged
Personnel risks	Loss of knowledge risk	unchanged	
	Strike risks	unchanged	unchanged
Financial risks	Financing risks	unchanged	
	Currency risks	unchanged	
	Impairment risks	lower	unchanged
Other risks	Compliance risks	unchanged	
	Business relationship risks	higher	unchanged

Low Medium Significant

[1] An unchanged risk situation is defined as a year-on-year change in individual risk up to a maximum of EUR 0.2 million or a change in the total risk compared with the previous year up to a maximum of EUR 0.5 million.

MACROECONOMIC AND SECTOR RISKS

Macroeconomic and sector risks are not included in SAF-HOLLAND's risk management system because they are difficult to quantify. These risks reflect the general conditions for risks mentioned in the categories below and are the assumptions used in their quantification. It is important to note that on the other side of these risks lies opportunities.

SAF-HOLLAND's business activities are naturally dependent on the economic and industry environment. As a result, any deviations from the economic developments expected in SAF-HOLLAND's relevant markets can have a positive or negative impact on the Group's net assets, financial position and results of operations.

We counter these risks primarily by having broadly diversified products, customers and regional markets. In the past, the investment cycles in the truck and trailer markets have often failed to coincide. Development also tends to vary in the respective regional markets, as was seen again in the 2016 financial year. We have also managed to offset some of the fluctuation in the original equipment business through our strength in the aftermarket business, which is far less economically sensitive.

STRATEGIC RISKS

Customer dependency risk
Customer dependency risk originates from the fact that the global truck business is dominated by a relatively small number of global manufacturers. The trailer business, on the other hand, has a different market structure with several hundred manufacturers operating in both North America and Europe.

SAF-HOLLAND responds to customer dependency risk by ensuring it has a balanced customer structure. The share of sales per customer largely mirrors the market share of the respective manufacturers. SAF-HOLLAND also has a number of customers who are small and medium suppliers of vocational trucks and are very important in their niches and respective markets. The Company's continued internationalization and positioning as a global partner for the commercial vehicles industry also improves its risk profile. In the 2016 and 2015 financial years, no one customer represented more than 10 % of Group sales.

Competitive risk
The importance of competitive risk increased in the 2016 financial year mainly due to the decline in the North American truck and trailer market, which prompted many competitors to significantly cut prices.

We mitigate this risk by taking several actions. For one, we make certain that our cost structures are always in line with the market. If necessary, we adjust our cost base to ensure that we always offer competitive pricing. We also continue to keep ahead of technology through innovation. For example, last year in North America, we received a major order for disc brakes – a technology that is still in its infancy in North America today. An elementary component of our innovative strength is our extensive research and development activities especially in the area of axle and suspension systems versus our competitors. These activities have helped us to establish our technological leadership. We also have strong capabilities in the field of lightweight construction. Another crucial competitive advantage is our aftermarket network, which spans roughly 9,000 spare parts and service stations, dealers and repair shops in more than 80 countries. We possess the densest network in Europe and North America, which represents a significant barrier to market entry for potential new competitors.

Vertical integration
A further strategic risk is that customers will no longer purchase axles but manufacture axles themselves, which is a development seen at some of the trailer manufacturers. This approach has been used for the last few years in Europe and has recently started in Asia and North America. Several trailer manufacturers, however, are taking the opposite approach – particularly in North America – and buying entire axle systems.

Overall, we believe vertical integration risk is manageable, even if its importance has rather increased over the past year. One reason is that only a small number of manufacturers would find it commercially viable to produce their own axles, and this refers solely to the production of standard axles. Another reason is that SAF-HOLLAND's customer base of trailer manufacturers numbers more than 350 companies in Europe alone.

LEGAL AND REGULATORY RISKS

Trademark and patent protection risks
In light of the competitive strength of our products and solutions, the misuse of SAF-HOLLAND's trademarks and patent rights can lead to economic damage. We counter these risks by continually and intensively monitoring the relevant patent applications and market developments worldwide, especially in the spare parts segment.

Liability risks
Product liability risks cannot generally be excluded. To isolate these risks as much as possible, SAF-HOLLAND manufactures Group-wide in accordance with high quality standards and thereby effectively minimizes potential risks due to product defects. Our quality assurance already starts at the product development stage and extends throughout the entire value chain. Our quality standards are precisely tailored to our customers' needs. They are also the reason why we are able to meet the requirements of the DIN ISO 9001:2008 quality standard and the special requirements of the automotive industry (ISO/TS 16949:2009) at all of the locations and in all of the regions that supply to the truck industry. All of the regional locations that exclusively manufacture products for the trailer industry are DIN ISO 9001:2008 certified. The system capability of the welding technology at the German plants in Bessenbach is regularly verified through the ISO 3834-2 welding quality certification. Should any defective products still be shipped to customers despite the

above quality assurance and it is necessary to recall the affected parts, the damage would be covered by insurance, the amount of which is checked annually for adequacy.

Trade risks
Trade risks can arise when trade restrictions are tightened, particularly in international trade. We counter these risks by continuously and intensely observing international political developments and taking any potential changes into account in our monthly forecast.

Other regulatory risks
Regulatory risks specifically include changes in the political and legal environments in the truck and trailer markets. To keep abreast of any changes, SAF-HOLLAND follows these issues closely, among others, through the evaluation of analyses from leading market research companies such as ACT Research and FTR.

TECHNOLOGY RISK

Marketing risks
We counter marketing risks first and foremost by continuously monitoring our competitors, especially with respect to their product range and the focus of their research and development. Among others, we use "benchmarking" to compare the competitors' relevant products and activities. Our market monitoring also focuses on maintaining a permanent exchange with our customers so that we can recognize changes in demand at an early stage and develop new demand-oriented solutions. Our findings help us to avoid misdirected technological and conceptual developments that misinterpret the needs of the market.

Risks from technological progress
We may still fail to adequately recognize new developments in general technologies. We identify the risks that can arise as a result by comprehensively monitoring the market. In our annual research and development report, we find and document the technological progress taking place in our industry. This enables us to recognize any advances early on that relate to our products, the materials we use and our manufacturing processes.

Risks from loss of a cooperation
The termination of a cooperation with a business partner can lead to the loss of expertise and, thereby, the loss of sourcing and sales opportunities. We counter these risks by paying close attention to developments on both the sourcing and sales markets. We also make it our aim to cooperate only on the basis of contractual strategic alliances.

OPERATING RISKS

Procurement risks
Procurement risks, which include the danger of reduced production and delivery capabilities and higher purchasing prices, can result from supply bottlenecks or substantial cost increases for materials and components. A key procurement risk is the degree of the Company's dependence on individual suppliers. SAF-HOLLAND limits this risk by employing a multi-vendor strategy. We arrange multi-year framework contracts containing defined quantities and prices with our core suppliers and always keep a certain level of inventory available to compensate for any short-term bottlenecks.

Our main price-related risk involves the development of commodity prices, which is why some of our customer contracts are linked to changes in raw material prices, particularly prices for scrap steel. These contracts contain negotiating terms that allow us to offset rising commodity prices. Such adjustments, however, are usually only possible after a certain time delay, which means additional temporary costs may still occur.

IT RISKS

System outage and cybercrime risks
Information technology risks can arise from the failure of IT systems. Such failures can stem from internal hardware and/or software failures or errors, but may also result from cybercrime. We minimize these risks by using powerful structures that meet the industry's standards. Our comprehensive and always current IT security approach ranges from access restrictions and controls to measures for data protection. Back-ups exist for essential hardware structures.

PERSONNEL RISKS

Loss of knowledge risk
Personnel-related risks are primarily those arising from the loss of managers and expert personnel in key positions. We prevent these risks through an institutionalized succession planning process and Group-wide knowledge management. We also have clearly defined deputization rules for all relevant management positions.

Strike risks
To counter strike risks, we rely on sincere and respectful cooperation with our works councils and trade union representatives. In Germany, employment agreements help to secure jobs and at the same time improve SAF-HOLLAND's competitive situation. In North America, we have similar agreements with the various local trade unions. We also make use of temporary employment contracts.

FINANCIAL RISKS

Financing risks
We counter financing risks mainly through the use of a budget, medium-term planning and a monthly reporting system that includes a target-actual comparison. We also conduct sensitivity analyses based on the key underlying parameters.

The financing risk of the SAF-HOLLAND Group is currently considered to be low. The Group not only has a high level of liquidity, which gives SAF-HOLLAND the financing necessary for future acquisitions under its "Strategy 2020", but has also broadly diversified its liabilities in terms of their maturity and nature. SAF-HOLLAND has received a corporate rating from the rating agency Euler Hermes since 2012. The current rating is BBB with a stable outlook, which was last reconfirmed in April 2016.

The risk of a change in interest rates on floating rate financial liabilities is principally hedged at a minimum of 70% using suitable instruments.

We counter the risk of insufficient liquidity through our forward-looking, Group-wide strategy for safeguarding liquidity. The ongoing liquidity situation is regularly monitored throughout the Group. The management also monitors the Group's compliance with the financial covenants contained in long-term credit agreements. Liquidity risks are therefore classified as low.

Further information on the Company's liquidity and financing can be found on pages 43ff. of this management report.

Currency risks
As a result of its global business activities, the Group is exposed to foreign currency risks arising from its investments, financing and operating business. Individual subsidiaries operate primarily in their respective national currencies, which keeps the foreign currency valuation risk for individual transactions low at the Group level. Sales and costs in most currency areas are largely recognized in the same currencies, which significantly limits transaction risks. The related risks to Group's sales arise when converting the national currencies into the euro, which is the Group's reporting currency. Thus, currency fluctuation risks for the given outlook, for example, may be possible depending on the exchange rate development of the relevant local currencies. These risks are generally accompanied by corresponding opportunities. When currency risks are hedged using financial instruments, these instruments are used exclusively to hedge the risk of the underlying transaction. Therefore, a net effect on the results of operations and financial position can be ruled out almost entirely.

As of this past financial year, there is virtually no longer the risk that the valuation of intra-company foreign currency loans could have a potential negative impact on results. As of 2016, intra- company foreign currency loans are being treated as part of a net investment in a foreign operation and are no longer recognized in the finance result but in "other comprehensive income" (OCI).

Impairment risks
Impairment risks can arise from the need to recognize unscheduled depreciation or amortization on assets. We counter these risks by adhering to a strict medium-term budget and compiling monthly reports both with respect to the Company's actual development and on the basis of a rolling planning process. Impairment risks in the reporting period were low.

We address the risk of bad debts by fully securitizing our receivables. As a rule, we are committed to securing all claims from sales with non-Group companies to the extent that such insurance coverage is available. Last year, we secured roughly 70% of all our receivables.

OTHER RISKS

Compliance risks
We counter risks arising from non-compliance with laws and regulations through the adoption of a Group-wide Code of Conduct, which we continuously review for timeliness and expand when necessary. The Internal Audit department is also involved in avoiding compliance risks. SAF-HOLLAND bases its response on common ethical and moral principles.

Business relationship risks

Risks arising from relationships to business partners are inherently limited by the broad diversification of our customer and supplier base. Identified risks are handled in cooperation with the respective business partner.

OPPORTUNITIES OVERVIEW

GLOBAL MEGATRENDS AS THE DRIVERS OF GROWTH IN FREIGHT TRANSPORTATION

Global freight transportation and, consequently, the markets for trucks and trailers, are reaping long-term benefits from several of the global megatrends. The most important of these trends is the general demographic development. The United Nations expects the world's population to grow close to 25 % to almost 9.2 billion people by the year 2040. The population in the developing and emerging countries is projected to grow six times faster than in the industrialized nations. Among the developing and emerging countries, special economic relevance is being attached to what is known as the Next 11 countries (Egypt, Bangladesh, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam) as well as to the BRIC countries Brazil, Russia, India and China.

The second megatrend – the globalization of the economy – promotes the growing international exchange of goods. An essential requirement for this exchange is a global transportation infrastructure. The development of road networks will play a central role in providing this infrastructure because the road networks in the developing and emerging countries have the highest need for expansion. The third megatrend, urbanization, is prompting an increasing number of people to move into cities. This trend is particularly evident in the developing and emerging countries. In the large urban areas, trucks and trailers represent the most important means of transporting supplies.

A sharp increase in the population of the middle class is expected, especially in the Asia Pacific region. Growing incomes in the years to come will accompany a jump in the purchasing power of the global middle class, which in turn will lead to an increase in the exchange of goods and higher freight volumes.

LONG-TERM GROWING WORLD MARKET FOR TRUCKS AND TRAILERS

In the world's strong growing regions, trucks and trailers are the most important links in the transportation chain. A market analysis published by the consulting company Deloitte Consulting predicts the growth of medium- and heavy-duty trucks sold worldwide will average 3.1 % p.a. from 2014 through 2024. The strongest growth is expected in the developing and emerging countries and should result in almost three-quarters of the world's truck market being located outside of the established industrial nations by the year 2024.

The demand for sophisticated transportation equipment should also rise steadily along with the growing safety regulations and the required compliance with environmental standards worldwide. This will provide a noticeable boost over the next several years to the trend towards lightweight construction, or the use of new combinations of materials and technological innovations. SAF-HOLLAND is also taking a leading role in the areas of lightweight construction, safety and durability.

The steady expansion expected in truck fleets also implies a continuously growing demand for spare parts. With the launch of the trademarks SAUER GERMANY QUALITY PARTS and GoldLine, SAF-HOLLAND has penetrated another segment of spare parts supply in original equipment quality with special warranty packages. With tailored brands that offer somewhat more cost-effective parts specially designed for older vehicles, SAF-HOLLAND is supplying to trucks and trailers in the "second life" marketplace. This opens up additional sales potential, particularly in the emerging markets, which have a high number of older vehicles traveling the roads. The above trademarks also play a key role in the Company's early positioning in the "Strategy 2020" target markets because these brands deliver the special qualities that characterize trucks and trailers in these markets: robustness, reliability and a low price.

OPPORTUNITIES RESULTING FROM NEW REGULATORY REQUIREMENTS

The use of mega trailers in Europe

The European Union has been contemplating the admission of mega trailers (extra-long truck and trailer combinations), sometimes referred to as gigaliners, for some time. The use of the mega trailers might not only reduce traffic on the roads but also save fuel consumption and CO_2 emissions. Mega trailers are meanwhile allowed in some Scandinavian countries as well as in both the Netherlands and Spain. Germany has been running a large-scale field test for several years now. Critics fear that the introduction of mega trailers could mean an even greater shift of transport volumes from rails to roads.

Should mega trailers be allowed throughout the European Union in the coming years, it could spark a boom in the industry with the German market playing a pivotal role. The comparatively better efficiency of gigaliners, or mega trailers, with lower costs per kilometer compared to conventional truck and trailer combinations, would provide commercial benefits to fleet operators and likely trigger a multi-year boost in new truck and trailer purchases. Apart from the temporary effect on demand, SAF-HOLLAND could also benefit from the fact that mega trailers tend to increase the requirements for durability, safety and comfort. Our technological positioning means we are ideally equipped for this type of development.

New commercial vehicle standards in China

The GB1589 standard was published in China in 2004 and introduced new regulations for the maximum weight, dimensions and total weight per axle allowed for medium and heavy trucks. The aim of this standard is to increase the safety provisions and reduce the burden on the roads from overloaded trucks. The provisions of the standard were made even more stringent in 2016. After a two-year transitional period, authorities will be strictly monitoring compliance with the new standard.

GB1589 provides for the reduction of the maximum weight of a truck and trailer combination from 55 to 49 tons. At the same time, it also limits a truck and trailer combination's length to a maximum of 18.1 meters as well as the width and height. Until now, truck and trailer combinations stretching 22 meters were allowed in China but due to a lack of monitoring there were also truck and trailer combinations on the roads of up to 27 meters in length.

Compliance with the new standards is handled differently in the respective provinces, and it is unclear as to how much longer the end-of-life vehicles that no longer meet the guidelines will be permitted. Still, it should be assumed that the GB1589 standard will mean that the medium-term focus of truck and trailer manufacturers will turn increasingly toward weight-saving and technologically sophisticated solutions. Our innovations and products provide us with highly competitive solutions to meet these requirements and therefore place us in an excellent position to significantly expand our market share in China.

Stricter emission regulations in the United States

A new directive with respect to CO_2 emissions for heavy-duty vehicles (Regulations for Greenhouse Gas Emissions from Commercial Trucks & Buses) was published in the United States in August 2016 by the American Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA). This is the second phase of the legislation on fuel efficiency and CO_2 reduction, which not only governs trucks but also includes rules for trailers manufactured as of 2018. The new rules are expected to lead to higher prices for trucks and trailers. Increases in exhaust emission regulations in the past have usually led to what is known as "pre-buy effects," which describes a situation in which fleet operators stock up on lower-priced "old products" before the new guidelines take effect. This could spur demand for both trucks and trailers.

Apart from these short-term effects, more stringent regulations would also promote the increased use of lightweight components to meet requirements for better fuel efficiency. SAF-HOLLAND can also profit from this trend due its expertise in lightweight construction.

OPPORTUNITIES THROUGH THE INTRODUCTION OF DISC BRAKE TECHNOLOGY

In July 2016, SAF-HOLLAND received a breakthrough order from U.S. Xpress in the United States for complete axle and suspension systems for roughly 1,800 newly ordered trailers that are set to be equipped with the latest generation of disc brakes. This makes U.S. Xpress one of the first truckload carriers in the United States to switch to disc brake technology. This order could usher in a change in the United States from the widely used drum brakes to disc brakes. Whereas roughly 80 % of the trailers in Europe drive with higher performance disc brakes, the share of disc brakes in the United States is just at roughly 10 %. In addition to their weight advantages compared with drum brakes, disc brake technology scores highly with its significantly better braking performance. For example, a truck equipped with disc brakes driving at a speed of 75 mph has a 20 % shorter stopping distance, dropping from 129 meters to 104 meters.

In the United States, the share of disc brake technology over the medium term is expected to rise from today's level of 10 % to 30–35 %. SAF-HOLLAND has been a pioneer in disc brake technology in the European market for years and possesses extensive know-how in this area. By employing disc brake technology in our axle systems, we can increase the value sold-in per vehicle by 50 % and more.

OPPORTUNITIES THROUGH ACQUISITIONS

SAF-HOLLAND has already proven its ability to successfully consolidate its market position and accelerate its growth through acquisitions. As part of "Strategy 2020", the Company plans to generate a portion of its sales growth over the next few years through collaborations, joint ventures and targeted acquisitions. In seeking these opportunities, SAF-HOLLAND continuously monitors the markets and conducts potential analyses in the relevant regions for both the original equipment and aftermarket businesses.

In the last few years, interesting options have presented themselves from potential sellers of family-run businesses but not at reasonable terms and conditions. In view of the more difficult economic environments seen in several markets, we expect better opportunities going forward. We also believe that by taking an anti-cyclical approach we will be able to expand or enhance our position in selective markets.

A good example of this approach is our acquisition of KLL in the past financial year. This acquisition was an anti-cyclical investment based on the sharp drop of around 70 % in the Brazilian commercial vehicle market over a period of several years. Given this poor performance, we see significantly more opportunities than risks in the Brazilian market over the next few years. The KLL acquisition also allows us to expand our product portfolio to include products that stand out based on their durability and relatively low prices. We also see great sales potential for these types of products in other emerging markets, which should open up some cross-selling opportunities.

OPPORTUNITIES FROM ENTERING NEW MARKETS

In the 2016 financial year, SAF-HOLLAND generated the majority of its sales in its traditional regions of Europe and North America. Under “Strategy 2020”, our stated objective is to expand the share of our sales outside of these core regions to around 30 % by the year 2020.

Among others, we have started to build a new plant in Turkey for the production of axle systems in 2016 to achieve this goal. The intended location offers some advantages due to lower transportation costs and also provides an opportunity to deliver more quickly to bordering new markets and several of the “stan” countries (e.g., Kazakhstan or Pakistan). In the future, Iran may also play a greater role. After a relaxation of economic sanctions imposed by the United Nations, industry experts expect a significant boom in the release of pent-up investments for the country’s infrastructure and especially the transport sector.

THE NEW U.S. ADMINISTRATION

The new U.S. administration under President Trump, which has been in power since January 2017, announced an extensive program to stimulate economic growth in the United States. Although many of the details of this program are still unclear, it is evident that infrastructure projects will be one of the focal points of the new government. An acceleration of growth in the manufacturing sector, especially in the construction sector, would have a very positive effect on the demand for trucks and trailers, and thereby also on SAF-HOLLAND’s business in North America.

EVENTS AFTER THE BALANCE SHEET DATE

On January 17, 2017, SAF-HOLLAND announced the consolidation and restructuring of its North American plant network. This decision was the outcome of the continued weakness in the North American truck and trailer markets and part of an effort to centralize production closer to the customer base of the truck and trailer industry. The measures are designed to adapt the Company's structure to changes in the market situation and to ensure the long-term competitiveness of our activities in North America. This new structure will be accompanied by an adjustment in the current excess production capacity at the North American locations in order to improve capacity utilization. We will also optimize our internal logistics processes, which may improve delivery times.

The measures planned, which are to be implemented within a maximum period of 18 months, are expected to result in one-time restructuring costs of up to US$ 10 million in 2017. These costs should consist mainly of relocation costs, impairment on equipment and severance payments. SAF-HOLLAND expects the vast majority of these charges to be recognized in the 2017 financial year. Here it is important to point out that the Group's key indicator – adjusted EBIT – is generally adjusted for restructuring expenses. Moreover, approximately US$ 3.0 million in additional investments are planned for the remaining locations. SAF-HOLLAND currently expects an annual reduction in the direct cost base in the mid single-digit million US$ dollar range after the restructuring is completed.

There were no further events after the balance sheet date relevant for the report on the events after the balance sheet.

OUTLOOK

ECONOMIC AND INDUSTRY ENVIRONMENT

GLOBAL ECONOMIC GROWTH MOMENTUM TO PICK UP SLIGHTLY IN 2017

The outlook for the global economy has improved recently. Worries of a slowdown in the emerging markets have dissipated and some commodity prices – especially crude oil prices – have seen a significant recovery from the lows experienced in 2016. At the same time, with a second interest rate increase in December 2016 and the prospect of three further increases on the way for 2017, the US Federal Reserve has signaled a return to a less liquidity-driven monetary policy. An obstacle to world trade may turn out to be growing protectionism in some countries. In January 2017, the International Monetary Fund (IMF) confirmed its full-year 2017 forecast for an accelerated growth for the global economy of 3.4 % based on the above factors. This forecast compares to an expected global GDP growth of 3.1 % in the year 2016.

