ANNUAL REPORT 2017

SMART STEEL

“Our SMART STEEL innovation campaign is an integral component of our Growth Strategy 2020. In combining our mechanical parts with sensors and electronics we turn our axle and suspension systems and fifth wheels into smart products.”

Detlef Borghardt, Chief Executive Officer (CEO)

Media

Our annual report is also available on the Internet at
ar2017.corporate.safholland.com

KEY FIGURES

Results of operations

in EUR millions

	2017	2016	2015	2014	2013
Sales	1,138.9	1,042.0	1,060.7	959.7	857.0
Gross profit	205.1	206.5	202.9	174.6	155.6
Gross profit margin in %	18.0	19.8	19.1	18.2	18.2
EBIT	72.7	78.4	81.6	56.7	49.3
EBIT margin in %	6.4	7.5	7.7	5.9	5.8
Adjusted EBIT	91.2	90.4	94.0	70.7	59.3
Adjusted EBIT margin in %	8.0	8.7	8.9	7.4	6.9
Result for the period	41.0	43.5	51.7	32.7	24.4
Adjusted result for the period	52.7	53.7	62.2	43.7	28.8
Undiluted earnings per share	0.95	0.98	1.14	0.72	0.54
Adjusted undiluted earnings per share	1.16	1.18	1.37	0.96	0.63
Dividend per share	0.45[1]	0.44	0.40	0.32	0.27

Net assets

in EUR millions

	2017	2016	2015	2014	2013
Balance sheet total	998.1	1,014.0[2]	888.5	645.2	536.4
Equity	301.0	304.9[2]	287.8	248.6	222.2
Equity ratio in %	30.2	30.1	32.4	38.5	41.4
Cash and cash equivalents	278.8	344.6	145.7	44.2	23.9
Net debt	105.5	97.1	122.4	137.1	123.0
Net working capital	120.6	110.3[2]	116.6	102.7	76.1
Net working capital/sales	11.0	10.9[2]	12.0	10.9	9.4

Financial position

in EUR millions

	2017	2016	2015	2014	2013
Cash flow from operating activities before income tax paid	74.1	106.4	79.5	48.8	63.0
Cash conversion rate[3] in %	81.3	117.7	84.6	69.0	106.2
Net cash flow from operating activities	56.8	92.7	63.1	36.0	54.0
Net cash flow from investing activities	–84.3	89.8	–139.1	–29.5	–23.5
Purchase of property, plant and equipment and intangible assets	–27.1	–25.0	–28.1	–30.1	–23.2
Free cash flow[4]	29.7	67.7	35.0	11.3	30.8

Yield

in %

	2017	2016	2015	2014	2013
Dividend yield	2.5	3.2	3.2	2.9	2.5
Return on capital employed (ROCE)[5]	9.5	9.1	10.7	11.0	11.7

Employees

	2017	2016	2015	2014	2013
Employees (on average)	3,565	3,259	3,325	3,346	3,106
Sales per employee (kEUR)	319.5	319.7	319.1	286.8	275.9

[1] To be proposed at Annual General Meeting 2018
[2] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)
[3] Cash flow from operating activities before income tax paid divided by adjusted EBIT
[4] Net cash flow from operating activities less investments in property, plant and equipment and intangible assets
[5] ROCE = EBIT/(total assets-current liabilities)

MAGAZINE 2017 SAF-HOLLAND

Engineer
Build
Connect

Profile

10,000

Spare Parts and Service Stations
Our reliable network of roughly 10,000 spare parts and service stations ensures that our end customers have fast access to our spare parts worldwide.

3,565

Employees
More than 3,500 employees make SAF-HOLLAND one of the largest suppliers to the commercial vehicle industry.

EUR 1,138.9

Million
With sales of EUR 1,138.9 million in 2017, we are one of the leading manufacturers of chassis-related modules and components for trailers, trucks, buses and recreational vehicles.

17

Production Sites
The majority of our production sites have been traditionally located in North America and Europe.

6

Continents
Following the merger of SAF in Europe and Holland in the US in 2006, SAF-HOLLAND is now operating on six continents.

SAF-HOLLAND is the largest independent listed commercial vehicle supplier in Europe. We develop solutions for the global truck, trailer and bus industries. With our innovative components and systems, we contribute to the worldwide success of our customers. In the original equipment business, we supply truck, trailer and bus manufacturers. And through our comprehensive, global spare parts and service network, we ensure the rapid supply of spare parts to our customers. As one of only a few suppliers in our industry, we are internationally well-positioned and present in almost all markets worldwide. With the innovation campaign SMART STEEL – ENGINEER BUILD CONNECT, SAF-HOLLAND combines mechanics with sensors and electronics and drives the digital networking of commercial vehicles and logistics chains.

“Our SMART STEEL innovation campaign is a key component of our 2020 growth strategy. It combines mechanics with sensors and electronics and promotes the digital networking of commercial vehicles and logistics chains. With SMART STEEL, we are joining our customers on their way to tomorrow and beyond.”

Detlef Borghardt, Chief Executive Officer (CEO)

Contents

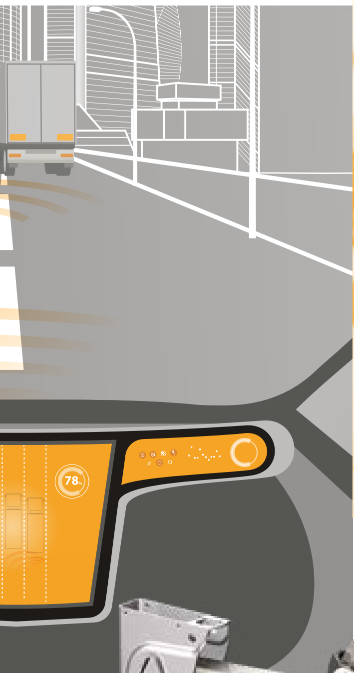
01

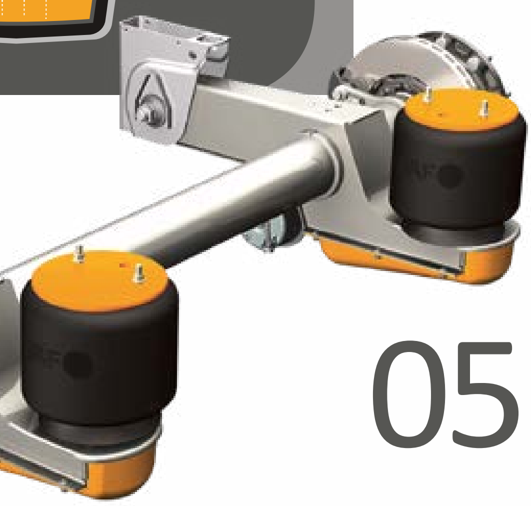
02

03

04

06





05

DETLEF BORGHARDT

PROF. DR.-ING. FRANK STRAUBE

A Brand New World

Prof. Dr. Frank Straube heads the Logistics Department at the Technical University of Berlin.

Detlef Borghardt is the CEO of SAF-HOLLAND.

Automation and digitization are not only changing commercial vehicles and trailers but also entire logistics chains. What are the trends and what can we do today to make tomorrow's world of transportation more efficient and sustainable? Prof. Dr. Frank Straube, Head of Logistics at TU Berlin, and Detlef Borghardt, CEO of SAF-HOLLAND, discuss at Kühne Logistics University in Hamburg.

DETLEF BORGHARDT | **PROF. DR.-ING. FRANK STRAUBE**

We are standing here overlooking the Port of Hamburg. If we were to meet here again in ten years, what will have changed?

FS:
There will be much more integration of the various modes of transportation, and not only at the Port of Hamburg. Modes of transportation will be interconnected with one another and the cargo being transported. Not only will there be an exchange of data, but we will also have networked business models. I see the potential for a 20-percent reduction in costs and 30 percent higher reliability in logistics chains worldwide. We should also see a dramatic fall in CO_2 emissions in the transportation sector.

DB:
Freight traffic will continue to increase but mainly in the regions where population and wealth continue to rise. Growth in transportation will primarily take place on the road and will not be inhibited by deliveries using drones or spare parts from 3D printers. Drones today can't deliver washing machines and they still won't be able to in ten years. As a supplier, we are contributing to lower CO_2 emissions by designing ever-lighter products, which is a central theme of our research and development.

"We need to make our components smart enough to fit seamlessly into our customers' digital solutions."

Detlef Borghardt, Chief Executive Officer (CEO)

What opportunities do digitized logistics chains offer?

FS:
In the case of international transportation, a container's content goes through the hands of 14 independent players on average before reaching the end customer. Until now, players have been independently optimizing their utilization. However, to truly achieve optimum utilization along the entire value chain, all of these players need to be linked together – a feat in a logistics world that is changing dramatically. In the future, it will no longer be a question of bringing large quantities of uniform goods to the consumer but of satisfying individual and flexible demand without increasing manufacturing or trade inventories.

DB:
I can certainly confirm this in terms of our own production. There is no such thing as a global universal axle for all customers, and I don't see the market accepting a standardized product range in the future. We want to satisfy our customers' individual needs, as long as they are willing to compensate us for the extra effort. The point is to intelligently manage the growing number of variants and provide delivery at all times. The production of only a single unit is nothing unusual at our plants – and we do this profitably.

FS:
I admire that. This type of flexibility in the physical world is essential for success in the digital world of tomorrow.