The United States looks particularly set to accelerate its growth. The IMF expects GDP growth in the United States to rise to 2.3 % compared to 1.6 % in 2016. This estimate does only partially include any boost to the economy that could result from the infrastructure spending and tax cuts expected from the new US administration. Depending on the nature of the economic stimulus package, growth in the US may end up even higher. The IMF's outlook for the eurozone, in contrast, is relatively subdued. Moderate growth of 1.6 % is expected in 2017, which is close to the 1.7 % growth rate recorded in 2016. In the view of the IMF, the risks threatening continued economic growth in Europe include the pending Brexit and the political uncertainty in the run-up to important elections in countries such as France and Germany. The IMF expects a majority of the emerging country economies to generally improve in the course of the year, despite the risks. This applies especially to countries such as Brazil and Russia where the IMF is projecting an end to the lengthy economic decline and a transition to marginal growth at a low level. The pace of economic growth in China is expected to slow minimally; however, with a projected increase in GDP of 6.5 %, momentum will remain at a comparatively high level.

SECTOR OUTLOOK: SECTOR ENVIRONMENT TO REMAIN CHALLENGING IN 2017

The global commercial vehicle market will remain challenging in 2017. Here it is important to point out that the SAF-HOLLAND Group generates more than 90% of its sales in the core regions of the Americas and EMEA/India. As in the prior year, strong regional differences in demand are expected in 2017, as are varying developments in the trailer and heavy truck vehicle segments – both important segments for the Company. Whereas the North American truck market is showing the first signs of stabilization, demand for trailers in the current year is expected to continue to decline. It is reasonable to assume that the overall solid demand situation in Europe will continue, even though years of growth may suggest that demand will taper off at a high level. The outlook recently improved for several of SAF-HOLLAND's important sales markets such as Russia, Australia and China.

Market situation to remain solid in core market of Europe

The European commercial vehicle market, where SAF-HOLLAND generated the majority of its sales in 2016, is expected to develop steadily and stay at a high level.

The market research institute CLEAR expects European trailer market production volume to hold steady in 2017 at a strong level of about 295,000 trailers (–1% vs. 2016) after three years of strong growth. CLEAR expects growth in the Eastern European trailer market to reach almost 10%, mainly driven by growth in most of the countries outside of the Russian Federation and a recovery in the high-volume Turkish market. CLEAR is slightly more cautious when it comes to Western Europe. Market researchers are not ruling out a single-digit percentage decline in trailer production in 2017. These cautious market expectations are mainly based on the negative effect anticipated from Great Britain's exit from the European Union.

The Western European truck market, which had a surprisingly strong upturn in 2016, is projected to contract slightly in 2017. However, after years of strong growth, the market should maintain a high level despite the pending slowdown. Industry observers expect vehicle production in the heavy-duty truck segment (above 16 tons) to range from a year-on-year mid-single-digit percentage decline to essentially no change.

In Eastern Europe, LMC Automotive, a provider of automotive industry forecasts, is projecting a 10.8% increase in heavy truck production. A projected upswing in the Turkish market, which fell sharply in the second half of 2016, should also have a positive effect. After years of decline, LMC Automotive expects vehicle purchases to rise in countries such as Russia, Belarus and the Ukraine due to better economic conditions and a high average age of vehicles. The starting level in these regions, however, is in same cases very low.

2017 to mark the bottom of the North American truck market

The market research institute ACT Research believes the North American market for heavy trucks (Class 8) bottomed at the turn of 2016/2017 after declining by about one-third in the previous year, followed by a sequential slight rise in production during the first quarter of 2017. For full-year 2017, market analysts are assuming a production decline of nearly 10% to 207,000 units (2016: 228,000 trucks). This expectation is based on the development of net orders for Class 8 trucks, which have been building a bottom since the second quarter of 2016. According to the market research institute FTR, orders increased from the third quarter to the fourth quarter of 2016 by around 40%.

The outlook for the North American trailer market is more restrained in 2017. In 2016, there was a lag in the performance of the trailer market to the correction in the truck market, and the decline in trailer production was far less than the decline registered in trucks. Accordingly, FTR expects 2017 US trailer production to contract by some 10% to 255,000 units.

In response to the weaker North American trailer market, SAF-HOLLAND promotes with its North American customers the purchase of complete axle systems equipped with integrated suspension rather than simply axles and the better performance and efficiency of disc brake technology. SAF-HOLLAND is ideally positioned in disc brake technology given its years of experience in Europe. This approach could significantly increase the Company's value sold-in per vehicle.

The noticeable decline in the volumes of spare parts for commercial vehicles in North America in 2016 was primarily the outcome from the record purchases recorded in the years 2014 and 2015, especially for new Class 8 trucks and trailers. Because experience shows that a great number of spare parts are needed for these new vehicles after two to three years, there could be a gradual rise in demand in the aftermarket in late 2017 and 2018. SAF-HOLLAND has not incorporated any of the effects of the prospective economic and employment policies of Donald Trump's new US administration into any of the Company's planning. An infrastructure package combined with tax incentives for companies and consumers could outshine the difficult market environment in 2017 and boost sales momentum in the transportation industry.

First glimmer of recovery in Brazil

After years of significant sales decline, which on the whole amounted to more than 80 %, the Brazilian market for heavy trucks and trailers is signaling a stabilization in the course of 2017. Latent risks still exist however. LMC Automotive, for instance, expects production of heavy trucks to increase 18.0 % in full-year 2017 given the forecasts for gradual economic recovery and the first political reforms under the new president. Even with this type of growth, the market would still be roughly two-thirds lower than its level in 2013. LMC Automotive is consequently forecasting double-digit growth rates for the subsequent years. In September 2016, SAF-HOLLAND acquired a majority stake in the Brazilian company KLL. Together with this suspension specialist, SAF-HOLLAND may be able to profit significantly from the beginnings of a modest upswing in the Brazilian transportation market, not only in the trailer segment but also the truck and bus segments.

Still little momentum in the APAC region; regulation in China provides opportunities

Most of the truck and trailer markets in the emerging countries in the APAC/China region are expected to grow moderately again in 2017, although the regional development of the transportation markets will widely vary. According to LMC Automotive, the Australian truck market – an important market for SAF-HOLLAND – should see registrations rise a moderate 2.5 % in 2017 after two years of significantly lower sales. Demand for trailers should also increase slightly. LMC Automotive is less optimistic when it comes to China where it is forecasting a slight decrease of approximately 1 % in heavy truck production. Here it is important to bear in mind that SAF-HOLLAND's production in China is currently focused on products for the trailer and bus segments and that it still has a very small market share. The stricter application of the GB 1589 standard by the Chinese authorities since September 21, 2016, increases the opportunities for a larger pickup in demand – particularly for trailer components. Restrictions on the maximum weight permitted (49 t), the total length of a truck and trailer combination and the standardization of container dimensions all support increased demand. These factors are what sparked a strong rise in customer interest at the end of 2016 – a trend that is expected to persist in 2017 – and will prompt fleet operators to invest in new trailers and semi-trailers. It also indicates that weight reduction is becoming a key requirement in the Chinese market.

COMPANY OUTLOOK: SOLID SALES AND EARNINGS DEVELOPMENT

SAF-HOLLAND's focus is the Company's medium- to long-term business development, which is being addressed by the "Strategy 2020" already described. Growth opportunities are realized particularly through expanding the business to markets outside of the existing core markets, the targeted expansion of the product portfolio and joint ventures and acquisitions that enhance our business.

From today's perspective, we expect the solid business performance of SAF-HOLLAND to continue in 2017. We expect the market environment to be mixed in many of the regional markets. In North America, we do not expect to see any signs of improvement in the truck and trailer markets until later in the year. Factors such as the infrastructure programs and tax cuts announced by the new US president remain hard to assess but still represent opportunities, as do the stricter transportation laws in China.

The Group has a relatively comfortable starting position due to its regional diversification, strong foothold in the core markets of North America and Europe and the accompanying economic diversification.

FOCUS ON PRODUCT DEVELOPMENT AND DIGITIZATION

With our strong focus on engineering and application technology, we will drive forward the development of new products and new customer- and country-specific applications in 2017, thereby differentiating ourselves from the competition. As discussed in the research and development report (page 23ff), the topics that play an important role are weight reduction and the resulting CO_2 savings, new developments in brake technology and, of key importance, the digitalization of products and processes. We see a strong potential to enhance our business model from the interlacing of our mechanical components with sensor functions and using electronic evaluation for providing data. Therefore, the Company anticipates R&D cost as a percentage of sales to rise slightly in 2017.

INVESTMENT IN NEW REGIONS AND OPTIMIZATION OF THE INTERNATIONAL PRODUCTION NETWORK

In comparison to other manufacturing companies, SAF-HOLLAND's business model demands a lower level of capital intensity of around 2.5 % of sales on average and combines the development-intensive original equipment business with a long-term oriented spare parts business.

In line with our business strategy, a growing portion of investment in 2017 aside from the usual maintenance and replacement investments is expected to be made in our expansion. Our current investment focus is on expanding our business in new markets, especially in the APAC/China region.

The restructuring of the North American plant network, which is essentially taking place in 2017, will include, among others, the consolidation of the existing seven production sites into five focused plants located near our customers and will be accompanied by potential cost savings. The improvements will cause additional project-related investment of around USD 3 million in the region. The Group plans to invest a total of EUR 28 to 31 million in property, plant and equipment and intangible assets in 2017. As a result, investment in 2017 is expected to be slightly higher than in 2016 with a moderately higher investment ratio.

The majority of the investments planned for expanding business activities in new regions will be made in the area of engineering, directed at setting up regional development capacity and testing and test bench centers or serve to expand local production facilities. The main focus in China is to set up production more efficiently by increasing the level of automation and standardization of processes and centralizing and streamlining the production network.

Our agenda in the area of information technology includes the increased linking of data from our production sites. Not only are we introducing SAP at our new location in Düzce, Turkey, we are also working on the data-technical linking of the Chinese locations to improve transparency and provide the foundation for further process improvements.

SUSTAINABLE DIVIDEND POLICY: DIVIDEND TO INCREASE FOR THE 2016 FINANCIAL YEAR

SAF-HOLLAND generates a solid level of operating free cash flow, which it plans to use, among others, to finance acquisitions and pay dividends. The Company pursues a sustainable dividend policy and intends to continue to enable shareholders to participate in the Company's success. Our general aim is to distribute 40 to 50 % of our available net earnings (result for the period excluding non-cash components) as a dividend to our shareholders, provided our equity ratio adjusted for exceptional factors is at a level of roughly 40 %. Exceptional factors such as the promissory note issue in the amount of EUR 200 million in November 2015, which initially caused an increase in total assets and a temporary decline in the equity ratio, are adjusted for accordingly.

For the 2016 financial year, the Board of Directors intends to propose a 10.0 % increase in the dividend to EUR 0.44 per share (previous year: EUR 0.40) to the Annual General Meeting on April 27, 2017. This is equivalent to a total distribution of EUR 20.0 million (previous year: EUR 18.1 million) or 45.9 % (previous year: 35.0 %) of the result for the period, or 46.4 % (previous year: 38.6 %) of the available net earnings, which reflects the strong development in free cash flow. Based on the closing price of SAF-HOLLAND shares in 2016 of EUR 13.64, this represents an unchanged high dividend yield of 3.2 % (previous year: 3.2 %).

MANAGEMENT BOARD'S GENERAL STATEMENT ON THE COMPANY'S ANTICIPATED BUSINESS DEVELOPMENT

Our planning is based on the expectation that the global economy will grow slightly more than 3 % in 2017 and that the trend in the economies of our current core markets of Europe and North America will tend to be positive. We expect the development of transportation markets and the demand for trailers and trucks to vary widely by region, as described, amid a generally mixed environment. Regional markets such as Brazil, Russia and parts of the Middle East are at a low level while Australia is improving and demand in China is picking up. Structural trends such as the increased tendency of major US customers to use disc brake technology and purchase complete axle systems help us increase our sales per vehicle.

SALES AND EARNINGS DEVELOPMENT 2017 TO REMAIN SOLID IN A CHALLENGING MARKET ENVIRONMENT

In the year 2017, SAF-HOLLAND expects the market environment in important markets – especially North America and Brazil – to remain challenging and only start to pick up in the second half of the year. Given the anticipated solid market performance in Europe, market share gains and the start-up of significant major orders, the Company expects to achieve Group sales in the 2017 financial year in the range of EUR 1,060 million to EUR 1,090 million. This forecast is based on the assumption of an unchanged scope of consolidation and stable currency exchange rates.

The EBIT margin adjusted for special items should again be within a range of 8% to 9% in the 2017 financial year. From today's standpoint, we expect the margin to rather tend toward the mid-point of the range due to the upfront investment necessary to achieve the goals of our "Strategy 2020".

In line with our targets under "Strategy 2020", additional Group sales and earnings contributions may result from collaborations, joint ventures or acquisitions that may take place at some time during the year. This assumes the availability and realization of appropriate opportunities at reasonable prices and a manageable risk profile. In 2017, management's activities will again be focused on generating external growth.

ONE-TIME EXPENSE FOR RESTRUCTURING THE NORTH AMERICAN PLANT NETWORK

As already announced, SAF-HOLLAND will be consolidating its North American plant network in 2017. This consolidation is expected to result in a one-time restructuring charge of up to US$ 10 million. This charge will consist mainly of relocation costs, impairment charges on equipment and severance payments. SAF-HOLLAND expects that the vast majority of these charges will be recognized in the 2017 financial year. Here it should be noted that the Group's key indicator – adjusted EBIT – is generally adjusted for restructuring expenses. SAF-HOLLAND expects to achieve an annual reduction in the North American direct cost base in the mid single-digit million US$ dollar range after the restructuring is completed.

PROFITABILITY TO REMAIN HIGH

Despite the difficult market situation in several markets brought on by economic or political issues, the management expects the Group's net assets, financial position and results of operations to continue their solid development in the 2017 financial year. The financial strength will remain at a high level based on ongoing disciplined investment spending and the Group-wide optimization of net working capital, whereby the year 2017 may see a temporary increase in inventories due to the plant consolidation in the United States. As a result, net working capital ratio is anticipated in the range of 12 to 13%. We expect the Company to continue to generate strong free cash flow in 2017, but below the high level generated in the 2016 financial year due to the factors already mentioned.

The SAF-HOLLAND Group remains confident overall that it is well positioned to meet the sales, earnings and return targets set under its medium-term "Strategy 2020".

SUSTAINABILITY

Further information on sustainability can be found at
https://corporate.safholland.com/en/sustainability und **www.we-think-ahead.de/en**

SUSTAINABILITY AT SAF-HOLLAND GROUP

Sustainability is a key component of our corporate philosophy and strategy. We as a Company embrace social responsibility. The goal of our activities at all times is to align the growth and economic success of the Group with the legitimate interests of our employees, the environment and society in general.

The basis of our business activities is also our overriding corporate objective: We at SAF-HOLLAND aim to be the most valued supplier of best-in-class components, systems and services that ensure the success of our fleet customers worldwide. We pursue this objective while upholding our seven corporate values: innovation, cost consciousness, reliability, respect, teamwork, communication and honesty.

During the reporting year, a CSR Council was established to even better direct the sustainability activities of the SAF-HOLLAND Group. The Council consists of the chief executive officer, representatives from the departments of Human Resources, Health, Safety, Environment and Quality Management, Engineering, Logistics (Shipping), Marketing, Facility Management, Aftermarket and Sourcing. The Corporate Social Responsibility Council meets regularly to deal with proposals and initiatives for improved energy efficiency, the avoidance of waste, employee development and the social commitment of the Group, among others.

EMPLOYEES

NUMEROUS INITIATIVES FOR EMPLOYEE DEVELOPMENT

As an engineering group, we rely on the expertise and commitment of our employees because of their crucial contribution to our economic success. Therefore, the traditional focus of our human resource activities is on training our employees through goal-oriented advanced training programs.

As a manufacturing company, SAF-HOLLAND stresses technical vocations, especially in the areas of engineering and mechanical engineering. SAF-HOLLAND offers employees several types of apprenticeships and also provides a broad range of qualification and advanced training opportunities. The Company also offers young people an opportunity to take part in dual-study programs. For the targeted development of our managers, we conduct regular training programs on employee management and motivation.

A COMMITMENT TO THE INTERESTS OF OUR EMPLOYEES

SAF-HOLLAND works together with the kindergarten at the Company's headquarters in Bessenbach, Germany, located directly across from the administration building. Spaces at the kindergarten are reserved for Company employees. SAF-HOLLAND also provides employees with kindergarten subsidies.

SAF-HOLLAND is further involved in a variety of other programs that span from providing work goggles and hearing protection to the integration of refugees and employee discounts.

EMPLOYEE TENURE AS AN EXPRESSION OF IDENTIFICATION WITH THE COMPANY

The appreciation of our employees is a key aspect of our corporate culture. SAF-HOLLAND supports the commitment of its employees in a variety of ways to encourage lifelong learning and further ongoing development. The Company also offers an attractive and equitable working environment and ensures the highest standards on occupational safety. As a global company, we also place great value on the cooperation and exchange of people from different cultures.

The average length of service of 8.1 years at the Group level is the best example of how strongly employees identify with SAF-HOLLAND and a testimony to our attractiveness as an employer. At 14 and 10 years, the average length of service at our core companies in Germany and the United States is even significantly higher. The long tenure of our employees was also reflected by the 20 and 30 year anniversaries of several of our employees in the 2016 financial year.

HEALTH FAIR IN WYLIE, TEXAS

Our health fair in Wylie, Texas sponsored by SAF-HOLLAND and the Plano Health Center at the Company's location in Wylie, Texas in March 2016, is another example of our commitment to our employees. At this event, SAF-HOLLAND employees were able to have their blood pressure and BMI measured. There were also experts on site explaining all there is to know about heart disease, healthy diets and nutrition. The program was rounded off by the visit of a US health insurance representative, who answered questions about the benefits and advantages of the employee health and advisory program. Two local fitness studios also took part and provided special offers to employees.

SAF-HOLLAND personnel figures 2016

	2016	2015
Key figures for locations (Group level)		
Average number of employees (excluding temporary workers)	3,081	2,653
Employee turnover rate	8.6%	9.7%
Share of part-time workers (as of reporting date)	2.4%	1.5%
Employees with severe disabilities (as of reporting date)	63	59
Employees in managerial positions (as of reporting date)	106	125
thereof women	5	6
Occupational deaths	0	0
Average age of employees in years (as of reporting date)	40.3	41.3
Average length of employment in years (as of reporting date)	8.1	7.3
Key figures for locations in Germany		
Average number of employees (excluding temporary workers)	1,035	1,022
Average sick days per employee	14.5	15.0
Number of employees on maternity or parental leave	7	2
Percentage of trainees (as of reporting date)	4.5%	4.5%
Interns and graduating students (as of reporting date)	8	5
Total number of submitted improvement proposals	76	156
Number of successfully implemented improvement proposals	7	13
Number of rejected improvement proposals	34	86
Employees with collective bargaining agreements	967	1,005

EMPLOYEE STRUCTURES ADAPTED TO MARKET CONDITIONS

SAF-HOLLAND operates in a highly competitive environment. Market-oriented, adaptable personnel structures are therefore an important success factor for the Company. To achieve the necessary flexibility, we rely on fixed-term contracts, part-time work, temporary staff and the Company's flexi-time models, particularly in Germany, in addition to our permanent workforce.

On the December 31, 2016 reporting date, SAF-HOLLAND employed 3,426 people worldwide, including temporary workers (previous year: 3,167). This represents a year-on-year increase of 8.2%, which occurred mainly in the Americas region and is mainly attributable to the acquisition of KLL. The Group employed a total of 3,259 people on average in 2016 including temporary workers (previous year: 3,325).

Development of employee numbers by region

	12/31/2016	12/31/2015
EMEAI	1,343	1,245
Americas	1,546	1,381
APAC/China	537	541
Total	**3,426**	**3,167**

Sales per employee remained stable at kEUR 319.7 in the 2016 financial year (previous year: 319.0). Adjusting for negative currency effects of 1.2%, sales per employee in the period rose a corresponding 1.4%.

ENVIRONMENT

DEVELOPMENT OF ENVIRONMENTAL REPORTING SYSTEM BROUGHT FORWARD

During the reporting year, we focused on developing a comprehensive environmental reporting system. As announced in last year's annual report, we completed this process in 2016 and for the first time are publishing environmental data such as emissions, resource use and waste quantities for our German locations for the reporting year. In next year's annual report, we will be extending our environmental reporting to include the entire Group and will present the corresponding non-financial performance indicators according to the specifications of a generally accepted standard.

SAF-HOLLAND environmental indicators for 2016

		2016	2015
Emissions			
Total direct and indirect CO_2 emissions (energy sources only)	in t	6,300	7,041
Of which, direct and indirect CO_2 emissions from electricity	in t	3,239	3,229
Total direct emissions of CO_2	in t	5,823	6,445
Of which, direct CO_2 emissions (fleet vehicles + company-owned filling stations)	in t	689	640
Total indirect emissions of CO_2	in t	477	596
		2016	**2015**
Energy consumption			
Absolute energy consumption (electricity, gas, district heating, diesel)	in MWh	28,346	28,693
		2016	**2015**
Waste			
Total waste quantity	in t	4,482	4,318
Of which, metal waste	in t	3,170.6	3,241.9
Of which, wood waste	in t	674.3	511.6
Oils and emulsions	in t	62.8	78.1
Waste water	in m^3	8,700	11,196
		2016	**2015**
Water			
Water consumption	in m^3	17,400	22,392

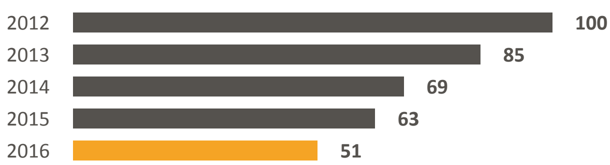
All figures pertain to the German locations Bessenbach, Frauengrund and Singen.

SIGNIFICANT REDUCTION IN CO_2 EMISSIONS IN THE PRODUCTION PROCESS

In our production processes, we continuously strive to reduce energy and material consumption to keep the "ecological footprint" of our activities as low as possible. As we began systematically gathering our CO_2 emissions data in 2014, we made it our goal to achieve an improvement in the energy efficiency of our German locations of at least 2.6 % by 2016 versus the 2014 reference year. To track our progress, we take the CO_2 emissions of our German plants and compare them to the number of axles produced at those locations. We use axles in our calculation because these are the main products at these locations. We achieved a 17.6 % improvement in energy efficiency in the reporting year versus the 2014 reference year and substantially exceeded our goal. We have also succeeded in significantly reducing our relative CO_2 emissions over the long term.