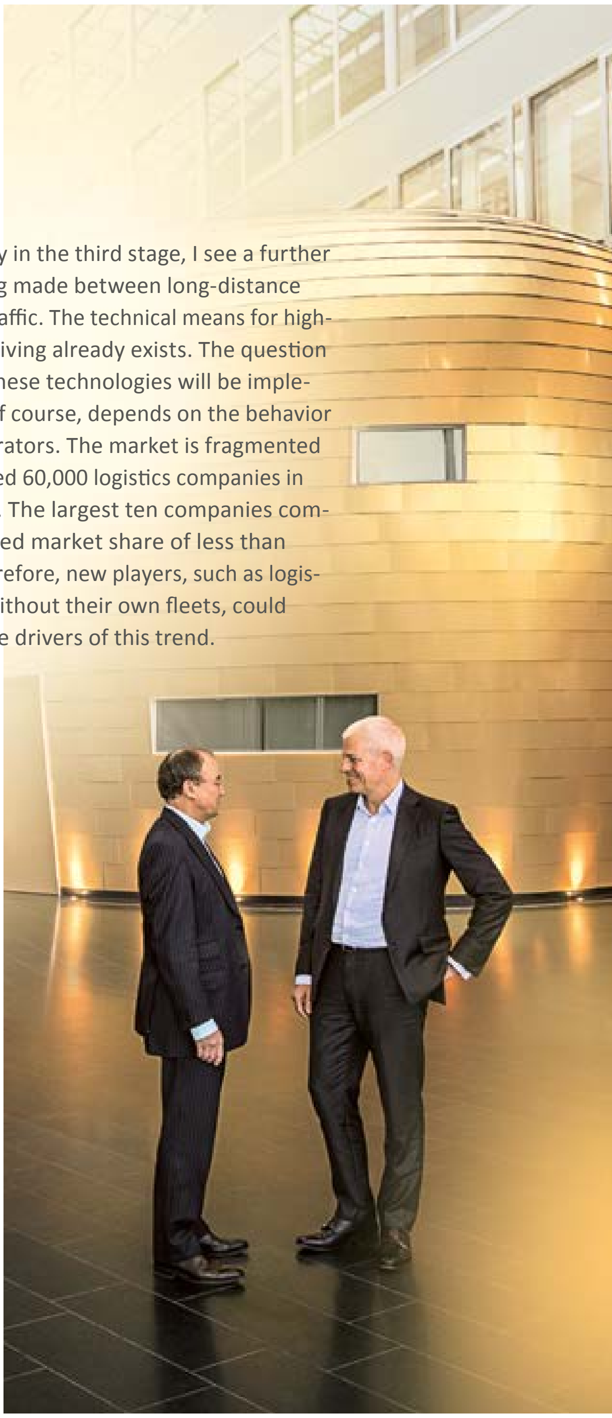
DETLEF BORGHARDT

PROF. DR.-ING. FRANK STRAUBE

What role does autonomous driving play? And how soon can we expect it?

DB:
Automation will come in three stages. The first stage can already be seen at international seaports, where ships with 15,000 containers are unloaded within just a few hours. This is only possible because most of today's processes are already automated. Because automation eliminates several opportunities for disruption, ports will be able to adapt very quickly. The next stage in automation will take place in the logistics yards. This will be especially beneficial when one considers how much damage occurs to vehicles and loading ramps simply because the driver was not paying attention. Over the next five to ten years, these hubs will be largely automated, and this will require solutions to automatically couple the tractor and trailer. I believe the stage where driverless trucks are actually on the road will come sometime in the years 2025 to 2030.

FS:
I agree, whereby in the third stage, I see a further distinction being made between long-distance and inner-city traffic. The technical means for highly automated driving already exists. The question is how quickly these technologies will be implemented. That, of course, depends on the behavior of the fleet operators. The market is fragmented with an estimated 60,000 logistics companies in Germany alone. The largest ten companies command a combined market share of less than 20 percent. Therefore, new players, such as logistics platforms without their own fleets, could end up being the drivers of this trend.



"Supply chain management is an absolute priority."

Prof. Dr.-Ing. Frank Straube, Partner of Kühne Logistics University.

DB:
China could become a leading market for new technologies for commercial vehicles. In the past, it was all about costs, costs and even more costs. That has changed. During my last few visits, I found myself talking mainly about bits and bytes. Transportation volumes in China have exploded over the last ten years. Now the topic of security is becoming increasingly important – also to local authorities – and is having a direct effect on our current portfolio in the form of higher demand for our disc brake and air suspension systems. Over the long term, automated driving and its safety advantages will also play an interesting role in this market.

What role does the trailer play in this new world of transportation?

FS:
Trailer manufacturers are going to follow the trends set by the market. This means they will need to provide the necessary automation and digitization technology with the expectation that they will contribute to higher efficiency. For example, in a typical freight yard, it takes 28 minutes from the time the driver clocks in until departure.

DETLEF BORGHARDT

PROF. DR.-ING. FRANK STRAUBE

DB:
It starts with the fact that the truck's driver must first locate his trailer. Once the trailer has been found, today's completely manual process of coupling begins. This alone can take between four and ten minutes' time. With the fifth wheel, we already have the key component for automating this process.

What role will SAF-HOLLAND play in this new world?

DB:
Today, we provide data such as brake wear and the temperature in a wheel bearing. We deliberately link the sensors to our mechanical components and call it SMART STEEL. The next step will be to use this data for predictive maintenance and do this for systems that are not dependent on a specific trailer manufacturer.

FS:
From now on, we all need to think not only in terms of products but also in terms of services and digital business models. This means asking why should a trailer simply be embedded in an innovative city logistics system without also serving as an intelligent, interconnected interim storage facility? This could also change the role of suppliers.

DB:
Our first task, therefore, is to make our components so intelligent that they can seamlessly integrate into our customers' automated and digital solutions. The trailer market, however, is very fragmented with thousands of suppliers worldwide. The solutions we are developing as part of our SMART STEEL strategy can also be used to support medium-sized and smaller companies on the path to smart trailers.

Where will you get the necessary software expertise?

DB:
Our expertise lies in developing high-security components for the commercial vehicles and trailers of the future. We can provide the necessary software through partnerships with traditional IT companies or specialized electronics suppliers. We are also in the process of significantly expanding our internal digital team.

FS:
As long as goods are transported and not beamed, you will always need hardware. It's about networking expertise and not about everyone doing everything. We will see all-new alliances being forged between vehicle manufacturers, suppliers and software companies.

DB:
Our themes over the next few years will be autonomous driving and the electrification and digitization of the process world. In our opinion, it is now more important than ever to listen carefully to what the market is asking for and maintain a dialogue with everyone involved. Thank you, Professor Straube, for the interview.

The Think Tank

The SMART STEEL innovation campaign is SAF-HOLLAND's answer to the dawn of digitization in the transportation world. Launched in 2017, the cross-departmental digital team located in Aschaffenburg, Germany, and Muskegon, Michigan, is the catalyst for new ideas being implemented throughout the company worldwide.

Step by step into the world of digitization. This is what SAF-HOLLAND's SMART STEEL innovation campaign is all about. Industrial engineer Thomas Piroth has been a strong force in the campaign's development and now manages the commercial vehicle supplier's digital team. The team's task is to think ahead about each stage of digitization, initiate projects and partnerships and prepare the whole company for the new world of transportation. Formed as a startup within the Group, the team works closely with colleagues from the development, sales and IT departments. They take little notice, however, of the scare tactics from some of the prophets of the digital age. "Even over the next few years, a high proportion of our added value will still come from mechanical components and the associated know-how," says Piroth. "Nevertheless, we want to start preparing for the changes ahead, which are certain to open up some interesting opportunities for SAF-HOLLAND."

Recognizing and evaluating new trends: Thomas Piroth (middle) with colleagues from the Aschaffenburg digital team

Mechanical expertise is the starting point for SAF-HOLLAND's digital strategy. During the first stage, all of the components and systems responsible for SAF-HOLLAND's success in the global market will simply get smarter. Equipped with sensors and electronic intelligence, the axles and fifth wheel couplings will be designed to meet the requirements of an increasingly automated and digitized chain of transportation. "We always ask ourselves the same questions," explains Piroth. "What contribution can we make to our customers? What can we do to meet our customers' future expectations? And what is the customer willing to pay for?" The answers to these questions are complex because there is no such thing as a typical customer. Whereas the global market for tractors is heavily concentrated and shaped by just a dozen or so manufacturers, the trailer market – which in terms of sales is more relevant for SAF-HOLLAND – is highly fragmented. Although it too has only a few large manufacturers, they only serve a small percentage of the market. Thousands of highly specialized companies have developed transportation solutions for everything from transporting milk to the dairy to bringing the blades of wind turbines to the North Sea. The market for transportation services is even more opaque. Nobody knows how many forwarding companies there are worldwide. According to the German Federal Association of Transportation Companies, there are about 40,000 forwarders in Germany alone. This is also an interesting market segment given that around a quarter of SAF-HOLLAND's sales are generated with aftermarket products. "All of our customers are affected by digitization in one way or another," says Piroth.

SMART STEEL – Business Model:

How do we bring intelligence to our products and create added value for our customers?