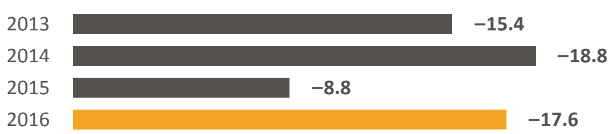
SAF-HOLLAND CO_2 emissions per axle

in kg; 2012 = 100 %



SAF-HOLLAND CO_2 emissions per axle

Year-over-year change in %



THE LIT GREEN INITIATIVE: SCAN YOUR PRODUCT – SAVE TREES!

In many other areas, we also are also working to achieve an ecologically friendly and meaningful use of resources. One example is our Lit Green initiative. Instead of a printed handbook, the easily accessible serial number labels on all our fifth-wheel couplings now feature a QR code. The QR code can be scanned easily to open the digital product brochure. This new initiative makes it easier for our customers to gain access to information, ensures that they are always up to date and protects the environment at the same time.

With every fifth-wheel coupling we ship, we save up to 63 pages of paper, which amounts to approximately seven million pages of paper per year. This measures alone helps us save several thousand trees each year.

CLIMATE PROTECTION THROUGH WEIGHT REDUCTION

Beyond improving the ecological footprint of our production processes, we are also proactive when it comes to environmental protection. By perpetually reducing the weight of our products and components, we not only help customers operate more efficiently but also help reduce fuel consumption and, consequently, CO_2 emissions and pollutants. Our efforts to increase the life of our products and ensure they meet the highest safety standards are also targeted at improving sustainability. More information on our recent innovations in lightweight construction can be found in the section “Research and Development” on page 23.

SOCIAL RESPONSIBILITY

SAF-HOLLAND SUPPORTS THE “PLANT-FOR-THE-PLANET” CAMPAIGN

We also make an active contribution to preserving the environment for future generations through our social responsibility. The global increase in CO_2 emissions is forcing us all to take action. Under the slogan “Stop talking. Start planting.”, the “Plant for the Planet” campaign has planted 14 billion trees worldwide since 2007 with the help of citizens, governments and businesses. The “Plant for the Planet” campaign was founded by Felix Finkbeiner, who was just nine years old at the time. SAF-HOLLAND supported this campaign during the financial year with its own Group-wide campaign “Think Ahead” in which SAF-HOLLAND donated 80,000 trees to help save roughly one million kilograms of CO_2 in the coming two years. However, “Plant for the Planet” has an even more ambitious aim: 1,000 billion newly planted trees by the year 2020 – the number needed to absorb one-quarter of the world’s production of CO_2.

CHRISTMAS TRUCKER CAMPAIGN

Our social commitment is also reflected in the support we give to charitable events. One example is SAF-HOLLAND’s generous donation to this year’s “Christmas Trucker” campaign sponsored by the Johanniter Ambulance Brigade. Even more important was our employees’ involvement in filling 96 packages for this campaign. The aid packages containing urgently needed basic foods, hygiene products and small toys, go directly to poverty-stricken families, the elderly and people with disabilities in Eastern Europe.

UNITED WAY DAY OF CARING

Social responsibility is also an important issue at our North American locations. The employees at SAF-HOLLAND’s plants in Muskegon and Holland showed their commitment by taking part in the annual “United Way Day of Caring” in September 2016. At this event, a team of employees lent their support to the aid organization “Community enCompass” to refurbish buildings. A second team supported the organization “Kids Food Basket,” which delivers evening meals daily to more than 900 primary school children in the greater Muskegon area. Other colleagues gave their assistance to a second-hand business whose revenue flows back into the community to help needy residents.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR

	Notes	2016	2015
Sales	(4)	1,041,995	1,060,704
Cost of sales	(5.1)	–835,496	–857,778
Gross profit		**206,499**	**202,926**
Other operating income	(5.2.1)	1,159	3,281
Selling expenses	(5.2.2)	–60,729	–61,415
Administrative expenses	(5.2.3)	–50,927	–44,547
Research and development costs	(5.2.4)	–19,689	–20,942
Operating result	(4)	**76,313**	**79,303**
Finance income	(5.2.5)	8,359	9,290
Finance expenses	(5.2.5)	–21,853	–13,247
Share of net profit of investments accounted for using the equity method	(6.3)	2,136	2,264
Result before tax		**64,955**	**77,610**
Income tax	(5.3)	–21,494	–25,911
Result for the period		**43,461**	**51,699**
Attributable to:			
Equity holders of the parent		44,234	51,627
Non-controlling interests		–773	72
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	(6.10)	1,303	2,937
Income tax effects on items recognized in other comprehensive income	(6.10)	–698	–341
Items that may be reclassifed subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(6.10)	5,277	–774
Changes in fair values of derivatives designated as hedges, recognized in equity	(6.10)/(7.1)	–274	274
Income tax effects on items recognized in other comprehensive income	(6.10)	76	–76
Other comprehensive income		**5,684**	**2,020**
Comprehensive income for the period		**49,145**	**53,719**
Attributable to			
Equity holders of the parent		49,814	53,741
Non-controlling interests		–669	–22
Basic earnings per share in EUR	(7.2)	**0.98**	**1.14**
Diluted earnings per share in EUR	(7.2)	**0.85**	**0.99**

CONSOLIDATED BALANCE SHEET

kEUR

	Notes	12/31/2016	12/31/2015
Assets			
Non-current assets		**406,268**	**380,252**
Goodwill	(6.1)	56,059	52,985
Intangible assets	(6.1)	149,520	145,372
Property, plant and equipment	(6.2)	144,263	127,750
Investments accounted for using the equity method	(6.3)	15,425	14,102
Financial assets	(7.1)	1,243	1,368
Other non-current assets	(6.4)	3,528	3,668
Deferred tax assets	(5.3)	36,230	35,007
Current assets		**608,428**	**508,260**
Inventories	(6.5)	130,988	118,008
Trade receivables	(6.6)	116,666	116,535
Income tax assets		1,808	1,611
Other current assets	(6.7)	13,423	8,279
Financial assets	(7.1)	975	3,079
Other short-term investments	(6.8)	–	115,000
Cash and cash equivalents	(6.9)	344,568	145,748
Total assets		**1,014,696**	**888,512**
Equity and liabilities			
Total equity	(6.10)	**305,577**	**287,800**
Equity attributable to equity holders of the parent		**300,399**	**285,818**
Subscribed share capital		454	454
Share premium		268,644	268,644
Legal reserve		45	45
Other reserve		720	436
Retained earnings		45,055	36,338
Accumulated other comprehensive income		–14,519	–20,099
Shares of non-controlling interests		**5,178**	**1,982**
Non-current liabilities		**555,436**	**475,417**
Pensions and other similar benefits	(6.11)	38,393	37,336
Other provisions	(6.12)	6,872	8,042
Interest bearing loans and bonds	(6.13)	435,599	379,276
Finance lease liabilities	(7.1)	–	1,509
Other financial liabilities	(6.15)	18,238	707
Other liabilities	(6.16)	615	838
Deferred tax liabilities	(5.3)	55,719	47,709
Current liabilities		**153,683**	**125,295**
Other provisions	(6.12)	9,918	7,202
Interest bearing loans and bonds	(6.13)	6,067	3,917
Finance lease liabilities	(7.1)	1,587	465
Trade payables	(6.14)	106,714	89,940
Income tax liabilities		5,660	756
Other financial liabilities	(6.15)	972	178
Other liabilities	(6.16)	22,765	22,837
Total equity and liabilities		**1,014,696**	**888,512**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR

2016

	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2016	**454**	**268,644**	**45**	**436**	**36,338**	**–20,099**	**285,818**	**1,982**	**287,800**
Result for the period	–	–	–	–	44,234	–	**44,234**	–773	**43,461**
Other comprehensive income	–	–	–	–	–	5,580	**5,580**	104	**5,684**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**44,234**	**5,580**	**49,814**	**–669**	**49,145**
Dividend	–	–	–	–	–18,144	–	**–18,144**	–	**–18,144**
Transfer to other reserve	–	–	–	284	–284	–	**–**	–	**–**
Put option for acquisition of remaining shares of KLL Equipamentos para Transporte Ltda.	–	–	–	–	–17,089	–	**–17,089**	–	**–17,089**
Addition of shares of non-controlling interests	–	–	–	–	–	–	**–**	3,865	**3,865**
As of 12/31/2016	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**5,178**	**305,577**

2015

	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2015	**454**	**268,644**	**45**	**436**	**–773**	**–22,213**	**246,593**	**2,004**	**248,597**
Result for the period	–	–	–	–	51,627	–	**51,627**	72	**51,699**
Other comprehensive income	–	–	–	–	–	2,114	**2,114**	–94	**2,020**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**51,627**	**2,114**	**53,741**	**–22**	**53,719**
Dividend	–	–	–	–	–14,516	–	**–14,516**	–	**–14,516**
As of 12/31/2015	**454**	**268,644**	**45**	**436**	**36,338**	**–20,099**	**285,818**	**1,982**	**287,800**

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR

		Notes	2016	2015
Cash flow from operating activities				
Result before tax			**64,955**	**77,610**
–	Finance income	(5.2.5)	–8,359	–9,290
+	Finance expenses	(5.2.5)	21,853	13,247
+/–	Share of net profit of investments accounted for using the equity method	(6.3)	–2,136	–2,264
+	Amortization/depreciation of intangible assets and property, plant and equipment	(5.2.7)	22,609	21,741
+	Allowance of current assets	(6.5)/(6.6)	4,458	4,576
+/–	Loss/Gain on disposal of property, plant and equipment		125	–236
+	Dividends from investments accounted for using the equity method		943	19
Cash flow before change of net working capital			**104,448**	**105,403**
+/–	Change in other provisions and pensions		1,506	–6,540
+/–	Change in inventories		–8,205	4,271
+/–	Change in trade receivables and other assets		–4.100[1]	–14,976[1]
+/–	Change in trade payables and other liabilities		12,748	–8,632
Cash flow from operating activities before income tax paid			**106,397**	**79,526**
–	Income tax paid	(5.3)	–13,729	–16,439
Net cash flow from operating activities			**92,668**	**63,087**
Cash flow from investing activities				
–	Purchase of other short term investments	(6.8)	–	–115,000
+	Proceeds from sale of other short term investments		115,000	–
–	Purchase of property, plant and equipment	(6.2)	–19,311	–22,166
–	Purchase of intangible assets	(6.1)	–5,695	–5,898
+	Proceeds from sales of property, plant and equipment		944	3,666
–	Purchase of other financial assets	(5.2.5)	5,730	–
–	Payments for acquisition of subsidiaries net of cash	(3)	–7,513	–
+	Interest received		670	248
Net cash flow from investing activities			**89,825**	**–139,150**
Cash flow from financing activities				
–	Dividend payments to shareholders of SAF-HOLLAND S.A.	(6.10)	–18,144	–14,516
+	Proceeds from borrowing of non-current other loans	(6.13)	50,000	–
+	Proceeds from promissory note loan		–	200,000
–	Paid transaction costs relating to the issuance of the promissory note loan		–	–805
–	Paid transaction costs relating to finance agreements		–514	–525
–	Payments for replacement of foreign currency derivatives		–5,232	–
–	Payments for finance lease		–532	–432
–	Interest paid		–11,938	–8,415
+/–	Change in drawings on the credit line and other financing activities	(6.13)	1,622	942
Net cash flow from financing activities			**15,262**	**176,249**
Net increase/decrease in cash and cash equivalents			**197,755**	**100,186**
+/–	Effect of changes in exchange rates on cash and cash equivalents		1,065	1,397
Cash and cash equivalents at the beginning of the period		(6.9)	**145,748**	**44,165**
Cash and cash equivalents at the end of the period		(6.9)	**344,568**	**145,748**

[1] As of December 31, 2016, trade receivables in the amount of EUR 26.4 million (previous year: EUR 25.6 million) were sold in the context factoring contract. Assuming the legal validity of the receivable, no further rights of recourse exist against SAF-HOLLAND from the sold receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the January 1 through December 31, 2016 Financial Year

1. CORPORATE INFORMATION

SAF-HOLLAND S.A. (the "Company") was incorporated on December 21, 2005 as a "Société Anonyme" according to Luxembourg law. The Company's registered office is located at 68–70, Boulevard de la Pétrusse, Luxembourg. The Company is entered in the Commercial Register of the District Court of Luxembourg under No. B 113.090. The Company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange under the symbol "SFQ" (ISIN: LU0307018795). The shares have been included in the SDAX since 2010.

The consolidated financial statements for SAF-HOLLAND S.A. and its subsidiaries (the "Group") as of December 31, 2016 were authorized for publication by the resolution of the Board of Directors on March 14, 2017. Shareholder approval of the financial statements is required under Luxembourg law.

2. ACCOUNTING AND VALUATION PRINCIPLES

2.1 BASIS OF PREPARATION

The SAF-HOLLAND S.A. consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and applicable as of the reporting date.

The consolidated financial statements are prepared using the historical cost principle, except for derivative financial instruments, which are measured at fair value.

The balance sheet presents current and non-current assets and current and non-current liabilities. The statement of comprehensive income is prepared according to the cost of sales method. Certain items in the consolidated statement of comprehensive income and the balance sheet are aggregated. They are disclosed separately in the notes to the consolidated financial statements.

The consolidated financial statements are prepared in euros. Unless otherwise stated, all amounts are presented in euro thousands (kEUR). Due to rounding, individual figures may not add up precisely to the totals provided.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, management has made assumptions and estimates that affect the reported amounts of assets, liabilities, income, expenses and contingent liabilities as of the reporting date. In certain cases, actual amounts may differ from these assumptions and estimates. Any such changes are recognized in profit and loss as soon as they become known. The following section details the key forward-looking assumptions as well as other main sources of estimation uncertainty as of the reporting date which pose a significant risk that a material adjustment to the carrying amounts of assets and liabilities may be necessary within the subsequent financial year.

Impairment of goodwill and intangible assets with indefinite useful lives

The Group tests goodwill and other intangible assets with indefinite useful lives for impairment at least once a year and when there is an indication of impairment. The Group's impairment tests as of October 1, 2016 are based on calculations of the recoverable amount using a discounted cash flow model. Future cash flows are derived from the Group's five-year financial plan, which was approved by the Board of Directors. Cash flows beyond the planning period are extrapolated using individual growth rates. The recoverable amount depends heavily on the discount rate used in the discounted cash flow model, expected future cash inflows and outflows and the growth rate used for purposes of extrapolation.

Assumptions are based on the information available at the time, particularly the expected business developments, current conditions and realistic assessments of the future development of the global and industry-specific environment. The key assumptions underlying the Company's planning are based on projected unit volumes for the truck and trailer markets published by market research companies and planning discussions with the Group's major customers. Although management believes that the assumptions used to calculate the recoverable amount are reliable, any unforeseen changes in these assumptions could lead to an impairment charge that could adversely affect the Group's net assets, financial position and results of operations. The basic assumption to determine the recoverable amount for the various cash-generating units and intangible assets with indefinite useful lives, including a sensitivity analysis, are discussed in more detail in Note 6.1. As of December 31, 2016, the carrying amount of goodwill totaled EUR 56.1 million (previous year: EUR 53.0 million), and that of intangible assets with indefinite useful lives amounted to EUR 34.9 million (previous year: EUR 33.5 million).

Measurement of property, plant and equipment and intangible assets with finite useful lives

Measurement of property, plant and equipment and intangible assets with finite useful lives requires the use of estimates for determining the fair value at the acquisition date, particularly for assets acquired in a business combination. Furthermore, the expected useful lives of these assets must be determined. The determination of fair values and useful lives of assets and impairment testing in the case of indications of impairment are based on management's judgment. As of December 31, 2016, the carrying amounts of property, plant and equipment totaled EUR 144.3 million (previous year: EUR 127.8 million), and those of intangible assets with finite useful lives amounted to EUR 114.6 million (previous year: EUR 111.9 million). Further details are provided in Notes 6.1 and 6.2.

Deferred tax assets

At each balance sheet date, the Group assesses whether the realization of future tax benefits is probable enough to recognize deferred tax assets. Among others, this requires management to assess the tax benefits arising from the available tax strategies and future taxable income and to take into account any other positive or negative factors. In order to make this assessment, the projected taxable income is estimated based on the Company's planning. The reported amount of deferred tax assets could decline if the projected taxable income and tax benefits achievable through available tax strategies are lower than expected, or if changes in current tax legislation restrict the timing or scope of future tax benefits.

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that there will be taxable profits against which the losses can be utilized. Deferred tax assets for all unused interest carryforwards are recognized to the extent that it is probable that they can be used in the future to reduce taxable income. As of December 31, 2016, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 3.7 million (previous year: EUR 2.9 million). Unrecognized tax loss carryforwards amounted to EUR 41.1 million (previous year: EUR 24.7 million). In addition, as of December 31, 2016, the carrying amount of capitalized deferred tax assets for interest carryforwards was EUR 18.2 million (previous year: EUR 22.3 million). Further details are provided in Note 5.3.

Pensions and other similar obligations

The expense of defined benefit pension plans and post-employment medical benefits is determined using actuarial calculations. These actuarial valuations are based on assumptions about discount rates, future salary and wage increases, mortality rates, future pension increases, expected staff turnover and trends in healthcare costs. All assumptions are reviewed on the reporting date. Management derives the appropriate discount rates based on the interest rates on corporate bonds in the respective currency that have at least an AA rating. Bonds with higher default risks or offering much higher or lower returns (statistical outliers) compared to other bonds in the same risk category are not considered. The bonds are adjusted to the expected term of the defined benefit obligations through extrapolation. Mortality rates are based on publicly available mortality tables for the respective country. Future wage, salary and pension increases are based on expected future inflation rates for a given country and the structure of the defined benefit plan.

Due to the long-term nature of pension plans, such estimates are subject to significant uncertainty. As of December 31, 2016, the carrying amount of pensions and other similar obligations was EUR 38.4 million (previous year: EUR 37.3 million). Further details, including a sensitivity analysis, are given in Note 6.11.

Other provisions

The recognition and measurement of other provisions is based on estimates of the probability of the future outflows of benefits based on past experience and the circumstances known as of the balance sheet date. As a result, the actual outflow of benefits may differ from the amount recognized under other provisions.

As of December 31, 2016, other provisions amounted to EUR 16.8 million (previous year: EUR 15.2 million). Further details are provided in Note 6.12.

Share-based payments

The Group initially recognizes the cost of share units (appreciation rights) granted to members of the Management Board and certain managers at the fair value of the appreciation rights at the grant date and subsequently measures them on each balance sheet date as well as on the settlement date. Estimating the fair value of share-based payments requires the selection of an appropriate valuation model depending on the terms and conditions of the agreements. This model incorporates a variety of inputs for which assumptions must be made to estimate the fair value. The main inputs are the expected life of the option, the volatility of the share price and the forecast dividend yield. The expected volatility is based on the average historical volatility of a peer group during the same period, which is provided by Bloomberg. The period of volatility is based on the remaining period of the performance share unit program. Due to the Group's past restructuring, the actual historical volatility of the Group was not used because the management does not believe it represents future share price performance. In 2016, the carrying amount of obligations was EUR 5.0 million (previous year: EUR 4.3 million). Further details are presented in Note 6.12.

Derivative financial instruments

Where the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be derived from an active market, it is determined by using valuation models. The inputs to these models are taken from observable markets when possible, otherwise determining the fair value requires a degree of judgment. This judgment considers inputs such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the recognized fair value of financial instruments. As of December 31, 2016, the fair value of derivative financial instruments was EUR –0.6 million (previous year: EUR 0.2 million). Further details are provided in Note 7.1.

2.3 SUMMARY OF KEY ACCOUNTING POLICIES

Consolidation principles

The consolidated financial statements consist of the financial statements of SAF-HOLLAND S.A. and its subsidiaries as of December 31 of each year. The financial statements of the consolidated subsidiaries, associates and joint ventures are prepared for the same reporting date as the parent company and apply uniform accounting and measurement policies.

All receivables and payables, sales and income, expenses and unrealized gains and losses from intercompany transactions are eliminated in full during consolidation.

Subsidiaries are fully consolidated from the date of acquisition, i.e., from the date on which the Company obtains control. SAF-HOLLAND S.A. controls an investee when it has direct or indirect power over the investee, is exposed to the variable returns from its involvement with the company and has the ability to affect the variable returns through its power over the investee. An entity is no longer consolidated when a control relationship with the parent company no longer exists.

Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the cost of an acquisition represents the total consideration paid measured at fair value on the acquisition date, including the amount of any non-controlling interest in the acquired company. For each business combination, the acquirer measures the non-controlling interest in the acquired company either at fair value or the proportionate share of the acquired company's identifiable net assets measured at fair value. Acquisition costs related to a business combination are expensed as incurred. The contingent consideration agreed is recognized at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration, which represents an asset or liability, are recognized in profit and loss. If the contingent consideration is classified as equity, it will not be remeasured. The subsequent settlement is accounted for within equity. In a business combination achieved in stages, the acquirer's previously held interest in the acquired company is first remeasured at its fair value on the acquisition date and any resulting gain or loss is recognized in profit and loss.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the parent company loses control over a subsidiary, it will

- derecognize the assets (including goodwill) and liabilities of the subsidiary,
- derecognize the carrying amount of any non-controlling interest in the former subsidiary,
- derecognize the accumulated translation differences recognized in equity,
- recognize the fair value of the consideration received,
- recognize the fair value of any investment retained,
- recognize any gains and losses in profit and loss,
- reclassify to profit and loss or retained earnings the parent's share of other comprehensive income components, if required by IFRS.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

An associate is an entity over which the Group can exercise significant influence by participating in the entity's financial and operating policy decisions, but cannot exert control or joint control over those policies. Significant influence is generally assumed when the Group holds between 20 % and 50 % of the voting rights.

A joint venture is a joint arrangement whereby the parties have joint control over the arrangement and have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control via an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations for determining whether significant influence or joint control exists are similar to those for determining control over the subsidiaries. Investments in associates and joint ventures are no longer included in the consolidated financial statements using equity method when the Group no longer exercises significant influence or participates in the joint control over decision processes. Gains and losses on transactions between the Group and an associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

The complete list of the Group's shareholdings is provided in Note 7.6.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the Group's functional and reporting currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially translated into the functional currency at the spot rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the reporting day's closing rate. All exchange differences are recognized in profit and loss. Non-monetary items measured at historical cost in a foreign currency are translated at the rate prevailing on the date of the transaction. Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of this foreign operation are accounted for as assets and liabilities of the foreign operation and translated at the reporting day's closing rate. As of the balance sheet date, the assets and liabilities of foreign operations are translated into euros at the closing rate. Income and expenses are translated at the weighted average exchange rate for the financial year. The exchange differences arising from translation are recognized in equity. On disposal of a foreign operation, the accumulated amount recognized in equity relating to that particular foreign operation is recognized in profit and loss. Exchange differences from foreign currency loans that are part of a net investment in a foreign operation are recognized directly in equity until disposal of the net investment, at which time they are recognized in profit and loss. Deferred taxes attributable to exchange differences from foreign currency loans are also recognized directly in equity.

The most important functional currencies of foreign operations are the US dollar (USD) and the Canadian dollar (CAD). The exchange rates for these currencies as of the balance sheet date were EUR/USD = 1.05356 (previous year: 1.09075) and EUR/CAD = 1.41884 (previous year: 1.51309). The weighted average exchange rates for these two currencies were EUR/USD = 1.10635 (previous year: 1.10963) and EUR/CAD = 1.46572 (previous year: 1.41743).

Goodwill

Goodwill acquired in a business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated as of the acquisition date to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired company are allocated to those cash-generating units.

Intangible assets

Intangible assets acquired separately are measured at cost upon their initial recognition.

The acquisition cost of an intangible asset acquired in a business combination is its fair value as of the acquisition date.

Research costs are expensed in the period in which they are incurred. Development costs for internally generated intangible assets are only capitalized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset to make it available for internal use or sale,
- the intention to complete the intangible asset and its ability to use or sell the asset,
- the recoverability of any future economic benefits,
- the availability of resources to complete the asset, and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Following their initial recognition, intangible assets are carried at amortized cost less any accumulated impairment losses.

For development costs, amortization begins when development is complete, and the asset is available for use.

A distinction is made between intangible assets with finite useful lives and those with indefinite useful lives.

Intangible assets with finite useful lives are amortized over their useful lives and tested for impairment whenever an indication of impairment exists. The useful life and the amortization method used for an intangible asset with a finite useful life are reviewed at the end of each financial year at a minimum. Amortization is recognized in the expense category that corresponds to the intangible asset's function within the Company.

Intangible assets with indefinite useful lives are not subject to scheduled amortization, but are tested for impairment at least once annually. The useful life of these intangible assets is also examined annually to determine whether the assessment of an indefinite useful life still applies. If this is not the case, the change in the assessment of indefinite to limited useful life is made prospectively.

Because the Group normally expects to expand acquired brands in the future, brands are assumed to have indefinite useful lives. However, a finite useful life is assumed for acquired intangible assets such as technology and customer relationships.

The accounting principles applied to the Group's intangible assets can be summarized as follows:

	Customer relationship	**Technology**	**Capitalized development cost**	**Brand**	**Service net**	**Licenses and software**
Amortization method used	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life	No amortization	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life or over the period of the right
Useful life	25–40 years	8–13 years	8–10 years	Indefinite	20 years	3–10 years

Gains or losses on the derecognition of intangible assets are determined as the difference between the net realizable value and the carrying amount of the asset and are recognized in profit and loss in the period in which the asset is derecognized.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of self-constructed property, plant and equipment includes direct material and production costs, any allocable material and production overheads, as well as production-related depreciation. Administrative expenses are capitalized only when there is a direct link to production. Ongoing maintenance and repair expenses are immediately recognized as expenses.

The cost of replacing components or of overhauling plant and equipment are capitalized only when the recognition criteria are met.

If an item of property, plant and equipment consists of several components with different useful lives, the components are depreciated separately over their respective useful lives.

The residual values of the assets, useful lives and depreciation methods are reviewed and adjusted prospectively at the end of each financial year when appropriate.

Scheduled depreciation is generally based on the following useful lives:

	Buildings	**Plant and equipment**	**Other equipment, office furniture and equipment**
Depreciation method used	Depreciated on a straight line basis over the useful life	Depreciated on a straight line basis over the useful life	Depreciated on a straight line basis over the useful life
Useful life	5–50 years	3–15 years	3–10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected from its continued use or disposal. Gains or losses on the derecognition of the asset are measured as the difference between the net realizable value and the carrying amount of the asset and are recognized in profit and loss in the period in which the item is derecognized.

Borrowing costs

Borrowing costs consist of interest and other costs incurred by an entity when assuming liabilities. Borrowing costs directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they are incurred.

Leases

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

Leases in which the Group as the lessee bears substantially all the risks and rewards incidental to the ownership of the leased asset are accounted for as finance leases. Under a finance lease, the Group capitalizes the leased asset at the asset's fair value or the present value of the minimum lease payments, if lower, and subsequently depreciates the leased asset over its estimated useful life or the contractual term, if shorter. Lease payments are apportioned between finance expenses and the redemption of the lease liability to achieve a constant rate of interest on the remaining carrying amount of the lease liability. Finance expenses are recognized immediately in profit and loss.

All other leases in which the Group is the lessee are accounted for as operating leases. Lease payments under a finance lease operating are recognized as an expense in profit and loss on a straight-line basis over the term of the lease.

Investments accounted for using the equity method

Under the equity method, investments in associates and joint ventures are recognized on the balance sheet at cost plus any changes in the Group's interest in the net assets of the equity investment following its acquisition. The Group's interest in the profit or loss of the associate or joint venture is reported separately in the result for the period. Any changes recognized directly in the equity of the associate or joint venture are recognized by the Group according to its share and reported in accumulated other comprehensive income. Goodwill resulting from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associates or jointly controlled entities and is neither amortized nor separately tested for impairment. After applying the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. At each balance sheet date, the Group determines whether there is any objective evidence indicating that investments in associates or joint ventures are impaired. If evidence exists, the Group calculates the amount of the impairment as the difference between the investment's fair value and carrying amount and recognizes the amount in profit and loss.

Impairment of non-financial assets

An impairment test for goodwill and intangible assets with indefinite useful lives is conducted at least on an annual basis on October 1 of each financial year. In addition, whenever there are specific indications of impairment, an impairment test is carried out. An impairment test is conducted for other intangible assets with finite useful lives, property, plant and equipment and other non-financial assets only if there are specific indications of impairment.

Impairment is recognized in profit and loss if the recoverable amount of the asset or cash-generating unit is lower than the carrying amount. The recoverable amount must be determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market expectations of the time value of money and the risk specific to the asset. In determining fair value less costs to sell, an appropriate valuation model based on discounted future cash flows is used. To ensure the objectivity of the results, these calculations are corroborated by valuation multiples, quoted prices for shares in publicly traded companies or other available fair value indicators.

If the reason for impairment recognized in previous years no longer exists, the carrying amount of the asset (the cash-generating unit; with the exception of goodwill), is increased to the amount of the new estimate of the recoverable amount. The increase in the carrying amount is limited to the value that would have been determined had no impairment loss been recognized for the asset (the cash-generating unit) in previous years. Such a reversal is recognized through profit and loss.

Financial instruments

A financial instrument is any contract that creates a financial asset at one entity and a financial liability or equity instrument at another entity.

The Group recognizes financial assets and financial liabilities at fair value upon initial measurement. If financial assets and financial liabilities are not measured at fair value through profit and loss, the Group also includes transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

For the purpose of subsequent measurement, IAS 39 classifies financial assets into the following categories:

- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets
- At fair value through profit and loss:
  - held for trading
  - upon initial recognition at fair value through profit and loss (fair value option).

IAS 39 classifies financial liabilities into the following categories:

- financial liabilities at amortized cost
- at fair value through profit and loss:
  - held for trading
  - upon initial recognition at fair value through profit and loss (fair value option).

The Group determines the classification of its financial assets and liabilities at initial recognition. Where permissible, any reclassifications deemed necessary are performed at the end of the financial year.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the related liabilities simultaneously.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either

- in the principal market for the asset or liability or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must have access to the principal or most advantageous market.

The fair value of an asset or liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming market participants act in their own economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate an economic benefit with the asset's highest and best use or by selling it to another market participant who would make the highest and best use of the asset.

The Group uses valuation techniques appropriate for the respective circumstances and for which sufficient data is available to measure fair value while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy based on the lowest level of input that is significant for the fair value measurement as a whole:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level of input that is significant for the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level of input that is significant for the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether reclassifications have occurred between levels in the hierarchy by reassessing their categorization (based on the lowest level of input that is significant for the fair value measurement as a whole) at the end of each reporting period.

An analysis of the fair value of financial instruments and further details on the method of their measurement are provided in Note 7.1.

Primary financial instruments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment. Gains and losses are recognized in profit and loss when loans and receivables are derecognized or impaired. Loans and receivables include the Group's trade receivables, certain current assets and cash and cash equivalents.

The category held-to-maturity comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are measured at amortized cost using the effective interest method less impairment. No financial assets were allocated to this category in the reporting period.

Available-for-sale financial investments are non-derivative financial assets that do not fall into any other category. After initial recognition, available-for-sale financial investments are measured at fair value, with any gains or losses, net of income tax effects, being recognized in accumulated other comprehensive income. This does not apply if the impairment is prolonged or significant, in which case it is recognized in profit and loss. The accumulated gains or losses from measurement previously reported in equity are only recognized in profit and loss upon disposal of the financial asset. No financial assets were allocated to this category in the reporting period.

Financial instruments at fair value through profit or loss include **financial instruments held for trading** and financial assets and financial liabilities designated upon initial recognition **at fair value through profit or loss**. The Group has not designated any primary financial instruments upon initial recognition as at fair value through profit or loss.

After initial recognition, other primary financial liabilities are measured at amortized cost using the effective interest method. They include the Group's interest-bearing loans and bonds as well as its trade payables.

Derivative financial instruments

Derivative financial instruments are measured at fair value both on the date on which a derivative contract is entered into and in subsequent periods. Derivative financial instruments are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative financial instruments such as forward exchange contracts, interest rate swaps and caps to hedge risk positions arising from currency and interest rate fluctuations. The hedges cover financial risk from recognized underlying transactions, future interest rate and currency risks (hedged with interest rate swaps and caps) and risks from pending goods and service transactions.

The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using the mean spot exchange rate prevailing on the balance sheet date taking into account the forward premiums and discounts for the residual term of each contract and compared with the contracted forward exchange rate. Interest rate swaps are measured at fair value by discounting estimated future cash flows using interest rates with matching maturities.

Any measurement gain or loss is recognized immediately in profit and loss unless the derivative is designated as a hedging instrument under hedge accounting and is effective. A derivative that has not been designated as a hedging instrument must be classified as held for trading.

At the inception of the hedge relationship, the Group determines the hedge relationship and strategy under the risk management objective. Depending on the type of hedge relationship, the Group classifies the individual hedging instruments either as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. When entering into hedges and at regular intervals during their terms, the Group also reviews in each period whether the hedging instrument designated in the hedge is highly effective in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Hybrid financial instruments

Financial instruments that contain both a debt and an equity component are classified and measured separately according to their nature. Convertible bonds are examples of such equity instruments. The fair value of conversion rights is recognized separately under share premium on the bond's issue date and therefore deducted from the bond's liability. The fair value of conversion rights from bonds with below market interest rates are calculated using the present value of the difference between the coupon rate and the market interest rate. The interest expense for the debt component is calculated over the bond's term based on the market interest rate on the issue date for a comparable bond without a conversion right. The difference between the calculated interest and the coupon rate accrued over the term increases the carrying amount of the bond's liability. The convertible bond's issuing costs are deducted directly from the carrying amount of the debt and equity components in the same proportion.

Impairment of financial assets

Financial assets or a group of financial assets, with the exception of those recognized at fair value through profit and loss, are tested for indications of impairment at each balance sheet date. Financial assets are considered as impaired if there is objective evidence that the asset's estimated future cash flows were negatively impacted by one or more events that has occurred after the asset's initial recognition (an incurred "loss event").

For financial assets measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of the expected future cash flows determined using the financial asset's original effective interest rate. An impairment loss directly reduces the carrying amount of the financial assets concerned with the exception of trade receivables whose carrying amount is reduced via an allowance account. Changes in the allowance account are recognized in profit and loss.

Objective evidence of impairment for available-for-sale financial investments would include a significant or prolonged decline in the fair value of the investment to a level below its carrying amount. Where such an asset is impaired, a loss previously recognized in equity is transferred to profit and loss. Impairment losses on equity instruments are not reversed through profit and loss; any subsequent increases in their fair value are recognized directly in other comprehensive income. Subsequent reversals of impairment losses for available-for-sale equity instruments are recognized directly in equity rather than profit and loss.

Derecognition of financial assets and liabilities

A financial asset (or a portion of a financial asset or a portion of a group of similar financial assets) is derecognized when one of the following conditions has been met:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from a financial asset to a third party or has accepted a contractual obligation to remit a cash flow to a third party without material delay in the context of an agreement which fulfills the conditions of IAS39.19 (a "transfer contract") and at the same time either (a) has transferred substantially all risks and rewards associated with the ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards associated with the ownership of the financial asset but has transferred control over the asset.

If the Group transfers its contractual rights to receive cash flows from an asset or concludes a transfer contract, it evaluates whether and to what extent it retains the associated risks and rewards. If the Group neither transfers nor retains substantially all risks and rewards associated with the ownership of this asset nor transfers control over the asset, the Group recognizes the asset to the extent of its continuing involvement with the asset. In such a case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

When the continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the asset's original carrying amount and the maximum amount of the consideration received that the Group could be required to repay.

Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated necessary selling expenses.

Costs incurred in bringing inventories to their present location and current condition are accounted for as follows:

Raw materials and supplies	cost of purchase on a weighted average cost basis
Finished goods and work in progress	direct material and labor costs, an appropriate proportion of manufacturing overheads based on normal operating capacity (but excluding borrowing costs), production-related depreciation as well as production-related conveyance and administrative costs

Cash and cash equivalents

The balance sheet item cash and cash equivalents consists of cash on hand, cash at banks and short-term deposits with an original maturity of less than three months.

Other provisions

A provision is recognized when the Group has a present obligation (legal or constructive) resulting from a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation's amount can be made. If the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to the formation of a provision is recognized in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense.

Share-based payments

Members of the Management Board and certain managers of the Group receive share-based payments in the form of phantom shares and share units (share appreciation rights) in return for services rendered; these share appreciation rights can only be settled in cash (cash-settled payment transactions). The cost of cash-settled payment transactions is measured initially at fair value at the grant date using a "Monte Carlo" simulation. The fair value is expensed over the period recognizing a corresponding liability until the vesting date. The liability is remeasured at each reporting date up to and including the settlement date. Changes in the fair value are assigned to the costs of the functional areas. No cost is recognized for appreciation rights that do not vest. If the conditions for a transaction with cash settlement are changed, these changes are considered within the scope of the remeasurement on the respective balance sheet date. If a cash-settled payment transaction is canceled, the relevant liability is derecognized through profit and loss.

Pensions and other similar obligations

Defined benefit plans and similar obligations

The obligations resulting from defined benefit plans are determined separately for each plan using the projected unit credit method. The remeasurement of defined benefit plans include actuarial gains and losses, returns on plan assets (provided they are not included in net interest expense) as well as effects from asset ceiling limitation (the "asset ceiling"). The Group recognizes the remeasurement of defined benefit plans in other comprehensive income. All other expenses under defined benefit plans are immediately recognized in the result for the period.

Past service cost is recognized immediately in profit and loss.

The amount recognized as a defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets from which the obligations are to be settled directly. The value of any asset is limited to the present value of any economic benefits available in the form of plan refunds or reductions in future contributions to the plan. Insofar as payment obligations in connection with fund assets exist as a result of minimum funding requirements for benefits already earned, this can also lead to the recognition of an additional provision if the economic benefit of a financing surplus is limited for the Company when taking into account the minimum funding requirements yet to be paid.

The effects of closure or curtailing plans are recognized in the result for the period in which the curtailment or closure takes place.

In the North American subgroup, existing obligations for the payment of post-employment medical benefits are classified as pensions and other post-employment obligations due to their pension-like nature.

Defined contribution plans

The Group's obligations under defined contribution plans are recognized in profit and loss within operating profit. The Group has no further payment obligations once the contributions have been paid.

Other post-employment benefit plans

The Group grants its employees in Europe the option of concluding phased retirement agreements. The block model is used for these agreements. Obligations of the phased retirement model are accounted for as non-current employee benefits.

Other long-term employee benefit plans

The Group grants long-service awards to a number of employees. The corresponding obligations are measured using the projected unit credit method.

Taxes

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of the amount is based on the tax rates and tax legislation applicable on the balance sheet date.

Deferred income taxes

Deferred income tax assets and liabilities arise from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases and tax loss carryforwards and interest carryforwards with the exception of

- deferred tax liabilities from the initial recognition of goodwill and deferred tax assets and liabilities from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit and loss under commercial law nor the taxable profit and loss; and
- deferred taxes from temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, which are not to be recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized only if it is probable that sufficient taxable profit will be available to allow the deductible temporary difference to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The tax rates and tax laws used to calculate the amount are those that are applicable on the balance sheet date. Deferred income tax assets and liabilities are offset, if the Group has a legally enforceable right to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income taxes relating to items recognized directly in other comprehensive income are recognized in accumulated other comprehensive income and not in the result for the period.

Revenue recognition

Revenue is recognized if it is probable that the economic benefits will accrue to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, sales taxes or other duties. Revenue from the sale of goods and merchandise is recognized when the significant risks and rewards of ownership of the goods and merchandise sold have passed to the buyer. This transfer usually occurs upon delivery. Interest income is recognized after a period of time using the effective interest method. Dividends are recognized when the Group's right to receive payment is established.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Expense-related grants are recognized as income over the same period as the corresponding expenses. Where the grant relates to an asset, it is recognized as deferred income and recognized as income in equal amounts over the expected useful life of the related asset.

2.4 CHANGES IN ACCOUNTING POLICIES

The accounting and valuation methods applied correspond basically to the methods used in the previous year with the following exceptions:

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

These improvements include: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

In addition, there were further changes in accounting policies which have no effect on the Group's net assets, financial position and results of operations.

2.5 PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

The following new or amended standards and interpretations, which are relevant for the business operations of the Group, have already been adopted by the International Accounting Standards Board (IASB) but are not yet mandatory in the reporting period or have not yet been endorsed by the European Union. The Group has decided to forego early adoption of the following standards that have already been adopted. They will be applied at the latest in the year in which they first become mandatory.

IFRS 9 "Financial Instruments – Classification and Measurement"

IFRS 9, issued in July 2014, replaces the existing guidelines of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 provides amended guidance on the classification and measurement of financial instruments, including a new model on expected credit losses for calculating the impairment of financial assets as well as the new general accounting provisions for hedging instruments. It also carries over the guidelines on recognition and derecognition of financial instruments from IAS 39.

Application of IFRS 9 is required for financial years beginning on or after January 1, 2018, whereby early application is permitted.

The Group is currently assessing the impact on its consolidated financial statements of adopting IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, to what extent and at what time revenue is recognized. It replaces existing guidelines for the recognition of revenue, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs."

Application of IFRS 15 is required for financial years beginning on or after January 1, 2018, whereby early application is permitted.

Based on analysis carried out by the Group, no significant impact is expected on the consolidated financial statements as a result of the application of IFRS 15.

IFRS 16 "Leases"

In January 2016, the IASB issued the new IFRS 16 standard, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting under IAS 17 "Leases". As a result of the first-time adoption, the majority of the obligations from operating rental and lease agreements currently presented under section 7.4 "Other financial obligations" will be presented as an extension to the balance sheet. Application of IFRS 16 is required for financial years beginning on or after January 1, 2019.

The Company is currently assessing the impact on its consolidated financial statements from the application of IFRS 16 and will apply the standard in the financial year beginning on January 1, 2019.

In addition, there were further changes in accounting standards which have no effect on the Group's net assets, financial position and results of operations.

3. SCOPE OF CONSOLIDATION

Acquisitions

On October 5, 2016, SAF-HOLLAND do Brasil Ltda. acquired a 57.5 % interest in KLL Equipamentos para Transporte Ltda., an unlisted company based in Brazil specializing in the manufacture of air suspension systems for trucks and buses and axles and mechanical and air suspension systems for trailers. As part of the acquisition, the contracting partners received a call/put option for the purchase/sale of the remaining 42.5 % interest, which can be exercised four years after the acquisition. The other financial liabilities resulting from the put option are accounted for in accordance with IAS 39. Because SAF-HOLLAND do Brasil Ltda. holds the majority of voting rights, it has obtained control over KLL Equipamentos para Transporte Ltda. as of the acquisition date.

The initial consolidation of KLL Equipamentos para Transporte Ltda. was carried out in accordance with IFRS 3 using the acquisition method. The results of the company acquired were included in the Consolidated Financial Statements from the date of acquisition. Transaction costs recognized as expense in connection with the acquisition amounted to EUR 0.7 million. As of 31 December 2016, the earnings contribution of KLL Equipamentos para Transporte Ltda. was EUR –0.6 million. The sales thereby generated amounted to EUR 1.8 million. If the business combination had taken place at the beginning of the year, the group's sales would have amounted to EUR 1,052 million and consolidated result before tax would have been EUR 63.9 million.

The purchase price of EUR 8.1 million was paid in cash.

The following information shows the preliminary purchase price allocation and the amounts of the main groups of assets acquired and liabilities assumed that were recognized as of the acquisition date:

kEUR	Fair value as of acquisition date
Brand	1,095
Other intangible assets	1,104
Property, plant and equipment	12,588
Inventories	3,996
Trade receivables	1,985
Other assets	924
Cash and cash equivalents	552
	22,244
Deferred tax liabilities	2,267
Interest bearing loans and borrowings	8,577
Trade payables	925
Other liabilities	1,380
	13,149
Total of identified net assets	**9,095**
Shares with non-controlling interests	–3,865
Goodwill from the acquisition	2,835
Consideration transferred	**8,065**

Goodwill in the amount of kEUR 2,835 includes non-separable intangible assets such as employee expertise and expected synergies. The tax deductibility of the goodwill requires the full acquisition of the outstanding shares in KLL Eqipamentos para Transporte Ltda. and a future reorganization of the Group's activities in Brazil.

The fair value of trade receivables amounted to kEUR 1,985 as of the acquisition date. The gross amount of trade receivables was kEUR 2,343. As of the acquisition date, an impairment of kEUR 358 was recognized on receivables.

The non-controlling interests in the acquired company are measured at the fair value of the proportional share in identifiable net assets of the acquired company and as of the acquisition date amounted to kEUR 3,865.