Mechanics → **1** → Further developing mechanics to mechatronics → **2** → Digitizing data and information → **3** → Integrating and connecting → **4** → New services and automated solutions

1. Strong volume business
2. Short-term sales drivers
3. Near-, medium-term growth
4. Upselling potential

Business Area Development

SMART STEEL – Business Model:

How do we bring intelligence to our products and create added value for our customers?

		Product Models	Operational Focus
New Growth Drivers	4	• Autonomous docking systems • Components and systems for autonomous driving	• Leveraging stable business cash flows to invest in the technologies of the future
	3	• Automated coupling system • E-landing gear • Wheel suspension • Forced steering systems	• New adjacent market expansion • Stand-alone derivatives from new product development
Strong Volume Business	2	• Lube Tronic fifth wheel • SAF TIRE PILOT	• Upselling based on modular concept • Product optimization and enhancement features – value engineering
	1	• Entry-level landing gear • Entry-level fifth wheel • Entry-level towning hitch • Entry-level axles • Entry-level chassis	• Branded quality entry level systems • Cost and operational efficiency (e. g. plant consolidation)

"The real added value comes from the interpretation of data and the functionality based on it."

Thomas Piroth, Head of the digital team at SAF-HOLLAND

Intelligent products, such as disc brakes that measure the wear and tear of the disc and lining, provide nonstop information. However, before this information can be processed in a higher-level IT system or used to control an autonomous vehicle, it must first be converted into bits and bytes. That is why stage two of SMART STEEL deals with the transition of the analog to the digital world. This is fairly advanced in some areas such as tire pressure monitoring, trailer door locking mechanisms and brake pad wear indicators. "Some of the solutions are already available ready-made on the shelf," says Piroth. "Over time, we expect this to become the standard." The digital team is also discussing other ideas with SAF-HOLLAND's development departments. "Our job is not to develop these products on our own," he says. "We need the help of engineers throughout the company."

Piroth predicts that, in the eyes of the customer, the ability to provide data will increasingly become a minimum requirement. "Still, it is likely to be difficult to generate additional sales through delivering data alone," he says. "The real added value comes from the data's interpretation and the functionality achieved based on this data. This is where we bring in our invaluable expertise." It's also the reason stage three of SMART STEEL is dedicated to the topic of "integration and connection." Though it is still unclear which data will be processed where in the future world of transportation, what is certain is that the data directly relevant for driving the truck will be used by the tractor, even when it comes from the trailer. This is not only true for the highly automated vehicles of the future, but is already a reality today. "Our goal is to provide the driver with information such as tire pressure in easy-to-understand terms." Since this also involves prioritizing the data and forwarding only the relevant information, it may be necessary to equip the trailer with its own decentralized intelligence – something only a few major international manufacturers are willing to do themselves. Still, Piroth does not want to exclude the possibility of SAF-HOLLAND taking on this task for smaller customers as well. "Basically, all our systems are designed open enough to process the data in other control units and IT systems," he assures.

While the first three stages of SMART STEEL are all about digitally upgrading the existing portfolio, the fourth stage is where the digital team focuses on new digital services. Piroth sees strong leverage from expanding the existing service business: "Whatever we can do to minimize downtime will be broadly welcomed in the fiercely competitive market for transportation services." For example, until now, repair shops have been checking the wear of brake discs and brake pads separately. This can make it necessary to make two visits to the repair shop instead of one. With predictive maintenance based on the correlation of specific vehicle and field data, the optimal time that makes the most economic sense can be calculated for the simultaneous exchange of both the brake disc and brake pad.

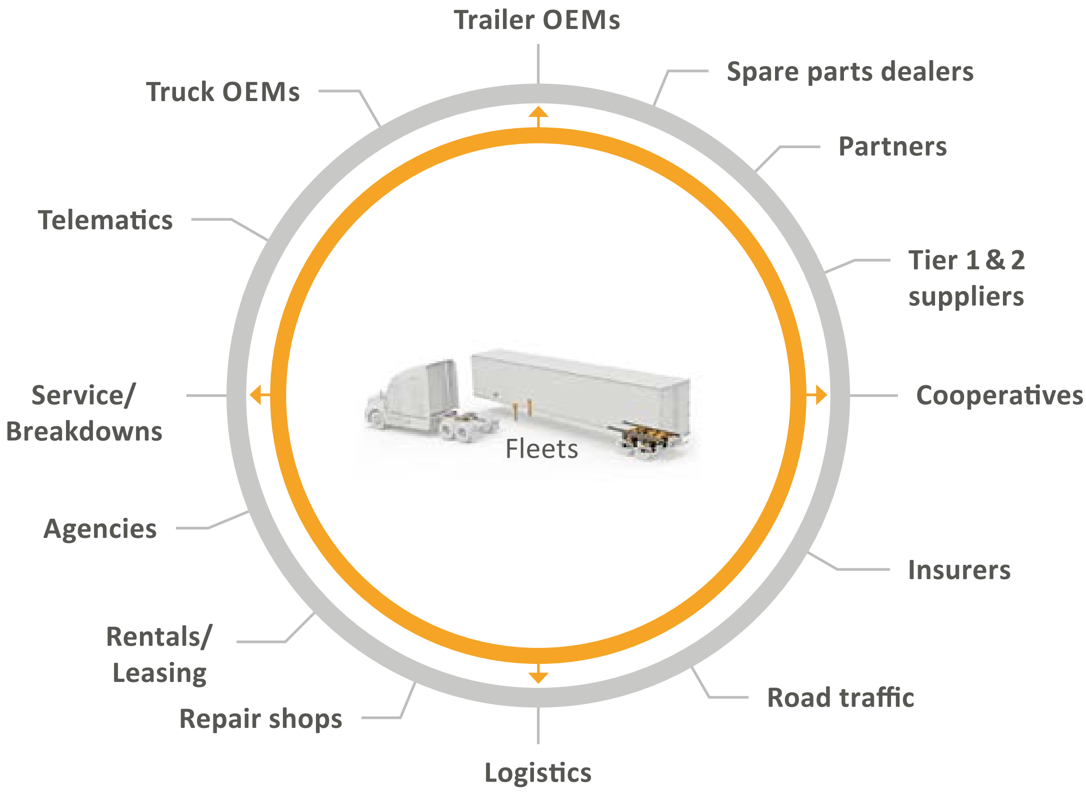
The digital team in Muskegon develops apps for the new service world and tests them on actual modules.

New business models already in development can also trigger advancements in the first three stages that may be able to achieve market maturity much faster than in the past using agile methods. This process is supported by digital team members in the small town of Muskegon on the shores of Lake Michigan where the apps for the new service world are not only developed but also tested.

Even so, the digital team never loses sight of the traditional world of transportation. The office of the German team members is located right next to the logistics center that serves the Bessenbach production site. Every minute, a 40-ton truck rolls up. The fact that there is a red dot on the wheel hub – which is found on most SAF-HOLLAND axles – is no surprise.

The digital vision of SAF-HOLLAND

Our vision is a 360° linked customer –
and only one click away...



THREE QUESTIONS FOR DR. HEIDEN

Interview with CFO Dr. Matthias Heiden

1 What does the digital revolution in the logistics industry mean for SAF-HOLLAND?

MH —— Digitization is taking place on several levels in the transportation industry. In the physical world, the more automation progresses, the more important security becomes as a business case. To accomplish this, we are combining our mechanical know-how with sensors and new electronic solutions. This allows us to offer fifth wheels and axle systems that continuously monitor their own status. The next step will be to use the data to enable new features such as predictive maintenance – not only in our own IT systems but also in those of our customers. We are also analyzing how digitization is changing business models in the logistics industry and how these changes open up new opportunities for SAF-HOLLAND.

2 What are you doing specifically to prepare SAF-HOLLAND for the digital world?

MH —— My task at SAF-HOLLAND in relation to IT is to create an infrastructure that allows us to position intelligent products in the market and digitize processes. Our digital team represents the organizational nucleus from which our global activities are coordinated across all departments. With the introduction of SAP HANA in the first quarter of 2018, we are now launching a new IT platform that will enable us to run future applications – many of which are already under development in several business areas.

3 To what extent is SAF-HOLLAND a digital company today?

MH —— SAF-HOLLAND is currently in the process of digitizing all of its business processes. This not only increases efficiency and quality, but also enhances our appeal as an employer for young professionals and executives. In production, digitization helps us deal even better with the high number of variants, for example, by increasing transparency for our employees. Instead of using a slip of paper, axles now travel through assembly with a digital twin that clearly shows the next steps and remaining processing time on a screen.

Steel Smart

Step by step, steel is getting smarter. That’s because SAF-HOLLAND equips mechanical components such as fifth wheels with more and more sensors and electronics. The goal is to automate work that was previously performed manually, thereby reducing the operating costs for freight forwarders.

SAF-HOLLAND employees in a conversation with MAN: Gerhard Herberg (left) heads sales to bus and truck manufacturers. Michael Riesterer (second from right) is the Deputy Engineering Director at SAF-HOLLAND.

Even the Hittites of ancient Asia Minor appreciated the advantages of iron materials. After mastering the smelting of iron ore, they produced the first heat-treatable steel in the first millennium B.C. Gradually, iron displaced copper materials due to its superior hardness and strength. Since the Industrial Revolution, steel has become the most important material for capital goods. In addition to iron and carbon, other elements are also added to the alloy to selectively influence steel's properties.