The cash outflow resulting from the acquisition is as follows:

kEUR	
Cash outflow	8,065
Cash acquired	552
Actual cash outflow	**7,513**

KLL Equipamentos para Transporte Ltda. was allocated to the Americas region.

The value of the put option for the remaining 42.5 % interest in KLL Equipamentos para Transporte Ltda. is dependent on future results and amounts to kEUR 17,089 as of the acquisition date.

Newly established companies
No companies were established during the reporting year.

Deconsolidations
No companies were deconsolidated during the reporting year.

Other changes
In the previous year, the associated company Lakeshore Air LLP, which was accounted for in the consolidated financial statements using the equity method, was liquidated in December 2015.

4. SEGMENT INFORMATION

On January 1, 2016, a new segment structure was introduced within the corporate management and reporting system to better achieve the targets defined under the Company's "Strategy 2020". The previous segments "Trailer Systems", "Powered Vehicle Systems" and "Aftermarket" were discontinued as part of SAF-HOLLAND's new focus on regions. Starting with the 2016 reporting period, corporate management and Group reporting are organized under the segments "EMEA/India," "Americas" and "APAC/China."

Management monitors the regions' operating results separately for the purpose of making decisions about resource allocation and performance assessment. Regional performance is evaluated based on adjusted operating profit (adjusted EBIT). The determination of operating profit (EBIT) may deviate to a certain extent from the consolidated financial statements. The reason for this deviation may be due to adjustments made for special items such as depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocation (PPA), impairment and reversals of impairment and restructuring and integration costs (see the table below). Group financing (including finance expenses and finance income) and income taxes are managed on a Group basis and not allocated to the individual regions. Transfer prices between the regions are determined under normal market conditions for transactions with third parties.

The reconciliation of operating profit to adjusted EBIT is provided as follows:

kEUR	2016	2015
Operating result	76,313	79,303
Share of net profit of investments accounted for using the equity method	2,136	2,264
EBIT	**78,449**	**81,567**
Additional depreciation and amortization from PPA	5,353	7,041[1]
Restructuring and transaction costs	6,612	5,418[2]
Adjusted EBIT	**90,414**	**94,026**

1 Losses arising from the disposal of assets from PPA relate to the sale of the AerWay product line and amount to kEUR 576.
2 Restructuring and transaction costs comprise aperiodic expenses in the amount of kEUR 1,020.

Segment information for the periods from January 1 through December 31:

kEUR				2016
				Regions
	Americas[1]	EMEAI[2]	APAC/China[3]	Consolidated
Sales	402,242	568,819	70,934	**1,041,995**
Cost of sales	−326,855	−451,574	−57,067	**−835,496**
Gross profit	**75,387**	**117,245**	**13,867**	**206,499**
Gross margin	18.7 %	20.6 %	19.5 %	**19.8 %**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method	−49,754	−66,327	−11,969	**−128,050**
Adjustments[4]	4,334	7,434	197	**11,965**
Adjusted EBIT	**29,967**	**58,352**	**2,095**	**90,414**
Adjusted EBIT margin	7.4 %	10.3 %	3.0 %	**8.7 %**
Depreciation	−10,560	−10,601	−1,448	**−22,609**

1 Includes Canada, the USA as well as Central and South America.
2 Includes Europe, Middle East, Africa and India.
3 Includes Asia/Pacific and China.
4 Adjustments comprise depreciation and amortization expenses from in the amount of kEUR 5,353 as well as restructuring and transaction costs in the amount of 6,612 TEUR.

kEUR				2015
				Regions
	Americas[1]	EMEAI[2]	APAC/China[3]	Consolidated
Sales	449,361	540,038	71,305	**1,060,704**
Cost of sales	–359,468	–444,240	–54,069	**–857,778**
Gross profit	**89,893**	**95,797**	**17,236**	**202,926**
Gross margin	20.0%	17.7%	24.2%	**19.1%**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method	–49,890	–59,139	–12,330	**–121,359**
Adjustments[4]	3,792	8,208	459	**12,459**
Adjusted EBIT	**43,794**	**44,867**	**5,365**	**94,026**
Adjusted EBIT margin	9.7%	8.3%	7.5%	**8.9%**
Depreciation	–9,996	–10,575	–1,170	**–21,741**

Includes Canada, the USA as well as Central and South America.
[2] Includes Europe, Middle East, Africa and India.
[3] Includes Asia/Pacific and China.
[4] Adjustments comprise depreciation and amortization expenses from in the amount of kEUR 7,041 as well as restructuring and transaction costs in the amount of 5,418 TEUR.

Finance income and expenses are not allocated to any one business segments as the underlying financial instruments are controlled at the Group level.

Business in the EMEA/India region includes the manufacture and sale of axles and suspension systems for trailers and semi-trailers as well as fifth wheels for heavy trucks. In this region, the Group also provides spare parts for the trailer and commercial vehicle industry. In America, the Group manufactures and sells key components for the semi-trailer, trailer, truck, bus and recreational vehicle industries. In this region, the Group provides axle and suspension systems, fifth wheels, kingpins and landing legs as well as coupling devices. In America, the Group also provides spare parts for the trailer and commercial vehicle industry. The focus of business activities in the APAC/CHINA region is the manufacture and sale of axle and suspension systems for buses, trailers and semi-trailers. The Group also offers spare parts for the trailer and commercial vehicle industry in this region.

The following table presents the sales development by business unit:

Revenues from external customers

kEUR	2016	2015
OEM	772,219	792,685
Aftermarket	269,776	268,019
Total	**1,041,995**	**1,060,704**

No significant sales are generated in the country where the Company is located. In addition, the Company does not have any significant share in the Group's non-current assets in the country where it is located.

In both reporting year and the previous year, not one customer reached a share of 10% of the Group's total sales.

The following table presents non-current assets by region:

Non-current assets

kEUR	12/31/2016	12/31/2015
America	182,181	159,412
EMEAI	167,671	165,808
APAC/China	18,943	18,657
Total	**368,795**	**343,877**

Non-current assets consist of goodwill, intangible assets, property, plant and equipment, investments accounted for using the equity method and other non-current assets.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 COST OF SALES

Cost of sales consists of the following:

kEUR	2016	2015
Cost of materials	674,293	698,163
Personnel expenses	118,224	115,241
Depreciation and amortization of property, plant and equipment and intangible assets	12,207	10,755
Repair and maintenance expenses	9,420	8,266
Warranty expenses	6,805	5,387
Temporary employees expenses	4,455	4,883
Restructuring and transaction costs	1,145	3,522
Other	8,947	11,561
Total	**835,496**	**857,778**

In the 2016 financial year, cost of sales included inventory usage of kEUR 818,599 (previous year: kEUR 837,308).

5.2 OTHER INCOME AND EXPENSES

5.2.1 Other operating income

Other operating income consists of the following:

kEUR	2016	2015
Gain from disposal of property, plant and equipment	68	1,427
Income from reimbursements	–	747
Other	1,091	1,107
Total	**1,159**	**3,281**

The gains from disposal of property, plant and equipment in 2015 were mainly related to the sales of the AerWay product line and a property in Wörth am Main, Germany.

5.2.2 Selling expenses

The following overview shows the composition of selling expenses:

kEUR	2016	2015
Personnel expenses	30,909	30,506
Expenses for advertising and sales promotion	9,994	9,413
Depreciation and amortization of property, plant and equipment and intangible assets	4,166	4,498
Expenses for distribution	4,206	4,405
Trade receivable allowance	2,946	2,240
Commissions	714	1,650
Restructuring and transaction costs	613	89
Other	7,181	8,614
Total	**60,729**	**61,415**

5.2.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	2016	2015
Personnel expenses	25,167	21,911
Expenses for office and operating supplies	4,186	4,111
Depreciation and amortization of property, plant and equipment and intangible assets	4,216	3,415
Legal and consulting expenses	3,568	3,058
Travel costs	1,835	2,002
Restructuring and transaction costs	4,854	1,783
Other	7,101	8,267
Total	**50,927**	**44,547**

5.2.4 Research and development costs

Research and development costs consist of the following:

kEUR	2016	2015
Personnel expenses	10,994	10,349
Depreciation and amortization of property, plant and equipment and intangible assets	2,020	3,073
Testing Cost	2,099	1,986
Restructuring and transaction costs	–	24
Other	4,576	5,510
Total	**19,689**	**20,942**

Development costs of kEUR 3,697 (previous year: kEUR 3,681) were capitalized in the financial year. Payments by the Bavarian Ministry of Economic Affairs of kEUR 102 (previous year: kEUR 265) were offset against research and development costs as performance-based grants.

5.2.5 Finance result

Finance income consists of the following:

kEUR	2016	2015
Finance income from the sale of other financial instruments	5,730	–
Unrealized foreign exchange gains on foreign currency loans and dividends	579	6,809
Realized foreign exchange gains on foreign currency loans and dividends	805	1,684
Finance income due to derivatives	488	560
Finance income due to pensions and other similar benefits	23	18
Interest income	670	203
Other	64	16
Total	**8,359**	**9,290**

Finance income from the sale of other financial instruments derived mainly from the sale of the Haldex shares acquired in the course of the planned acquisition of Haldex. The Group had acquired approximately 3.6 % of the Haldex shares before issuing the all-cash offer. During the fourth quarter, these shares were sold entirely through the stock exchange, as this position was no longer of strategic importance.

Unrealized foreign exchange gains on foreign currency loans and dividends in the prior year primarily consist of unrealized foreign exchange gains on intercompany foreign currency loans translated at the exchange rate on the reporting date.

Since the first quarter of 2016, the majority of intercompany foreign currency loans are now considered as part of a net investment in a foreign operation. In the course of the Groups regional realignment on January 1, 2016, intercompany foreign currency loans were remeasured with regard to the planned repayments. Given the market's development and the pursuit of the targets under "Strategy 2020", repayment of these loans is neither planned nor expected to be likely for the foreseeable future. Exchange rate effects resulting from the valuation of intercompany foreign currency loans at the closing rate on the reporting date are therefore recognized in other comprehensive income.

Finance expenses consist of the following:

kEUR	2016	2015
Interest expenses due to interest bearing loans and bonds	−12,399[1]	−8,996[1]
Reversal of transaction costs	–	−468
Amortization of transaction costs	−920	−545
Finance expenses due to pensions and other similar benefits	−1,239	−1,111
Finance expenses due to derivatives	−6,157	−816
Other	−1,138	−1,311
Total	**−21,853**	**−13,247**

[1] Includes the non-cash interest expense of kEUR 644 (previous year: kEUR 633) for the convertible bond.

The rise in interest expenses related to interest-bearing loans and bonds resulted from the issue of a promissory note in the amount of EUR 200 million in November 2015 and the assumption of new loans with a volume of EUR 50 million in June 2016.

The reversal of transaction costs from the previous year primarily resulted from the early reversal of capitalized transaction costs totaling kEUR –468 from the completion of refinancing in October 2015.

The amortization of transaction costs of kEUR –920 (previous year: kEUR –545) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

Finance expenses related to derivatives resulted from the redemption of foreign currency derivatives of kEUR 5,131. These were originally used to secure the purchase price payment in SEK in the case the acquisition of Haldex was successful. Finance expenses related to derivatives also resulted from a change in accounting for the valuation of a derivative embedded in the promissory note issued in November 2015. The variable interest-bearing tranches of the promissory note include a zero floor cap, which specifies that a decline in the Euribor is limited to 0%. In the prior year, a zero floor cap was accounted for and measured separately as what is known an “embedded derivative”. Based on the clarification of the IFRS IC in relation to the separation of interest rate floors from variable interest rate basic contracts in a negative interest rate environment in 2016, a separate measurement of the zero floor cap was waived. At the same time, hedge accounting for the hedging relationship between the variable interest-bearing tranche of the promissory note and interest rate hedges was terminated due to ineffectiveness. The changes in the value of the interest rate hedges recorded so far in other comprehensive income have therefore been recycled to profit and loss.

Further information on the above is presented in Notes 6.13 and 7.1.

5.2.6 Expenses for employee benefits
Expenses for employee benefits consist of the following:

kEUR	2016	2015
Wages and salaries	–159,773	–155,673
Social insurance contributions	–22,784	–20,961
Pension expenses	–1,355	–1,079
Termination benefits	–1,382	–294
Total	**–185,294**	**–178,007**

Social insurance contributions include expenses from defined contribution plans in the amount of kEUR 6,970 (previous year: kEUR 6,557).

5.2.7 Depreciation and amortization
Depreciation and amortization expenses according to functional area:

kEUR	Depreciation of property, plant and equipment		Amortization of intangible assets		Total	
	2016	2015	2016	2015	2016	2015
Cost of sales	–11,424	–10,180	–783	–575	–12,207	–10,755
Selling expenses	–1,143	–1,220	–3,023	–3,278	–4,166	–4,498
Administrative expenses	–1,441	–1,227	–2,775	–2,188	–4,216	–3,415
Research and development costs	–902	–922	–1,118	–2,151	–2,020	–3,073
Total	**–14,910**	**–13,549**	**–7,699**	**–8,192**	**–22,609**	**–21,741**

Depreciation and amortization of property, plant and equipment and intangible assets arising from purchase price allocation amounted to kEUR 5,343 (previous year: kEUR 6,465).

5.3 INCOME TAXES

Income taxes consist mainly of the following:

kEUR	2016	2015
Current income taxes	–18,041	–15,882
Deferred income taxes	–3,453	–10,029
Income tax reported in the result for the period	**–21,494**	**–25,911**

The effective income tax rate for the Group for the year ended December 31, 2016 is 33.09 % (previous year: 33.39 %). The following table reconciles the actual versus the expected income taxes for the Group using the Group's corporate income tax rate of 30.20 % (previous year: 30.90 %). The Group tax rate is the weighted tax rates in the EMEA/India, Americas and APAC/China regions applied to the result before taxes. The German corporate income tax rate of 27.22 %, consisting of a corporate income tax of 15.83 % (including the solidarity surcharge) and a trade tax of 11.37 %, was used for the EMEA/India region. The tax rate for the Americas region was equivalent to the US tax rate of 37.00 % which consists of a federal tax rate of 35.00 % and a state tax rate of 2.00 %. The Chinese corporate tax rate of 25.00 % was applied in the APAC/China region.

The expected income tax expenses (current and deferred) based on the Group's income tax rate of 30.20 % deviate from the reported income tax expenses as follows:

kEUR	2016	2015
Result before income tax	**64,955**	**77,610**
Income tax based on Group's income tax rate of 30.20 % (previous year: 30.90 %)	–19,616	–23,981
Unused interest carry-forwards	–	–1,867
Unused tax loss carry-forwards	–2,561	–1,096
Use of previously not recognized tax loss carry-forwards	806	1,114
Non-deductible operating expenses	–982	–381
Tax-exempt income	907	–
Differences in tax rates	–77	437
Income taxes resulting from previous year	–38	55
Other	67	–192
Income tax based on effective income tax rate of 33.09 % (previous year: 33.39 %)	**–21,494**	**–25,911**

Deferred income taxes as of the balance sheet date consist of the following:

kEUR	12/31/2016	12/31/2015
Inventories	2,637	2,756
Pensions and other similar benefits	12,978	11,510
Other financial liabilities	261	25
Other provisions	2,629	2,256
Tax loss carry-forwards	3,710	2,904
Interest carry-forwards	18,231	22,351
Other	5,274	6,462
Deferred income tax assets	**45,720**	**48,264**
Intangible assets	–39,745	–35,828
Property, plant and equipment	–11,789	–11,397
Inventories	–	–215
Investments accounted for using the equity method	–5,736	–5,319
Other assets	–423	–578
Interest bearing loans and bonds	–859	–993
Other	–6,657	–6,636
Deferred income tax liabilities	**–65,209**	**–60,966**

As of the balance sheet date, deferred tax assets and liabilities of kEUR 9,490 (previous year: kEUR 13,257) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 36,230 (previous year: kEUR 35,007) and deferred tax liabilities of kEUR 55,719 (previous year: kEUR 47,709).

The Group has tax loss carryforwards of kEUR 55,284 (previous year: kEUR 41,319) that are available indefinitely or with defined time limits to several Group companies to offset against future taxable income of the companies in which the losses arose or of other Group companies. Deferred tax assets have not been recognized with respect to tax loss carryforwards of kEUR 41,144 (previous year: kEUR 24,727) due to insufficient taxable income or opportunities for offsetting at the individual companies or other Group companies.

Unrecognized tax loss carryforwards expire as follows:

kEUR	12/31/2016	12/31/2015
Infinite	37,731	24,419
Within 5 years	3,413	308
Total	**41,144**	**24,727**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 70,253 (previous year: kEUR 84,141), which are available indefinitely to various Group companies for use in the future as a tax deduction. Interest carryforwards result from the interest limitation rules introduced by the business tax reform in Germany as well as a comparable regulation in North America.

In financial year 2016, deferred income taxes amounting to kEUR –622 (previous year: kEUR –417) were recognized in other comprehensive income.

Furthermore, temporary differences associated with investments in subsidiaries for which no deferred taxes have been recognized amounted to EUR 11.1 million (previous year: EUR 61.0 million).

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 GOODWILL AND INTANGIBLE ASSETS

kEUR

	Customer relationship	Technology	Development costs	Brand	Service net	Licences and software	Intangible assets	Goodwill
Historical costs								
As of 12/31/2014	**106,629**	**21,652**	**7,706**	**33,220**	**3,495**	**28,083**	**200,785**	**79,585**
Additions	–	–	3,691	–	–	2,207	**5,898**	–
Disposals	–	345	10	439	–	166	**960**	–
Transfers	–	–7	–	–	–	–67	**–74**	–
Foreign currency translation	4,595	690	–	1,333	–	699	**7,317**	**3,666**
As of 12/31/2015	**111,224**	**21,990**	**11,387**	**34,114**	**3,495**	**30,756**	**212,966**	**83,251**
Additions from initial consolidation	908	–	–	1,095	–	601	**2,604**	**2,835**
Additions	–	–	3,673	–	–	2,022	**5,695**	–
Disposals	–	–	–	–	–	228	**228**	–
Transfers	–	–	–	–	–	2,005	**2,005**	–
Foreign currency translation	1,630	219	121	490	–	599	**3,059**	**588**
As of 12/31/2016	**113,762**	**22,209**	**15,181**	**35,699**	**3,495**	**35,755**	**226,101**	**86,674**
Accumulated amortization								
As of 12/31/2014	**26,449**	**16,015**	**1,150**	**540**	**1,531**	**12,737**	**58,422**	**29,337**
Additions	3,054	1,948	515	100	175	2,400	**8,192**	–
Disposals	–	208	–	–	–	151	**359**	–
Foreign currency translation	1,077	330	–	8	–	–76	**1,339**	**929**
As of 12/31/2015	**30,580**	**18,085**	**1,665**	**648**	**1,706**	**14,910**	**67,594**	**30,266**
Additions from initial consolidation	–	–	–	–	–	405	**405**	–
Additions	3,087	894	734	136	174	2,674	**7,699**	–
Disposals	–	–	–	–	–	23	**23**	–
Foreign currency translation	484	133	25	–4	–	268	**906**	**349**
As of 12/31/2016	**34,151**	**19,112**	**2,424**	**780**	**1,880**	**18,234**	**76,581**	**30,615**
Carrying amount 12/31/2015	**80,644**	**3,905**	**9,722**	**33,466**	**1,789**	**15,846**	**145,372**	**52,985**
Carrying amount 12/31/2016	**79,611**	**3,097**	**12,757**	**34,919**	**1,615**	**17,521**	**149,520**	**56,059**

Intangible assets with finite useful lives that the Group considers important are presented in the following table:

kEUR

	2016		2015	
	Netbook value	Remaining useful life in years	Netbook value	Remaining useful life in years
Customer relationship "OEM"	28,387	30	29,358	31
Customer relationship "5th-Wheel"	12,192	22	12,752	23
SAP-Application	10,710	6.5	12,067	7.5

Impairment testing of goodwill and intangible assets with indefinite useful lives

The Group carries out its annual impairment tests of recognized goodwill and intangible assets with indefinite useful lives as of October 1. In doing so, the recoverable amounts for the cash-generating units were generally estimated to be higher than the carrying amounts.

For the purpose of the impairment test, the recoverable amount of a cash-generating unit is determined on the basis of the value in use.

A discounted cash flow method was used to calculate the recoverable amount. A detailed five-year plan based on past experience, current operating earnings, management's best estimate of future development and market assumptions served as the basis for calculating cash flows. The value contribution as of 2021 is supplemented by the perpetual annuity. The basis for the calculation of the perpetual annuity is the assumed long-term sustainably achievable result given the market environment's cyclical nature.

To calculate the discount rates, a weighted average cost of capital (WACC) method was applied. This method considers yields on government bonds at the beginning of the budget period as a risk-free interest rate. As in the previous year, a growth rate deduction of 1.0% was applied for the perpetual annuity.

The following table presents the discount factors before taxes that are applied during the impairment tests for goodwill and intangible assets with indefinite useful lives:

%	Discount factor before taxes
	2016
Americas	12.46
EMEAI	9.18
APAC/China	15.52

As part of the Group's new alignment according to region, the regions "EMEA/India", "Americas" and "APAC/China" were defined as cash-generating units. The allocation of the carrying amounts of goodwill to the cash-generating units was made on the basis of the use of future synergies from the company's underlying transaction. The allocation of the brands "SAF" and "Holland" to the cash-generating units was done on the basis of the primary geographical use of these brands. The impairment test of the SAF brand was performed on the basis of the EMEA/India cash-generating unit. The impairment test of the Holland brand was performed on the basis of the Americas cash-generating unit. The carrying amounts are as follows:

kEUR	Americas		EMEAI		APAC/China		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Goodwill	26,444	23,369	23,442	23,442	6,173	6,174	56,059	52,985
Brand	14,187	12,613	20,617	20,618	115	235	34,919	33,466

Besides the brands "SAF" and "Holland" the group owns several other brands that are amortized over the intended useful life in accordance with the brand stategy followed.

Within the scope of the value in use calculation, sensitivity analyses were carried out for the cash-generating units to which material goodwill or intangible assets with indefinite useful lives were allocated to. An increase in the average cost of capital (after taxes) of 100 basis points or a decline of future cash flows (after taxes) of 10% or a one-percent reduction in the long-term growth rate was assumed. Based on this method SAF-HOLLAND determined that there was no need for impairment at any of the cash-generating units.