For several years, not only chemical substances like chromium and nickel are being added to steel components but also an ever-increasing number of sensors and electronic components. These additions are not making steel harder or firmer, but smarter. Linking mechanics with sensors and electronics can make life much easier for users. For example, the drivers of heavy trucks from the Volkswagen brand MAN: Since the beginning of 2017, MAN has been equipping all of its heavy trucks with SAF-HOLLAND's RECOLUBE automated lubrication pump.

With the RECOLUBE automated lubrication pump, it is no longer necessary to lubricate fifth wheels manually.

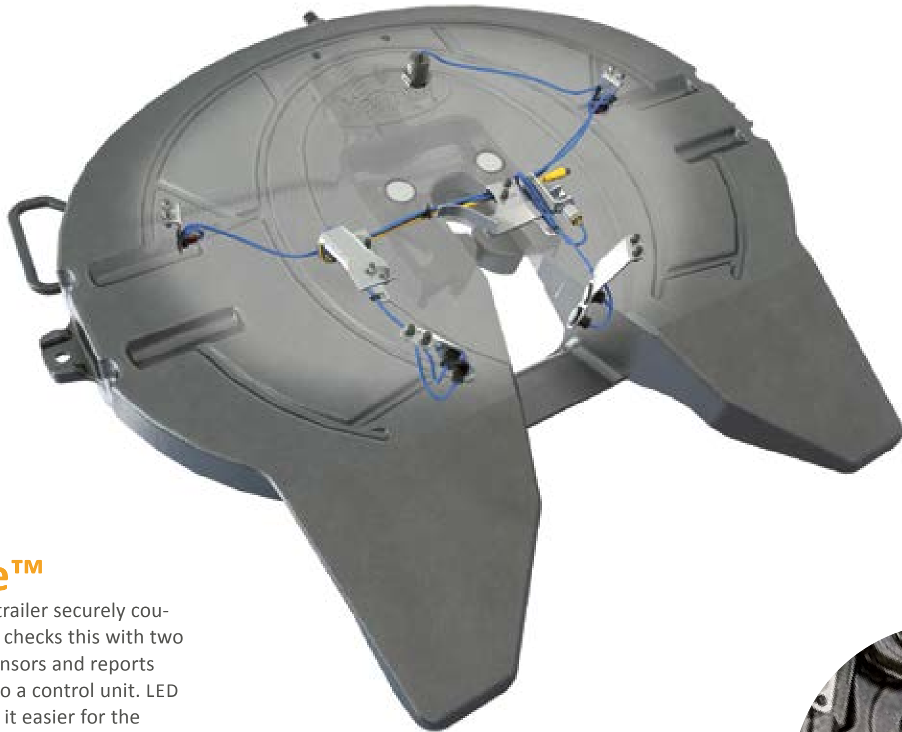
RECOLUBE

The system consists of a multi-part pump, a refillable tank containing the high-performance lubricant RECOLUBE Power SKX 372 and a distributor system of hoses that brings the lubricant directly to the lubrication points.

"The on-board computer has a lubrication plan that is precisely tailored to the respective requirements. The RECOLUBE system continually applies the lubrication according to this plan."

Michael Riesterer, Deputy Engineering Director

RECOLUBE eliminates the need for drivers and repair shops to lubricate a tractor's fifth wheel manually. "At MAN, our strategy is centered on low-maintenance vehicles," reports Stefan Marx, Team Leader Equipment Systems at MAN Truck & Bus. "The automation of manual activities not only increases the ease of maintenance and operation but also protects the environment." Because only the required amount of lubricant is automatically applied precisely to the right places, only the amount of lubricant actually needed is used, meaning excess oil and grease don't end up on the road. "The commercial vehicle manufacturer MAN is using our fifth wheel together with our new, controlled lubrication pump as a standard component for the first time," says Gerhard Herberg, who heads sales to bus and truck manufacturers at SAF-HOLLAND. "Height-adjustable fifth wheel couplings are also equipped with this system."



ELI-te™

Is the semi-trailer securely coupled? ELI-te checks this with two inductive sensors and reports the results to a control unit. LED lamps make it easier for the driver to do a visual inspection and flash a red warning light in the event of a faulty connection.

The pump is connected to the tractor's central on-board computer via a standard interface. Five independent pump elements deliver the grease to the cap and four other points on the fifth wheel where lubrication grooves distribute the grease. "The on-board computer has a lubrication plan that is precisely tailored to the respective requirements," says Michael Riesterer, Deputy Engineering Director at SAF-HOLLAND. "The system continually applies the lubrication according to this plan, which under normal driving conditions is about every one and a half hours." The grease supply is sufficient enough for about a year of operation, or roughly 100,000 kilometers. "You have to refill the tank," says Riesterer. "But apart from that, the RECOLUBE system is completely maintenance-free." The display in the truck's cab shows when the lubricant's supply has been exhausted, allowing the driver to monitor the process directly from the cab.