6.2 PROPERTY, PLANT AND EQUIPMENT

kEUR	Land and buildings	Plant and equipment	Other equipment, office furniture and equipment	Advance payments and construction in progress	Total
Historical costs					
As of 12/31/2014	**73,089**	**118,885**	**21,165**	**7,873**	**221,012**
Additions	5,322	5,615	1,402	9,827	**22,166**
Disposals	4,748	4,286	989	25	**10,048**
Transfers	3,548	10,604	311	−14,389	**74**
Foreign currency translation	2,659	6,460	362	346	**9,827**
As of 12/31/2015	**79,870**	**137,278**	**22,251**	**3,632**	**243,031**
Additions from initial consolidation	7,716	10,091	153	–	**17,960**
Additions	848	5,419	2,513	10,531	**19,311**
Disposals	963	5,894	346	–	**7,203**
Transfers	894	4,389	1,164	−7,977	**−1,530**
Foreign currency translation	1,554	3,886	344	7	**5,791**
As of 12/31/2016	**89,919**	**155,169**	**26,079**	**6,193**	**277,360**
Accumulated depreciation					
As of 12/31/2014	**18,482**	**71,065**	**14,494**	**–**	**104,041**
Additions	2,733	8,527	2,289	–	**13,549**
Disposals	2,259	3,982	978	–	**7,219**
Foreign currency translation	806	3,829	275	–	**4,910**
As of 12/31/2015	**19,762**	**79,439**	**16,080**	**–**	**115,281**
Additions from initial consolidation	981	4,391	–	–	**5,372**
Additions	2,891	9,727	2,292	–	**14,910**
Disposals	925	5,096	318	–	**6,339**
Transfers	481	−11	5	–	**475**
Foreign currency translation	535	2,557	306	–	**3,398**
As of 12/31/2016	**23,725**	**91,007**	**18,365**	**–**	**133,097**
Carrying amount 12/31/2015	**60,108**	**57,839**	**6,171**	**3,632**	**127,750**
Carrying amount 12/31/2016	**66,194**	**64,162**	**7,714**	**6,193**	**144,263**

The carrying amount of technical and operating and office equipment held under finance leases as of December 31, 2016 is kEUR 2,754 (previous year: kEUR 2,789). There were no additions to technical equipment held under finance leases in the reporting year (previous year: kEUR 22). Depreciation during the financial year amounted to kEUR 117 (previous year: kEUR 131). The present value of minimum lease payments amounted to kEUR 1,587 (previous year: kEUR 1,974). Undiscounted minimum lease payments amounted to kEUR 1,605 (previous year: kEUR 2,153).

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following investments were accounted for using the equity method:

	Country of incorporation	% Equity interest
Associates		
Castmetal FWI S.A.	Luxembourg	34.1
Joint ventures		
SAF-HOLLAND Nippon, Ltd.	Japan	50.0

Details about the Group's significant associates are presented in the following table:

Name of the associate	Castmetal FWI S.A.
Nature of relationship with the Group	Supplier of components in cast steel
Principal place of business	Luxembourg
Ownership interest	34.09 %

The following table summarizes financial information for Castmetal FWI S.A. The summarized financial information corresponds to the relevant amounts in the associates' financial statements prepared in accordance with IFRS (for accounting purposes adjusted to the Group according to the equity method).

kEUR	Castmetal FWI S.A.	
	12/31/2016	12/31/2015
Current assets	46,713	40,704
Non-current assets	9,261	9,707
Current liabilities	–10,292	–10,760
Non-current liabilities	–5,821	–2,536
Sales	34,022	42,193
Net profit of the financial year from continuing operations	6,169	7,455
Other comprehensive income	–11	22
Total comprehensive income	**6,158**	**7,477**
Group's share in total comprehensive income	2,099	2,549
Other equity holders	4,059	4,928

A reconciliation between the reported summarized financial information and the carrying amount of the investment in Castmetal FWI S.A. as shown in the consolidated financial statements:

kEUR	12/31/2016	12/31/2015
Net assets of the associate	39,861	37,115
Equity interest of the Group	34.09 %	34.09 %
Other adjustments	744	453
Carrying amount of the investment in Castmetal FWI S.A.	14,333	13,106

The reconciliation item "other adjustments" mainly results from the disclosure of hidden reserves in the context of the acquisition of the investment and its amortization.

A dividend of kEUR 943 was distributed by Castmetal FWI S.A. in 2016.

The summarized financial information for the "SAF-HOLLAND Nippon Ltd." joint venture is presented in the following:

kEUR	12/31/2016	12/31/2015
Group's share in profit or loss	37	–285
Group's share in total comprehensive income	37	–285
Aggregate carrying amount of Group's share in this company	1,092	996

6.4 OTHER NON-CURRENT ASSETS

kEUR	12/31/2016	12/31/2015
Receivables from finance lease	886	1,000
VAT reimbursement claims	1,201	844
Claims from reinsurance	670	595
Defined benefit assets	68	279
Insurance premiums	96	129
Other	607	821
Total	**3,528**	**3,668**

6.5 INVENTORIES

kEUR	12/31/2016	12/31/2015
Raw materials	45,626	42,258
Work in progress	35,603	26,587
Finished and trading goods	40,819	41,657
Goods in transit	8,940	7,506
Total	**130,988**	**118,008**

Cost of sales includes allowances for inventories of kEUR 2,416 (previous year: kEUR 2,336). The inventory allowance is recorded in a separate allowance account and netted against the gross amount of inventory.

kEUR

	Allowance account
As of 12/31/2014	**5,859**
Charge for the year	2,412
Utilized	1,993
Released	76
Foreign currency translation	8
As of 12/31/2015	**6,210**
Charge for the year	2,416
Utilized	1,023
Released	–
Foreign currency translation	316
As of 12/31/2016	**7,919**

6.6 TRADE RECEIVABLES

The total amount of trade receivables is non-interest-bearing and due within one year.

kEUR

				Thereof not impaired on the reporting date and past due in the following periods					
	Carrying amount	Thereof neither impaired nor past due on the reporting date	Thereof impaired on the reporting date	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	Between 121 and 360 days	More than 360 days
Trade receivables as of 12/31/2016	116,666	71,871	3,624	20,432	7,392	3,022	2,067	4,438	3,820
Trade receivables as of 12/31/2015	116,535	76,568	411	10,599	12,595	4,942	2,124	8,279	1,017

Allowances for trade receivables are recorded in a separate allowance account and netted with the gross amount of trade receivables.

kEUR

	Allowance account
As of 12/31/2014	**3,953**
Charge for the year	2,240
Utilized	1,865
Foreign currency translation	–125
As of 12/31/2015	**4,203**
Charge for the year	2,088
Utilized	1,106
Released	46
Foreign currency translation	102
As of 12/31/2016	**5,241**

With respect to trade receivables that are not impaired and past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations. The Group has taken out trade credit insurance in Europe and the United States to hedge the default risk.

The Group disposed of receivables with a volume of kEUR 26,359 as of the balance sheet date (previous year: kEUR 25,573) under a factoring agreement. Assuming the legal validity of the receivables, the factor bears the customer default risk for the purchased receivables.

6.7 OTHER CURRENT ASSETS

kEUR	12/31/2016	12/31/2015
VAT receivables	3,928	2,552
Prepaid expenses	1,636	1,712
Insurance premiums	313	430
Creditors with a debit balance	1,488	192
Deposit within the framework of factoring	1,409	330
Other	4,649	3,063
Total	**13,423**	**8,279**

6.8 OTHER SHORT-TERM INVESTMENTS

In previous year, other short-term investments resulted from the short-term deposit of liquid funds from the issue of the promissory note in November 2015. As of December 31, 2016, the Group had no short-term financial investments.

6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2016	12/31/2015
Cash on hand, cash at banks and checks	344,154	145,742
Short-term deposits	414	6
Total	**344,568**	**145,748**

6.10 EQUITY

Subscribed share capital

The Company's subscribed share capital was unchanged compared to the prior year and amounted to EUR 453,611.12 as of the balance sheet date (previous year: EUR 453,611.12). Subscribed share capital is fully paid-in and consists of 45,361,112 (previous year: 45,361,112) ordinary shares with a nominal value of EUR 0.01 per share.

Authorized share capital

As of the balance sheet date, exisiting authorized share capital is as follows:

Articles of Association	Date of resolution/ expiration	Euro/ number of shares	Capital increase against	Subscription rights excluded/execution of capital increase
Article 5.3.4 ICW Article 5.3.6	June 4, 2012/valid until July 25, 2017	EUR 119,588.52 = 11,958,852 shares	Contribution in cash and/or in kind	–
Article 5.3.3 ICW Article 5.3.5	June 4, 2012/valid until December 22, 2020	EUR 45,361.11 = 4,536,111 shares	–	Capital increase can be executed under the exclusion of subscription rights
Article 5.4 ICW Article 5.4.2	July 15, 2014/valid until July 14, 2019	EUR 90,722.22 = 9,072,222 shares	To serve 2014 convertible bond	Capital increase is carried out when creditors of the convertible bond exercisetheir conversion rights

Share premium
As of December 31, 2016, the share premium was unchanged and amounted to kEUR 268,644 (previous year: kEUR 268,644).

Legal reserve
As in the previous year, legal reserve amounts to kEUR 45.

Other reserves
Other reserves consist of a reserve that is subject to restrictions on distribution. This reserve ensures the Group adheres to specific requirements under Luxembourg tax law. A total of kEUR 284 was allocated to other reserves for tax purposes. As of December 31, 2016, other reserves totaled kEUR 720 (previous year: kEUR 436).

Retained earnings
Retained earnings include the result for the period attributable to shareholders of SAF-HOLLAND S.A. of kEUR 44,234 (previous year: kEUR 51,627).

A dividend of EUR 0.44 per share will be proposed for the 2016 financial year, corresponding to a total dividend distribution of kEUR 19,959 based on 45,361,112 shares. This amounts to a payout ratio of the available net earnings of 46.4 % and as such essentially achieved the targeted range. In this context, available net earnings are defined as the result for the period less unrealized foreign exchange gains on intercompany transactions, net of related income taxes. A dividend of EUR 0.40 per share was paid in the previous year, and the total dividend distribution amounted to kEUR 18,144.

Moreover, retained earnings were reduced by 17,089 TEUR due to the initial recognition of the put option in equity arising from the acquisition of KLL Equipamentos para Transporte Ltda. Subsequent changes in the value of the option are recognized through profit and loss.

Accumulated other comprehensive income

kEUR	Before tax amount		Tax (income)/expense		Net of tax amount	
	2016	2015	2016	2015	2016	2015
Revaluation defined benefit plan	1,303	2,937	–698	–341	605	2,596
Exchange differences on translation of foreign operations	5,277	–774	–	–	5,277	–774
Changes in fair values of derivatives designated as hedges, recognized in equity	–274	274	76	–76	–198	198
Total	**6,306**	**2,437**	**–622**	**–417**	**5,684**	**2,020**

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR 3,966 (previous year: kEUR –1,311).

The total amount of changes in the fair value of derivatives designated as hedges after taxes included in accumulated other comprehensive income is kEUR 0 (previous year: kEUR 198).

The total amount after tax of the remeasurement of defined benefit plans included in accumulated other comprehensive income is kEUR –17,949 (previous year: kEUR –18,554).

The Group's target liquidity is an amount of cash and cash equivalents of EUR 7 million. The equity ratio adjusted for excess liquidity amounts to 45.1 % (previous year: 45.3 %).

6.11 PENSIONS AND OTHER SIMILAR OBLIGATIONS

The Group offered defined benefit plans to its employees in Germany in accordance with a supplemental agreement.

Under a supplemental agreement dated January 1, 2007, SAF-HOLLAND GmbH's pension plans were frozen and no further pension entitlements can be earned. The future pension payments for these plans depend on an employee's length of service.

Future pension payments for the plan of SAF-HOLLAND Verkehrstechnik GmbH depend on the length of service and the individual's income. In February 2011, the Company restructured its existing pension plans by amending the underlying supplemental agreements. The form was changed from a direct pension commitment to an indirect pension commitment by establishing a reinsured employee benefit fund. The conversion did not alter the benefits granted to employees. The pension plan remains a defined benefit obligation as defined by IAS 19 recorded under provisions for pensions and other similar obligations. Pension commitments of the employee benefit fund are covered by a group insurance contract. As these reinsurance claims do not constitute plan assets because the employees' claims are not protected against insolvency, the amount of the asset value of the pension liability insurance of kEUR 670 (previous year: kEUR 595) is recognized under other non-current assets in accordance with IAS 19.

The development of the asset value of the pension liability insurance is as follows:

kEUR	2016
Claims arising from the pension liability insurance at the beginning of the period	**595**
Allocation to pension liability insurance	83
Insurance compensation	–11
Interest income	3
Claims arising from the pension liability insurance at the end of the period	**670**

There are no legal or regulatory minimum investment commitments in Germany.

SAF-HOLLAND, Inc. sponsors three pension plans, which have been closed to new participants. The benefits paid in the context of the defined benefit plans depend on the length of the service or, in some cases, the individual income of the participants. The management of the plan assets has been assigned to Investment committee. The trustees of the plans are responsible for the administration of the assets of the trusts, taking direction from the Investment Committee. The plans are subject to the funding requirements under the Employee Retirement Income Security Act of 1974 as amended (ERISA). There is a regulatory requirement to maintain a minimum funding level of 80% in the defined benefit plans in order to avoid benefit restrictions.

SAF-Holland Canada Limited sponsors three Pension Plans, of which only one plan is open to new participants. The other plans are in the process of liquidation, with the approval of the regulatory authorities still pending. In accordance with the legal framework of the Ontario Pension Benefits Act (OPBA) and the Canadian Revenue Agency (CRA), there is a minimum funding requirement for pension plans which are not fully financed and will not be financed in the foreseeable future.

The development of the defined benefit plans as of December 31 is shown in the following table:

kEUR	Defined benefit obligation (DBO) (I)		Fair value of plan assets (II)		Effects of asset ceiling (III)		Net defined benefit balance (I – II + III)	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance as of the beginning of the period	**103,606**	**100,896**	**66,694**	**63,782**	**145**	**182**	**37,057**	**37,296**
Current service cost	1,076	1,079	–	–	–	–	**1,076**	**1,079**
Past service cost	279	–	–	–	–	–	**279**	–
Interest expenses	3,858	3,684	–	–	6	7	**3,864**	**3,691**
Interest income	–	–	2,648	2,588	–	–	**–2,648**	**–2,588**
Components of defined benefit costs recognized in the Consolidated Statements of income	**5,213**	**4,763**	**2,648**	**2,588**	**6**	**7**	**2,571**	**2,182**
Actuarial gains/losses	581	–4,617	1,722	–1,680	–	–	**–1,141**	**–2,937**
Effects of asset ceilling	–	–	–	–	–162	–31	**–162**	**–31**
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**581**	**–4,617**	**1,722**	**–1,680**	**–162**	**–31**	**–1,303**	**–2,968**
Employer Contributions	–	–	489	1,412	–	–	**–489**	**–1,412**
Benefits paid	–4,600	–4,519	–4,203	–3,804	–	–	**–397**	**–715**
Foreign currency translation effects	3,647	7,083	2,772	4,396	11	–12	**886**	**2,675**
Other reconciling items	**–953**	**2,564**	**–942**	**2,004**	**11**	**–12**	**–**	**548**
Balance as of the end of the period	**108,447**	**103,606**	**70,122**	**66,694**	**–**	**145**	**38,325**	**37,057**
thereof:								
Germany	14,827	13,971	11	10	–	–	**14,816**	**13,961**
USA	66,464	64,417	53,012	51,317	–	–	**13,452**	**13,100**
Canada	17,031	14,943	17,099	15,367	–	145	**–68**	**–279**
Post-employment medical	10,125	10,275	–	–	–	–	**10,125**	**10,275**
Actual return on plan assets	**–**	**–**	**4,371**	**907**	**–**	**–**	**–**	**–**

The net balance from defined benefit plans in the amount of kEUR 38,325 (previous year: kEUR 37,057) consists of a net liability of kEUR 38,393 (previous year: kEUR 37,336) and net plan assets of kEUR 68 (previous year: kEUR 279). The net interest expense was kEUR 1,216 (previous year: kEUR 1,093).

The major categories of plan assets as a percentage of the fair value of total plan assets and according to value are as follows:

	2016		2015	
	%	kEUR	%	kEUR
Equities	57.29	40,173	59.25	39,517
Bonds	30.35	21,284	28.00	18,672
Cash and money market	6.69	4,689	7.75	5,171
Real estate	2.61	1,830	4.75	3,169
Insurance	3.06	2,146	0.25	165
Total	**100.00**	**70,122**	**100.00**	**66,694**

Investments for the pension fund are managed through a diversified portfolio of highly liquid Institutional mutual funds, as regulated under the Investment Advisors Act of 1940. The portfolio is invested across various asset classes to include, but not limited to, US and Global Equities, US and Global Fixed Income and Real Estate.

The present value of the pension obligations, the plan assets and the funded status for the current and previous reporting periods are as follows:

kEUR	12/31/2016	12/31/2015
Defined benefit obligation	**108,447**	**103,606**
Fair value of plan assets	–70,122	–66,694
Benefit liabilities	**38,325**	**36,912**
Experience losses (+)/gains (–) related to defined benefit obligation	–1,034	60
Experience losses (+)/gains (–) related to plan assets	–1,723	1,680
Actuarial losses (+)/gains (–) due to changes in demographic assumptions	–1,382	–1,605
Actuarial losses (+)/gains (–) due to changes in financial assumptions	2,836	–3,072

The key assumptions used in determining pension and post-employment medical benefit obligations for the Group's pension plans are shown below.

%	German plan		US plan		Canadian plan		Post employment medical	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	1.90	2.20	3.94	4.13	3.85	4.00	3.76	3.92
Future salary increases	0.00/2,00[1]	0.00/2,00[1]	3.50	3.50	–[3]	–[3]	n/a	n/a
Future pension increases	2.00	2.00	–[2]	–[2]	–[3]	–[3]	n/a	n/a
Turnover rates	4.60	4.60	2.88	2.88	–	–	Sarason T5	Sarason T5

[1] For the calculation of SAF-HOLLAND GmbH's defined benefit obligations, no salary increases were considered because the amount of the obligation depends on the length of service of the respective employee and the pension plan has been frozen so that no additional entitlements can be earned. The future salary increase for the plan of SAF-Holland Verkehrstechnik GmbH is assessed to be 2.00%.

[2] For the pension plans in the USA, no future pension increases were considered as the pension payments remain constant. Therefore, only years of service or salary and wage increases up to retirement were considered in determining the defined employee benefit obligations for these plans.

[3] For the Canadian pension plans, no future salary and pension increases were considered as the pension payments depend on the years of service.

The mortality tables applied:

Germany	Heubeck Richttafeln 2005G
USA	RP-2014 mortality table with MP-2016 generational projection
Canada	RP-2014Priv mortality table with CPM-B generational projection

Healthcare cost inflation:

%	2016	2015
Initial rate (health care cost trend rate assumed for next year)	7.00	7.25
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2024	2024

A 1.00% change in the assumed trend in healthcare costs would have the following effects:

kEUR	2016		2015	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	94	–80	91	–77
Effect on the defined benefit obligation	950	–829	987	–860

The discount rate is seen as a significant input for the value of defined benefit obligations. A 0.75 percentage point change in the discount rate would have the following effect on the amount of defined benefit obligations:

kEUR				**2016**
	Germany	**USA**	**Canada**	**Total**
Increase of Discount Rate +0.75 percentage point	−1,756	−5,396	−2,006	**−9,157**
Reduction of Discount Rate −0.75 percentage point	2,160	6,267	2,260	**10,687**

kEUR				**2015**
	Germany	**USA**	**Canada**	**Total**
Increase of Discount Rate +0.75 %	−1,675	−5,316	−1,874	**−8,865**
Reduction of Discount Rate −0.75 %	2,059	6,170	1,874	**10,103**

Future payments of defined benefit obligations are summarized in the following table:

kEUR					**2016**
	2017	**2018–2021**	**2022–2026**	**2027 ff.**	**Total**
Germany	435	1,876	2,582	15,417	**20,310**
USA	4,350	18,274	23,805	82,198	**128,627**
Canada	3,977	2,343	4,079	29,495	**39,894**
Total	**8,762**	**22,493**	**30,466**	**127,110**	**188,831**

kEUR					**2015**
	2016	**2017–2020**	**2021–2025**	**2026 ff.**	**Total**
Germany	453	1,864	2,204	16,179	**20,700**
USA	4,151	17,328	22,954	85,612	**130,045**
Canada	408	2,258	4,244	32,381	**39,291**
Total	**5,012**	**21,450**	**29,402**	**134,172**	**190,036**

The weighted average duration of pension plans is described below:

	Germany	USA	Canada
Weighted average duration as at 12/31/2016	18	12	17
Weighted average duration as at 12/31/2015	18	12	17

The employer contributions to defined benefit plans expected for the 2017 financial year amount to kEUR 673.

6.12 OTHER PROVISIONS

The main components of other provisions and their development are shown in the following table:

kEUR	Product warranty	Partial retirement	Environ-mental issues	Workers' compensa-tion and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
As of 01/01/2016	**5,295**	**596**	**586**	**1,714**	**773**	**4,270**	**2,010**	**15,244**
Additions	7,070	93	–	140	252	1,494	937	**9,581**
Utilized	4,470	–	39	1	679	854	1,747	**7,385**
Release	53	135	337	–	139	–	323	**987**
Interest effect from measurement	7	–	–	–	–	31	–	**38**
Foreign currency translation	107	–	7	68	18	75	24	**299**
As of 12/31/2016	**7,956**	**554**	**217**	**1,921**	**225**	**5,016**	**901**	**16,790**
Thereof in 2016								
Current	5,442	323	39	497	225	2,639	753	**9,918**
Non-current	2,514	231	178	1,424	–	2,377	148	**6,872**
Thereof in 2015								
Current	2,978	297	160	458	773	854	1,682	**7,202**
Non-current	2,317	299	426	1,256	–	3,416	328	**8,042**

Guarantees and warranties

Provisions are recognized for expected guarantees and warranty claims on products sold during past periods. The amount of the provision is based on past experience, taking the circumstances on the reporting date into account. Product warranties include free repairs and, at the Group's discretion, the free replacement of components conducted by authorized partner repair shops.

Part-time retirement

The Group offers a part-time retirement plan to employees in Germany going into early retirement. In Germany, the Group uses what is known as a block model, which divides part-time retirement into two phases. Under such an arrangement, employees generally work full-time during the first half of the transition period and leave the Company at the start of the second half. The provision is discounted and recognized at its present value. Part-time retirement commitments are insured for potential insolvency.

Environmental levies
Provisions for environmental levies are recognized for environmental obligations based on past events – particular those that are probable and can be estimated reliably.

Occupational disability and health insurance benefits for employees
Occupational disability and health insurance benefits are recognized in the amount of the claims made. In addition, overall liability for claims of this kind is estimated based on past experience and taking into account stop-loss insurance coverage.

Restructuring provisions
Provisions include mainly personnel costs in the form of severance payments.

Share-based payments

Performance Share Unit Plan (PSU plan)
Under the PSU plan, members of the Management Board and selected managers are entitled to receive cash awards depending on the achievement of certain performance targets. Since 2013, a PSU plan with four-year term has been offered each year to the scheme's participants.

The goal of this plan is to sustainably link the interests of the management and executives with the interests SAF-HOLLAND S.A. shareholders of a long-term increase in enterprise value. The Performance Share Unit Plan takes into account both the Company's performance and the share price development for a performance period of four years.

Participants receive virtual Share Units at the beginning of the performance period. The number of Share Units at the beginning of the performance period is determined by dividing the allowance value set annually by the Board of Directors by the average share price in the last two months of the year preceding the allowance. Upon expiration of the performance period, the number of Share Units allowed is adjusted by the multiplication with a target-achievement factor. The target-achievement factor is the ratio of the Company's average performance (adjusted EBIT margin) during the performance period versus the average target value previously set for the performance period.

The amount of the participant's payment entitlement is determined by multiplying the Share Units with the average share price during the last two months of the performance period and the target-achievement factor. An entitlement to shares of SAF-HOLLAND S.A. does not exist.

Payment under the Performance Share Unit Plan is limited to 200 % of the participant's gross annual salary at the time of payment.

The prerequisite for exercising appreciation rights is the achievement of a defined performance target. The performance target is fulfilled if during the entitlement period the Group has achieved an average minimum operating performance measured by the performance indicator "adjusted EBIT."

The total of Share Units granted as of the balance sheet date amounts to 610,916 and consists of the following:

kEUR	Performance Share Unit Plan				
	2013–2016	2014–2015	2014–2017	2015–2018	2016–2019
Share Units outstanding at the beginning of the period	284,463	73,478	142,966	136,479	–
Share Units granted during the period	–	–	20,623	30,380	151,862
Share Units forfeited during the period	55,296	–	32,151	37,797	30,613
Share Units exercised during the period	–	73,478	–	–	–
Share Units expired during the period	–	–	–	–	–
Share Units outstanding at the end of the period	**229,167**	**–**	**131,438**	**129,062**	**121,249**
Share Units exercisable at the end of the period	–	–	–	–	–

The Share Units granted are classified and accounted for as cash-settled, share-based payments. The fair value of the Share Units is remeasured on each balance sheet date using a Monte Carlo simulation and in consideration of the conditions under which the Share Units were granted. The measurement of the options granted was based exclusively on the following parameters:

	Performance Share Unit Plan			
	2013–2016	2014–2017	2015–2018	2016–2019
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	13.64	13.64	13.64	13.64
Expected volatility	n/a	34.17 %	33.97 %	31.78 %
Risk free interest rate	–0.85 %	–0.86 %	–0.80 %	–0.72 %
Dividend return	3.00 %	3.00 %	3.00 %	3.00 %

Further information on the measurement parameters is provided in Note 2.2.

The fair value is expensed over the contract term with recognition of a corresponding liability. As of December 31, 2016, provisions for these performance plans amounted to EUR 5.0 million (previous year: EUR 4.3 million). Expenses for the period in the amount of EUR 1.5 million (previous year: EUR 2.2 million) have been allocated to the relevant functional areas in the consolidated statement of comprehensive income.

6.13 INTEREST-BEARING LOANS AND BONDS

kEUR	Non-current		Current		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Interest bearing bank loans	10,639	9,305	–	–	**10,639**	**9,305**
Convertible bond	97,743	97,069	–	–	**97,743**	**97,069**
Bond	75,000	75,000	–	–	**75,000**	**75,000**
Promissory note loan	200,000	200,000	–	–	**200,000**	**200,000**
Financing costs	–1,668	–2,249	–722	–540	**–2,390**	**–2,789**
Accrued interests	–	–	4,217	4,209	**4,217**	**4,209**
Other loans	53,885	151	2,572	248	**56,457**	**399**
Total	**435,599**	**379,276**	**6,067**	**3,917**	**441,666**	**383,193**

Under the agreement dated June 13, 2016, loans were assumed with a volume of EUR 50 million. The loans have a 10-year maturity and a coupon of 2.75 %.

In the prior year, a new agreement was signed with a smaller consortium of banks, which replaced the previous financing arrangement and ensures the supply of long-term financing at more favorable interest rates for the Group until October 2022. The arranged credit agreement consists of a multi-currency revolving credit line of about EUR 150 million, which is subdivided into EUR 120 million and USD 35 million. In addition, a promissory note was issued in the prior year with a volume of EUR 200 million. This promissory note is divided into six tranches with each tranche having a maturity of either 5, 7, or 10 years.

The table below shows the total liquidity calculated as the sum of freely available credit lines valued with the rate as of the reporting date including available cash and cash equivalents and short-term freely available financial assets:

kEUR					12/31/2016
	Amount drawn valued as at the period-end exchange rate	Agreed credit lines valued as at the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,731	120,000	–	–	114,269
Facility B	44	33,221	–	–	33,177
Other Facilities	4,864	5,465[1]	344,568	–	345,169
Total	**10,639**	**158,686**	**344,568**	**–**	**492,615**

[1] Includes the bilateral credit line for the activities of the Group in China.

kEUR					12/31/2015
	Amount drawn valued as at the period-end exchange rate	Agreed credit lines valued as at the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,923	120,000	–	–	114,077
Facility B	42	32,088	–	–	32,046
Other Facilities	3,339	5,648[1]	145,748	115,000	263,057
Total	**9,304**	**157,736**	**145,748**	**115,000**	**409,180**

[1] Includes the bilateral credit line for the activities of the Group in China.

The prior year's total liquidity included other current investments. Other current investments were highly liquid and were to be viewed as cash equivalents in economic terms. In accordance with accounting policies, these current investments were still presented separately from cash and cash equivalents.

6.14 TRADE PAYABLES

Trade payables in the amount of kEUR 106,714 (previous year: kEUR 89,940) are non-interest-bearing and are normally settled within two to six months.

6.15 OTHER FINANCIAL LIABILITIES

Other financial liabilities in the amount of kEUR 18,238 reflect mainly the value of the put option for the outstanding shares of KLL Equipamentos para Transporte Ltda.

6.16 OTHER LIABILITIES

kEUR	Current		Non-current	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities for salaries and social security contributions	12,368	12,165	–	–
Other taxes	4,655	4,891	–	–
Anniversary obligations	277	206	573	613
Other	5,465	5,575	42	225
Total	**22,765**	**22,837**	**615**	**838**

7. OTHER DISCLOSURES

7.1 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Carrying amounts, amounts recognized and fair values by measurement category are as follows:

kEUR							12/31/2016
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	344,568	344,568	–	–	–	344,568
Trade receivables	LaR	116,666	116,666	–	–	–	116,666
Other financial assets							
Derivates without a hedging relationship	FAHfT	368	–	–	368	–	368
Other financial assets	LaR	1,850	1,850	–	–	–	1,850
Liabilities							
Trade payables	FLAC	106,714	106,714	–	–	–	106,714
Interest bearing loans and bonds	FLAC	441,666	441,666	–	–	–	475,336
Finance lease liabilities	n/a	1,587	–	–	–	1,587	1,587
Other financial liabilities							
Other financial liabilities	FLAC	18,238	18,238	–	–	–	18,238
Derivates without a hedging relationship	FLHfT	972	–	–	972	–	972
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	463,084	463,084	–	–	–	463,084
Financial liabilities measured at amortized cost	FLAC	566,618	566,618	–	–	–	600,288
Financial assets held for trading	FAHfT	368	–	–	368	–	368
Financial liabilities held for trading	FLHfT	972	–	–	972	–	972

kEUR							12/31/2015
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	145,748	145,748	–	–	–	145,748
Trade receivables	LaR	116,535	116,535	–	–	–	116,535
Other financial assets							
Derivates without a hedging relationship	FAHfT	839	–	–	839	–	839
Derivates with a hedging relationship	FAHfT	274	–	274	–	–	274
Other financial assets	LaR	3,334	3,334	–	–	–	3,334
Other short-term investments	LaR	115,000	115,000	–	–	–	115,000
Liabilities							
Trade payables	FLAC	89,940	89,940	–	–	–	89,940
Interest bearing loans and bonds	FLAC	383,193	383,193	–	–	–	413,304
Finance lease liabilities	n/a	1,974	–	–	–	1,974	1,974
Other financial liabilities							
Derivates without a hedging relationship	FLHft	885	–	–	885	–	885
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	380,617	380,617	–	–	–	380,617
Financial liabilities measured at amortized cost	FLAC	473,133	473,133	–	–	–	503,244
Financial assets held for trading	FAHfT	1,113	–	274	839	–	1,113
Financial liabilities held for trading	FLHfT	885	–	–	885	–	885

The following table shows the allocation to the three hierarchy levels of fair values for financial assets and liabilities measured at fair value:

kEUR	12/31/2016			
	Level 1	Level 2	Level 3	Total
Bonds	79,729	–	–	**79,729**
Convertible bond	–	121,893	–	**121,893**
Promissory note loan	–	199,763	–	**199,763**
Interest bearing loans and borrowings	–	73,950	–	**73,950**
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	18,238	**18,238**
Derivative financial assets	–	368	–	**368**
Derivative financial liabilities	–	972	–	**972**

kEUR	12/31/2015			
	Level 1	Level 2	Level 3	Total
Bonds	200,707	–	–	**200,707**
Promissory note loan	–	198,970	–	**198,970**
Interest bearing loans and borrowings	–	13,627	–	**13,627**
Derivative financial assets	–	1,113	–	**1,113**
Derivative financial liabilities	–	885	–	**885**

Cash and cash equivalents, trade receivables and payables, as well as non-current, non-derivative financial assets and liabilities, mainly have short remaining maturities. For this reason, their carrying amounts as of the reporting date approximate their fair values.

The fair values of interest-bearing loans, the promissory note loan and convertible bond are calculated as the present value of the payments associated with the debt based on the applicable yield curve and currency-specific credit spreads. The fair value of the bond and convertible bond reported under the line item “Bonds” is determined on the basis of their market values as of the balance sheet date. Foreign exchange forward contracts are the main category of derivatives measured using valuation methods based on inputs observable on the market. The valuation methods applied include forward pricing models using present value calculations.

The fair value of other financial assets and liabilities is calculated based on interest rates with matching maturities. In the balance sheet of December 31, 2016, only derivatives of kEUR –604 (previous year: kEUR 228) as well as other financial liabilities resulting from the valuation of the put option for the remaining 42.5 % of the shares in KLL Equipamentos para Transporte Ltda. of kEUR 18,238 were measured at fair value.

The fair value of the other financial liability resulting from the valuation of the put option for the acquisition of the remaining shares of KLL Equipamentos para Transporte Ltda. is based on the projection of certain earnings figures. As the information is not based on oberservable market data, the put option is allocated to Level 3.

The fair value of liabilities from interest-bearing loans, the promissory note loan and derivative financial assets and liabilities, excluding the bond, was measured based on directly (e.g., prices) or indirectly (e.g., derived from prices) observable input factors. Under IFRS 7, this fair value measurement can, therefore, be allocated to Level 2 of the measurement hierarchy. As an active market in the sense of IFRS 7 is missing for the convertible bond, the convertible bond is allocated to Level 2 as well. The fair value of the quoted bonds is based on price quotations on the reporting date (Level 1). The fair value hierarchy Levels are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Information other than quoted market prices that are observable either directly (e.g., prices) or indirectly (e.g., derived from prices)

Level 3: Information on assets and liabilities that is not based on observable market data

The net result by valuation category is as follows:

kEUR

			12/31/2016			
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	486	–	–	–	–2,042	**–1,556**
Financial assets held for trading	–	5,730	–226	–	–	**5,504**
Financial liabilities measured at amortized cost	–13,319	–	–	567	–	**–12,752**
Financial liabilities held for trading	–	–5,131	–1,110	–	–	**–6,241**
Total	**–12,833**	**599**	**–1,336**	**567**	**–2,042**	**–15,045**

kEUR

			12/31/2015			
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	15	–		–	–2,240	**–2,225**
Financial assets held for trading	–	–	655	–	–	**655**
Financial liabilities measured at amortized cost	–9,541	–468	–	7,520	–	**–2,489**
Financial liabilities held for trading	–	–	–238	–	–	**–238**
Total	**–9,526**	**–468**	**417**	**7,520**	**–2,240**	**–4,297**

The components of the net result are recognized as finance income or finance expenses, except for impairments on trade receivables which are reported under selling expenses.

The interest result from financial liabilities in the category "financial liabilities measured at amortized cost" primarily consists of interest expenses on interest-bearing loans and bonds as well as of transaction costs.

Financial risk

As an internationally active group, SAF-HOLLAND S.A. is exposed to both business and industry-specific risks. Controlling opportunities and risks in a targeted manner is an integral part of management and decision-making within the Group.

To be adequately prepared for changes in competitive and environmental conditions and efficiently control the creation of value within the Group, the Management Board has implemented a risk management system, which is monitored by the Board of Directors. Risk management processes, required limits and the use of financial instruments to manage risks are defined in the Group's risk management handbook and supplementary guidelines. The risk management system strives to identify and assess the risks that arise. Identified risks are communicated, managed and monitored in a timely manner.

The Group is exposed mainly to liquidity risk, credit risk, interest rate risk and foreign currency risk. The aim of the Group's risk management is to limit the risks posed by the Group's business and financing activities mainly through the use of derivative and non-derivative hedging instruments.

Liquidity risk

The Group's liquidity risk is the risk that it will be unable to meet existing or future payment obligations because of insufficient funds. Limiting and managing the liquidity risk are among the management's primary tasks. The Group monitors the current liquidity situation on a daily basis. To manage future liquidity requirements, the Group uses a weekly 3-month forecast and a monthly rolling liquidity plan on a twelve-month basis. In addition, management continually evaluates adherence to the financial covenants as required under the long-term credit agreement.

The maturity structure of the Group's financial liabilities is as follows:

kEUR	12/31/2016			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year and up to 5 years	Remaining term of more than 5 years
Interest bearing loans and bonds	**441,666**	6,067	326,272	109,327
Finance lease liabilities	**1,587**	1,587	–	–
Trade payables	**106,714**	106,714	–	–
Other financial liabilities				
Other financial liabilities	**18,238**	–	18,238	–
Derivates without a hedging relationship	**972**	972	–	–
Financial liabilities	**569,177**	**115,340**	**344,510**	**109,327**

kEUR	12/31/2015			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year and up to 5 years	Remaining term of more than 5 years
Interest bearing loans and bonds	**383,193**	3,917	319,776	59,500
Finance lease liabilities	**1,974**	465	1,509	–
Trade payables	**89,940**	89,940	–	–
Other financial liabilities				
Derivates without a hedging relationship	**885**	885	–	–
Financial liabilities	**475,992**	**95,207**	**321,285**	**59,500**

The following tables show the contractually agreed (undiscounted) interest and principal payments of primary financial liabilities and derivative financial instruments with negative fair values:

kEUR									12/31/2016
	Cash Flows 2017			Cash Flows 2018			Cash Flows 2019–2026		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Interest bearing loans and bonds	−8,367	−2,513	−2,572	−4,659	−2,513	−75,000	−13,354	−10,891	−304,604
Finance lease liabilities	−18	–	−1,587	–	–	–	–	–	–
Other financial liabilities									
Derivates without a hedging relationship	−972	–	–	–	–	–	–	–	–

kEUR									12/31/2015
	Cash Flows 2016			Cash Flows 2017			Cash Flows 2018–2025		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Interest bearing loans and bonds	−6,992	−2,513	−248	−6,842	−2,513	−151	−9,528	−14,533	−309,355
Finance lease liabilities	−90	–	−465	−63	–	−431	−26	–	−1,078
Other financial liabilities									
Derivates without a hedging relationship	−885	–	–	–	–	–	–	–	–

All instruments are included that were held as of the reporting date and for which payments were already contractually agreed. Planning data for future new liabilities is not included. Amounts in foreign currencies were translated at the year-end spot rates. Variable interest payments arising from financial instruments were calculated using the most recent interest rates determined ahead of the reporting date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

Credit risk

The Group is exposed to default risk through the possibility that a contracting party may fail to fulfill its commitment with respect to financial instruments. To minimize default risk, the outstanding receivables in all business areas are monitored continuously at the local level by all Group companies. To limit credit risks, the Group as a rule only does business with creditworthy business partners. In doing so, ongoing credit management is implemented that requires potential customers to undergo a credit verification procedure. To manage specific default risks, the Group also takes out commercial credit insurance coverage in Europe and the United States and defines credit limits for each customer.

Any credit risk that still arises is covered by individual and collective allowances on receivables carried in the balance sheet. The carrying amounts of financial assets stated in this note correspond to the maximum credit risk. Further significant credit risks do not exist as of the balance sheet date.

Interest rate risk

The Group is exposed to interest rate risk due to its financing activities. Market-induced interest rate changes, in particular, can have an effect on the interest burden of floating-rate loans and bonds. Changes in interest rates affect interest-related cash flows. To hedge the cash flow risk, the Group holds interest rate swaps to transform certain variable cash flows into fixed cash flows and to hedge the interest rate. The Group is also exposed to the risk of the carrying amount of financial liabilities changing as a result of interest rate changes. The Group has no plans to measure these financial liabilities at their market price so therefore there is no related economic risk.

The Group is exposed to interest rate risk mainly in the euro zone, North America and China.

As a result of the promissory note issued in November 2015, interest rate hedges were put in placed with a nominal volume of EUR 72.0 million. In line with the Group's risk strategy, the variable interest bearing tranches of the promissory note are hedged.

According to IFRS 7, the Group must depict relevant interest rate risks using sensitivity analyses. These analyses show the effects of changes in market interest rates on interest payments, interest income and interest expenses.

If market interest rates on December 31, 2016 had been 100 base points lower (higher), the result would have been kEUR 401 (previous year: kEUR 388) higher (lower). All other variables are assumed to be constant.

Foreign currency risk

The international nature of the Group's investing, financing and operating activities exposes the Group to foreign currency risk. The individual subsidiaries predominantly conduct their operating activities and investments in their respective local currency. Financing the Group's companies is conducted primarily by SAF-HOLLAND S.A. and SAF-HOLLAND GmbH. Loans granted to international Group companies are generally denominated in euros. The translation of intercompany loans as of the reporting date may result in unrealized foreign exchange gains and losses. Unrealized foreign exchange gains as of the balance sheet date amounted to kEUR 1,571. Of this amount, kEUR 992 was reclassified to other comprehensive income (OCI) as translation effects from the valuation of intercompany foreign currency loans, which are accounted for as part of a net investment in a foreign operation and are therefore recognized directly in equity.

The following table shows the Group's sensitivity to a 5% increase or decrease in the euro versus the US dollar. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the end of the period by a 5% change in exchange rates.

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2016	5%	2,840	3,488
	–5%	–2,840	–3,488
2015	5%	2,545	2,746
	–5%	–2,545	–2,746

7.2 EARNINGS PER SHARE

		2016	2015
Result for the period	**kEUR**	**44,234**	**51,627**
Weighted average number of shares outstanding	thousands	45,361	45,361
Basic earnings per share	**EUR**	**0.98**	**1.14**
Diluted earnings per share	**EUR**	**0.85**	**0.99**

Basic earnings per share is calculated by dividing the result for the period attributable to shareholders of SAF-HOLLAND S.A. by the average number of shares outstanding. New shares issued during the period are included pro rata for the period in which they are outstanding.

Diluted earnings per share is based on the assumption that the outstanding debt instruments are converted into shares (convertible bond). The convertible bond is only considered in the calculation of diluted earnings per share if it has a dilutive effect in the reporting period.

The issue of the convertible bond resulted in a dilutive effect of EUR 0.13 (previous year: EUR 0.15) per share.

Diluted earnings per share is derived from basic earnings per share as follows:

kEUR	Overall potentially dilutive financial instruments 2016	Dilutive financial instruments used for the calculation 2016
Result for the period		
Numerator for basic earnings per share (attributable to the shareholders of the parent company)	44,234	44,234
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,198	1,198
Numerator for diluted earnings	**45,432**	**45,432**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,177	8,177
Denominator for potentially diluted earnings per share	**53,538**	
thereof to be included for dilution (adjusted weighted average)		**53,538**
Basic earnings per share (EUR)		**0.98**
Diluted earnings per share (EUR)		**0.85**

kEUR	Overall potentially dilutive financial instruments 2015	Dilutive financial instruments used for the calculation 2015
Result for the period		
Numerator for basic earnings per share (attributable to the shareholders of the parent company)	51,627	51,627
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,190	1,190
Numerator for diluted earnings	**52,817**	**52,817**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,108	8,108
Denominator for potentially diluted earnings per share	**53,469**	
thereof to be included for dilution (adjusted weighted average)		**53,469**
Basic earnings per share (EUR)		**1.14**
Diluted earnings per share (EUR)		**0.99**

The calculation of potentially dilutive shares which are included in the determination of diluted earnings per share is shown in the following table:

	Par value (EUR)	Number	Days	Weighted number
01/01/2016–04/28/2016	0.01	8,110,892	118	957,085,256
04/29/2016–12/31/2016	0.01	8,208,631	242	1,986,488,605
Total			**360**	**2,943,573,861**
Average		**8,176,594**		

	Par value (EUR)	Number	Days	Weighted number
01/01/2015–03/23/2015	0.01	8,099,849	83	672,287,467
03/24/2015–12/31/2015	0.01	8,110,892	277	2,246,717,084
Total			**360**	**2,919,004,551**
Average		**8,108,346**		

7.3 STATEMENT OF CASH FLOWS

The statement of cash flows was prepared in accordance with IAS 7 and is divided into cash flows from operating, investing and financing activities.

Cash flows from operating activities are determined using the indirect method whereas cash flows from investing activities are calculated using the direct method. Cash flows from investing activities are used to generate income over the long-term, generally for one year or more. Cash flows from financing activities were also calculated using the direct method and include cash flows from transactions with shareholders and the issue and repayment of financial liabilities.

7.4 OTHER FINANCIAL OBLIGATIONS

Operating lease obligations

The Group acts as lessee in rental and lease agreements mainly for commercial buildings, office and operating equipment, IT, material handling equipment and motor vehicles. The average term of the lease agreements is between three and five years.

As of the balance sheet date, the following future minimum lease payments exist as a result of operating lease contracts:

kEUR	12/31/2016	12/31/2015
Remaining term of up to 1 year	4,175	4,747
Remaining term of more than 1 year and up to 5 years	7,989	11,028
Remaining term of more than 5 years	2,907	6,347
Total	**15,071**	**22,122**
Operate lease payments for the reporting period	8,315	8,415

Finance lease obligations

The Group has finance lease agreements for various technical facilities as well as operating and office equipment. Future minimum lease payments under these finance leases and the reconciliation to the present value of minimum lease payments are as follows:

kEUR	12/31/2016		12/31/2015	
	Lease payments	Present value including residual value and initial payments	Lease payments	Present value including residual value and initial payments
Remaining term of up to 1 year	1,605	1,587	555	465
Remaining term of more than 1 year and up to 5 years	–	–	1,598	1,509
Remaining term of more than 5 years	–	–	–	–
Total	**1,605**	**1,587**	**2,153**	**1,974**

7.5 CONTINGENT LIABILITIES

Legal disputes

In the reporting year and as of the balance sheet date, there were no material legal disputes that could potentially have a significant impact on the Group's net assets, financial position or results of operations.

7.6 RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of SAF-HOLLAND S.A. and the following subsidiaries, associates and joint ventures:

Subsidiaries	Country of incorporation	% Equity interest
SAF-HOLLAND GmbH	Germany	100.0
SAF-HOLLAND Polska Sp. z o.o.	Poland	100.0
SAF-HOLLAND France S.A.S.	France	100.0
SAF-HOLLAND Austria GmbH	Austria	100.0
SAF-HOLLAND Czechia spol.s.r.o.	Czech Republic	100.0
SAF-HOLLAND España S.L.U.	Spain	100.0
SAF-HOLLAND Italia s.r.l. unipersonale	Italy	100.0
SAF-HOLLAND Romania SRL	Romania	100.0
SAF-HOLLAND Bulgaria EOOD	Bulgaria	100.0
SAF-HOLLAND do Brasil Ltda.	Brazil	100.0
KLL Equipamentos para Transporte Ltda. (KLL)	Brazil	57.5
SAF-HOLLAND South Africa Ltd.	South Africa	100.0
Jinan SAF AL-KO Axle Co., Ltd.	China	100.0
OOO SAF-HOLLAND Rus	Russia	100.0
SAF HOLLAND Middle East FZE	United Arab Emirates	100.0
SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi	Turkey	100.0
SAF-HOLLAND Inc.	USA	100.0
SAF-HOLLAND Canada Ltd.	Canada	100.0
SAF-HOLLAND (Aust.) Pty. Ltd.	Australia	100.0
SAF-HOLLAND (Malaysia) SDN BHD	Malaysia	100.0
SAF-HOLLAND (Thailand) Co., Ltd.	Thailand	100.0
SAF-HOLLAND Verkehrstechnik GmbH	Germany	100.0
SAF-HOLLAND International de México S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND International Services México S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND Hong Kong Ltd.	Hong Kong	100.0
SAF-HOLLAND (Xiamen) Co., Ltd.	China	100.0
Corpco Beijing Technology and Development Co, Ltd	China	80.0
OOO SAF-HOLLAND Russland	Russia	100.0
SAF-HOLLAND India Pvt. Ltd.	India	100.0

Associates and joint ventures	Country of incorporation	% Equity interest
SAF-HOLLAND Nippon, Ltd.	Japan	50.0
Castmetal FWI S.A.	Luxembourg	34.1

The table below shows the composition of the Management Board and the Board of Directors of SAF-HOLLAND S.A. as of the balance sheet date:

Management Board

Detlef Borghardt	Chief Executive Officer (CEO) & President Region APAC/China
Wilfried Trepels	Chief Financial Officer (CFO) (until December 31, 2016)
Mike Kamsickas	Chief Operating Officer (COO) (until May 03, 2016)
Arne Jörn	Chief Operating Officer (COO) (since October 17, 2016)
Steffen Schewerda	President Region Americas
Alexander Geis	President Region EMEA/India
Mao Guoxin	President Region China (since August 9, 2016)

Board of Directors

Bernhard Schneider	Chairman of the Board of Directors
Martina Merz	Deputy Chairman of the Board of Directors
Detlef Borghardt	Member of the Board of Directors
Dr Martin Kleinschmitt	Member of the Board of Directors
Anja Kleyboldt	Member of the Board of Directors
Sam Martin	Member of the Board of Directors

The terms of office and other positions held by the members of the Board of Directors and the Management Board are described in the chapter "Mandates of the Board of Directors and Management Board" in this annual report.

As of December 31, 2016, members of the Management Board directly or indirectly held ordinary shares amounting to kEUR 5 (previous year: kEUR 6) while members of the Board of Directors directly or indirectly held ordinary shares of kEUR 1 (previous year: kEUR 1).

As of the balance sheet date, appreciation rights in the amount of kEUR 2,827 have been accrued for members of the Management Board (previous year: kEUR 2,944); thereof kEUR 772 were recognized in profit and loss in 2016 (previous year: kEUR 1,482). Of the total accrual, an amount of kEUR 1,493 is classified as current provisions. The appreciation rights are a share-based payment. For further information, please refer to Note 6.12.

Total short-term remuneration for the Management Board members in the reporting year amounted to kEUR 2,944 (previous year: kEUR 2,561). These include severance and compensation payments to members of the management board, who have left the company during the financial year, of kEUR 298. Remuneration from the Performance Share Unit Plan are not included in the total remuneration.

Total remuneration for the Board of Directors was kEUR 280 (previous year: kEUR 312) and was recognized in profit and loss.

The following are transactions with joint ventures and associates:

kEUR	Sales to related party		Purchases from related party	
	2016	**2015**	**2016**	**2015**
Joint Ventures	1,389	1,376	–	–
Associates	–	–	27,135	37,767
Total	**1,389**	**1,376**	**27,135**	**37,767**

kEUR	Amounts owed by related party		Amounts owed to related party	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Joint Ventures	237	300	207	207
Associates	–	–	1,303	953
Total	**237**	**300**	**1,510**	**1,160**

Outstanding balances as of December 31, 2016 are unsecured, interest-free and paid on time. There have been no guarantees provided or received for any receivables or payables from related parties. As of December 31, 2016 and in the previous year, the Group did not record any impairment of receivables for amounts owed by related parties. An evaluation is carried out in each reporting period which examines the financial position of the related parties as well as the markets in which these parties operate.

7.7 CAPITAL MANAGEMENT

The overriding aim of the Group's capital management is to ensure that the Group's ability to repay debt and its financial substance are maintained in the future. The foundation for steering and optimizing the existing financing structure are EBIT, EBITDA and monitoring the development of net working capital and cash flow. Net debt is comprised of interest-bearing loans and bonds less cash and cash equivalents.

kEUR	12/31/2016	12/31/2015
Interest bearing loans and bonds	441,666	383,193
Other short-term investments	–	–115,000
Cash and cash equivalents	–344,568	–145,748
Net debt	**97,098**	**122,445**
Equity attributable to equity holders of the parent	**300,399**	**285,818**
Equity and net debt	**397,497**	**408,263**

According to a financial covenant under the financing agreement signed on October 13, 2015, the Group is obliged to maintain a certain level of net debt coverage (net debt divided by adjusted consolidated EBITDA).

Net debt is defined as the aggregate principal amount of Group's financial liabilities as of the balance sheet date less debt from derivatives to hedge against price or currency exchange risk and back-up obligations from guarantees, damage claims, bonds, letters of credit or any other financial instruments issued by financial institutions.

7.8 AUDITORS' FEES

The following expenses were incurred in the 2016 financial year for services provided by the auditors and their related companies:

kEUR	2016	2015
Auditing of financial statements	491	563
Tax accountancy services	–	187
Other services	11	24
Total	**502**	**774**

7.9 EVENTS AFTER THE BALANCE SHEET DATE

On January 17, 2017, SAF-HOLLAND announced the consolidation and restructuring of its North American plant network. This decision was the outcome of the continued weakness in the North American truck and trailer markets and part of an effort to centralize production closer to the customer base of the truck and trailer industry. The measures are designed to adapt the Company's structure to changes in the market situation and to ensure the long-term competitiveness of our activities in North America. This new structure will be accompanied by an adjustment in the current excess production capacity at the North American locations in order to improve capacity utilization. We will also optimize our internal logistics processes, which may improve delivery times.

The measures planned, which are to be implemented within a maximum period of 18 months, are expected to result in one-time restructuring costs of up to USD 10 million in 2017. These costs should consist mainly of relocation costs, impairment on equipment and severance payments. SAF-HOLLAND expects the vast majority of these charges to be recognized in the 2017 financial year. Here it is important to point out that the Group's key indicator – adjusted EBIT – is generally adjusted for restructuring expenses. Moreover, approximately USD 3.0 million in additional investments are planned for the remaining locations. SAF-HOLLAND currently expects an annual reduction in the direct cost base in the mid single-digit million USD range after the restructuring is completed.

There were no further events after the balance sheet date relevant for the report on the events after the balance sheet.

Luxembourg, March 14, 2017

Bernhard Schneider
Chairman of the
Board of Directors

Detlef Borghardt
Chief Executive Officer of
SAF-HOLLAND GmbH

SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

INCOME STATEMENT OF SAF-HOLLAND S.A.[1]

kEUR	2016	2015
Income from financial fixed assets	29,278	26,888
Income from financial current assets	741	738
Total income	**30,019**	**27,626**
Other external charges	–2,959	–1,813
Staff costs	–36	–32
Other operating charges	–656	–568
Interest and other financial charges	–6,254	–6,253
Other taxes	–148	–183
Result before tax	**19,966**	**18,777**
Income tax	–7	–77
Result for the period	**19,959**	**18,700**

[1] Figures according to Luxembourg GAAP.

BALANCE SHEET OF SAF-HOLLAND S.A.[1]

kEUR	12/31/2016	12/31/2015
Assets		
Non-current assets	**452,766**	**447,498**
Shares in affiliated undertakings	313,238	265,638
Amounts owed by affiliated undertakings	139,525	181,857
Other long-term assets	3	3
Current assets	**35,820**	**39,111**
Amounts owed by affiliated undertakings	34,480	36,863
Cash at bank, cash in postal cheque account, cheques and cash on hand	202	546
Prepayments	**1,138**	**1,702**
Total assets	**488,586**	**486,609**
Equity and liabilities		
Equity attributable to equity holders of the parent	**308,334**	**306,520**
Subscribed share capital	454	454
Share premium	276,455	276,455
Legal reserve	45	45
Other reserve	720	436
Profit brought forward	10,701	10,429
Profit for the financial year	19,959	18,701
Non-current liabilities	**175,200**	**175,200**
Bonds	175,200	175,200
Current liabilities	**5,052**	**4,889**
Bonds	3,903	3,901
Trade payables	180	213
Tax and social security debts	689	463
Other creditors	280	312
Total equity and liabilities	**488,586**	**486,609**

[1] Figures according to Luxembourg GAAP.

MANDATES OF THE BOARD OF DIRECTORS/ MANAGEMENT BOARDS

Bernhard Schneider
- Member of the Board of Directors (Chairman), SAF-HOLLAND S.A. (First appointed on June 18, 2007; extended until April 2017; Chairman since March 27, 2009)
- Managing Director, KRONE-Verlag Gesellschaft m.b.H
- Managing Director, KRONE Media Aktiv Gesellschaft m.b.H.

Martina Merz
- Member of the Board of Directors (Deputy Chairman), SAF-HOLLAND S.A. (First appointed on April 24, 2014 until April 2019, Deputy Chairman since April 29, 2016)
- Member of the Board of Directors, Deutsche Lufthansa AG
- Member of the Board of Directors, NV Bekaert SA
- Member of the Board of Directors, Volvo Group

Detlef Borghardt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on October 1, 2011; extended until April 2017)
- Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO), President Region APAC/China
- Managing Director, debo invest GmbH

Jack Gisinger
- Associated Member of the Board of Directors, SAF-HOLLAND S.A. (Proposed to be appointed as member of the Board of Directors at the Annual General Meeting on April 27, 2017)

Dr Martin Kleinschmitt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 25, 2013; extended until April 2019)
- Chairman of the Supervisory Board, SAF-HOLLAND GmbH, Interim Chief Financial Officer (CFO) (since January 1, 2017 till February 28, 2017)
- Member of the Management Board, Noerr Consulting AG

Anja Kleyboldt
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 26, 2012; extended until April 2019)
- Head of Object/Project, Arnold AG Friedrichsdorf

Sam Martin
- Member of the Board of Directors, SAF-HOLLAND S.A. (First appointed on April 28, 2011; extended until April 2017)
- Member of the Board, Metal Flow Corporation

Wilfried Trepels
- Managing Director, SAF-HOLLAND GmbH, Chief Financial Officer (CFO) (until December 31, 2016)
- Managing Director Via Montana GmbH

Arne Jörn
- Managing Director, SAF-HOLLAND GmbH, Chief Operating Officer (since October 2016)

Alexander Geis
- Managing Director, SAF-HOLLAND GmbH, President Region EMEA/India

Steffen Schewerda
- Managing Director, SAF-HOLLAND GmbH, President Region Americas

Guoxin Mao
- President Region China (since August 2016)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
SAF-HOLLAND S.A.
Société Anonyme
68–20, Boulevard de la Petrusse
L-2320 Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the General Meeting of the Shareholders dated 28 April 2016, we have audited the accompanying consolidated financial statements of SAF-HOLLAND S.A., which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash-flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of SAF-HOLLAND S.A. as of 31 December 2016, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report, including the corporate governance statement, but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, including the corporate governance statement, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

Luxembourg, March 14, 2017
PricewaterhouseCoopers, Société coopérative
Represented by

Patrick Schon

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the sales and earnings performance, net assets and cash flows of the Group, and the Group's management report includes a fair review of the development and performance of the Group's business and position, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Luxembourg, March 14, 2017
SAF-HOLLAND S.A.

Bernhard Schneider
Chairman of the Board of Directors

ADDITIONAL INFORMATION

GLOSSARY OF KEY FINANCIAL FIGURES AND ALTERNATIVE PERFORMANCE MEASURES

A

Actuarial gains and losses
Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Adjusted EBIT
Earnings before interest and taxes (EBIT) is adjusted for special items, such as depreciation and amortization from purchase price allocations, impairment of goodwill and intangible assets, reversal of impairment of intangible assets as well as restructuring and integration costs.

Adjusted EBIT margin
Adjusted EBIT/sales x 100

Adjusted equity ratio
Equity/adjusted total capital x 100
(Total capital adjusted for cash and cash equivalents and other short-term investments that exceed SAF-HOLLAND's targeted level of EUR 7 million)

Available net earnings
Result for the period excluding non-cash components

C

Call option
A call option gives the buyer the right, but not the obligation, to buy the underlying stock (the underlying asset) at a specified price (the strike price) by a set date (the expiration date).

Cash conversion rate
Cash flow from operating activities before income taxes paid/adjusted EBIT x 100

Cash-generating unit
Cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Clearing house
An institution connected to or integrated into a derivatives exchange, which offsets all exchange transactions and acts as counterparty to the buyer and the seller after each transaction.

Convertible bond
A debt issue that may be exchanged, or converted, by the owner for a fixed number of common shares, or other securities, usually of the same company, in accordance with the terms of the issue. Companies also issue convertible preferred shares.

Coverage
Analysts at renowned banks and investment houses regularly observe and evaluate the development of SAF-HOLLAND S.A.'s shares.

Currency effects
Effects on sales resulting from a year-on-year change in the exchange rate of a foreign currency in relation to the Group's reporting currency of euro.

D

Dark pools
Alternative venues for trading equities outside of the regular organized stock exchanges.

DAX
The German Stock Index (DAX) consisting of the 30 largest listed companies in Germany measured by market capitalization and trading volume.

Days inventory outstanding
Inventory/cost of sales per day (cost of sales of the quarter/90 days)

Days payable outstanding
Trade payables/cost of sales per day (cost of sales of the quarter/90 days)

Days sales outstanding
Trade receivables/sales per day (sales of the quarter/90 days)

DBO
Defined Benefit Obligation

Dividend payout ratio
The percentage of available net earnings paid out as a dividend.

Dividend yield
Dividend per share/share price x 100

E

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes and depreciation/amortization

Effective income tax rate
Income tax/earnings before tax x 100

Equity ratio
Equity/total assets x 100

EURIBOR
Euro Interbank Offered Rate is the interest rate at which banks within Europe borrow fixed-term funds from one another.

F

FAHfT
Financial assets held for trading

Fair value
Amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

FLAC
Financial liabilities measured at amortized

FLHfT
Financial liabilities held for trading

Free cash flow
Operating cash flow minus capital expenditures

Free Float
The portion of a company's shares outstanding that are not closely held. According to Deutsche Börse AG, shareholdings in companies in excess of five percent are considered to be closely held. This definition does not include shares held by assets managers, funds, trusts or pension fund companies.

G

GDP
Gross domestic product

Gross margin
Gross profit/sales x 100

H

Hybrid financial instrument
Financial instrument that, depending on ist economic substance, contains both a liability and an equity component.

I

IFRS/IAS
(International Financial Reporting Standards/International Accounting Standards): The International Accounting Standard rules are intended to make company data more comparable. Under the EU resolution, accounting and reporting for companies listed at the stock exchange must me done in accordance with these rules.

Interest rate cap
A hedging instrument to hedge against interest rate fluctuations.

Investment ratio
Investments in property, plant and equipment and intangible assets/sales x 100

J

Joint Venture
A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

L

LaR
Loans and receivables

Leverage ratio
Net debt/EBITDA

LIBOR
London Interbank Offered Rate

M

Market capitalization
Stock market value of a company: Number of company's outstanding shares x share price

MDAX
The mid-cap-DAX (MDAX) comprises 50 companies that rank immediately below DAX securities in terms of market capitalization and order book volume.

N

Net debt
The sum of current and non-current liabilities from interest-bearing loans and bonds less cash and cash equivalents and other short-term investments.

Net working capital
Current assets less cash and cash equivalents less current and non-current other provisions less trade payables less other current liabilities less income tax liabilities.

Net working capital to sales
Net working capital/(sales for the fourth quarter/3 x 12)

Non-recourse factoring
Factoring where the factor takes on the bad debt risk.

Novation
Cancellation of a contractual obligation and establishment of a new contractual obligation in place of the old one.

O

OCI
Other comprehensive income

Organic sales
Organic sales refers to the growth generated from within the company and excluding currency effects and contributions to sales from acquired or sold business entities.

P

Personnel expenses per employee
Personnel expenses (not including restructuring and integration costs)/average number of employees (not including temporary employees)

Prime Standard
Prime Standard is a market segment of the German Stock Exchange that lists German companies which comply with international transparency standards.

Purchase price allocation (PPA)
Distribution of the acquisition costs of a business combination to the identifiable assets, liabilities and contingent liabilities of the (acquired) company.

R

Rating
The assessment of a debtor's credit standing (creditworthiness).

Recoverable amount
The recoverable amount is the higher of the fair value less cost to sell and the value in use.

Restructuring and transaction expenses
Restructuring and transaction costs are defined as expenses that have occured outside the normal course of the business. These expenses include – besides other – expenses associated with the purchase of entities, restructuring measures within the group and severance payments for executives. The definition of restructuring and integration expenses used differs from the one defined in IAS 37.

R&D ratio
R&D cost and capitalized development cost/sales x 100

ROI (Return on Investment)
What you earn from your investments.

S

Sales per employee
Sales/average number of employees (including temporary employees)

SDAX
The small-cap-DAX (SDAX) comprises 50 companies that rank immediately below mid-cap-DAX (MDAX) securities in terms of market capitalization and order book volume. As is the case with DAX, TecDAX and MDAX, the SDAX belongs to the Prime Standard.

Structured entity
An entity has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Swaps
Hedging instruments in which two contracting parties agree to mutually exchange contractual rights and obligations (swap) for a certain period of time and according to a predetermined schedule.

T

Tax rate
Income taxes/Result before tax x 100

Total Cost of Ownership
Total cost relating to acquisition, operating and maintenance of an asset.

Total liquidity
The sum of cash and cash equivalents and other short-term investments including arranged lines of credit.

V

Value in use
Present value of future cash flows from an asset.

W

WACC
Weighted Average Cost of Capital

LIST OF ABBREVIATIONS

A

ACEA —— European Automobile Manufacturers Association
APO —— Advanced Planner & Optimizer (IT-System to utilize supply-chain-management)
APAC —— Consists of the regions Asia, Australia and Oceania that are located in the West Pacific or nearby.
ASEAN —— Association of Southeast Asian Nations

B

B.S. —— Bachelor of Science (academic degree)

C

CAD —— IT-System often used in engineering/product development
CEO —— Chief Executive Officer
CFO —— Chief Financial Officer
COO —— Chief Operating Officer
CSR —— Corporate Social Responsibility

D

DAX —— Deutscher Aktienindex (German stock index)
DIN —— Deutsches Institut für Normung (German Institute for Standardization)

E

EMEAI —— Consists of the regions Europe, Middle East, Africa and India.

F

FEM —— Finite-Elemente-Methode; numerical technique for finding approximate solutions for partial differential equation; often used in industrial engineering

I

IAS —— International Accounting Standards
IASB —— International Accounting Standards Board
IFRIC —— International Financial Reporting Interpretations Committee
IFRS —— International Financial Reporting Standards
IfW —— Institut für Weltwirtschaft (German economic organization)
IMF —— International Monetary Fund
IR —— Investor Relations
ISIN —— International securities identification number
ISO —— International Organization for Standardization
IT —— Information technology

K

kEUR —— Thousand Euro

M

MATS —— Mid-America Trucking Show
MBA —— Master of Business Administration (academic degree)
MDAX —— Mid-Cap-DAX
Mio. —— Million
M.S. —— Master of Science (academic degree)

N

n/a —— Not applicable

O

OEM —— Original Equipment Manufacturer
OES —— Original Equipment Service

P

PDM —— Product data management
PIK —— Pay-in-kind
PPA —— Purchase Price Allocation
p. a. —— per annum

R

ROI	Return on investment
R&D	Research and development

S

SDAX	Small-Cap-DAX

U

US	United States of America
USA	United States of America
USD	US-Dollar

V

VDA	Verband der Automobilindustrie (German Automotive Industry Association)

W

WKN	Wertpapierkennnummer (security identification number)
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

April 27, 2017
Annual General Meeting 2017

May 11, 2017
Report on Q1 2017 results

August 10, 2017
Report on half-year 2017 results

November 9, 2017
Report on Q3 2017 results

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