1. Initiation of the coupling process

When coupling, the kingpin of the semi-trailer is pushed towards the lock.

2. Successful coupling process

When the kingpin is securely connected to the lock, four white LEDs will brightly light up.

In automated coupling, the semi-trailer connects to the tractor autonomously by moving towards each other on their own until the kingpin of the semi-trailer can be securely locked to the fifth wheel. Also important is the connection of the pneumatic and electrical outputs, which was previously done manually.

More safety and efficiency in loading logistics

Automated coupling helps processes run faster and more reliably. This allows for better use of existing infrastructure and saves costs.

Easing the burden of the driver

Automated yard logistics can ease the burden of the driver, allowing the driver to take a break, which is counted as a rest period.

The prerequisite for autonomous logistics chains

In a fully networked logistics chain, the tractor and semi-trailer need to find their way everywhere autonomously – even in logistics yards.

To learn more about ELI-te™: tinyurl.com/yapergcv

"At MAN, our strategy is centered on low-maintenance vehicles. The automation of manual activities not only increases the ease of maintenance and operation but also protects the environment."

Stefan Marx, Team Leader Equipment Systems at MAN Truck & Bus

Michael Riesterer and Stefan Marx: More and more processes will be automated in the future while operating a truck.

As with automated lubrication, more and more processes while operating a truck will be automated in the future. The primary aim is not only to have commercial vehicles drive autonomously on the highway but to have all other processes, like coupling, run automatically too. One step in this direction is the ELI-te system ("Electronic Lock Indicator – tech-enhanced"), designed by SAF-HOLLAND. It ensures that the semi-trailer is securely connected to the tractor. When the driver controls the process directly from the fifth wheel prior to departure, four white LEDs light up to confirm a secure connection and facilitate visual inspection. If the connection is not secure, for example, because a component is frozen solid and the kingpin has slipped over the lock, a red flashing light sends a warning that can also be clearly seen from the side of the cab. "We have been successfully selling this system in North America since late 2016," says product manager Bryan Redeker. "Now we are assessing the need for this system in other markets worldwide."

Autonomous driving means automated coupling

To validate the connection, ELI-te uses two inductive sensors, one to sense the kingpin and the other to sense the lock. With a dynamic magnetic field, the sensors check the correct position of the kingpin and lock and report the result to a small computer mounted to the bottom of the fifth wheel. Redeker intends to leverage this intelligence for other applications in the future. "The next step in automation is fully automated coupling at, for example, loading terminals and logistics centers," says Redeker. Today it is still necessary for the driver to leave the truck and connect the pneumatic and electrical connectors by hand. Redeker, together with project teams in the US and Germany, is currently assessing the market demand for automated coupling. An important question is when the market will demand fully autonomous or will partial automation be sufficient enough to make operating procedures more efficient. However, one thing is already certain: Steel will become even smarter in the future and contribute to greater efficiency in transportation and logistics.

"The commercial vehicle manufacturer MAN is using our fifth wheel together with our new, controlled lubrication pump as a standard component for the first time."

Gerhard Herberg, Director OEM Truck & Bus Sales

The Year 2025

A Future Scenario: Truck driver Hannah Meier is on her way from Hamburg to Turin in a convoy of truck and trailer combinations. As long as she is in the platoon, she no longer has to drive herself. Because in 2025, not only will the technical means be there, but lawmakers will have finally put a basic legal framework in place. Hannah also benefits. During the journey, she's working on her distance learning course, and when she arrives at her destination, she can leave her vehicle at the entrance to the logistics yard.

Like a string of pearls, a dozen trucks move south on the A7. The logo of a Hamburg freight forwarder emblazoned on their trailers. And something else stands out: The trucks are only 15 meters apart but in a continuous line because they are connected electronically.

Sitting in the truck's cab, Hannah Meier is in fourth place. She's become accustomed to driving in a tight line of trucks. Depending on the route, her truck may use seven to ten percent less fuel thanks to the benefits of aerodynamics. Not only that, she is able to do other tasks during her journey because her truck and trailer combination automatically follows the lead vehicle. She only controlled the driving from the Port of Hamburg to the A1. The electronics will take over the driving until she reaches Milan where she will leave the group to deliver her cargo in Turin.

Lawmakers have made an exception on the freeways for this system, called "platooning." About ten years ago, a mobility study said: "The issue of liability when it comes to platooning is still unclear. No one has even considered the underlying legal framework that is necessary." But past pilot projects have shown how much everyone involved benefits from traveling in a convoy with an electronic tow-bar. Not only do you save fuel, but the limited road space is used more efficiently. Even devastating accidents with inattentive or fatigued truck drivers crashing into traffic jams no longer occur.

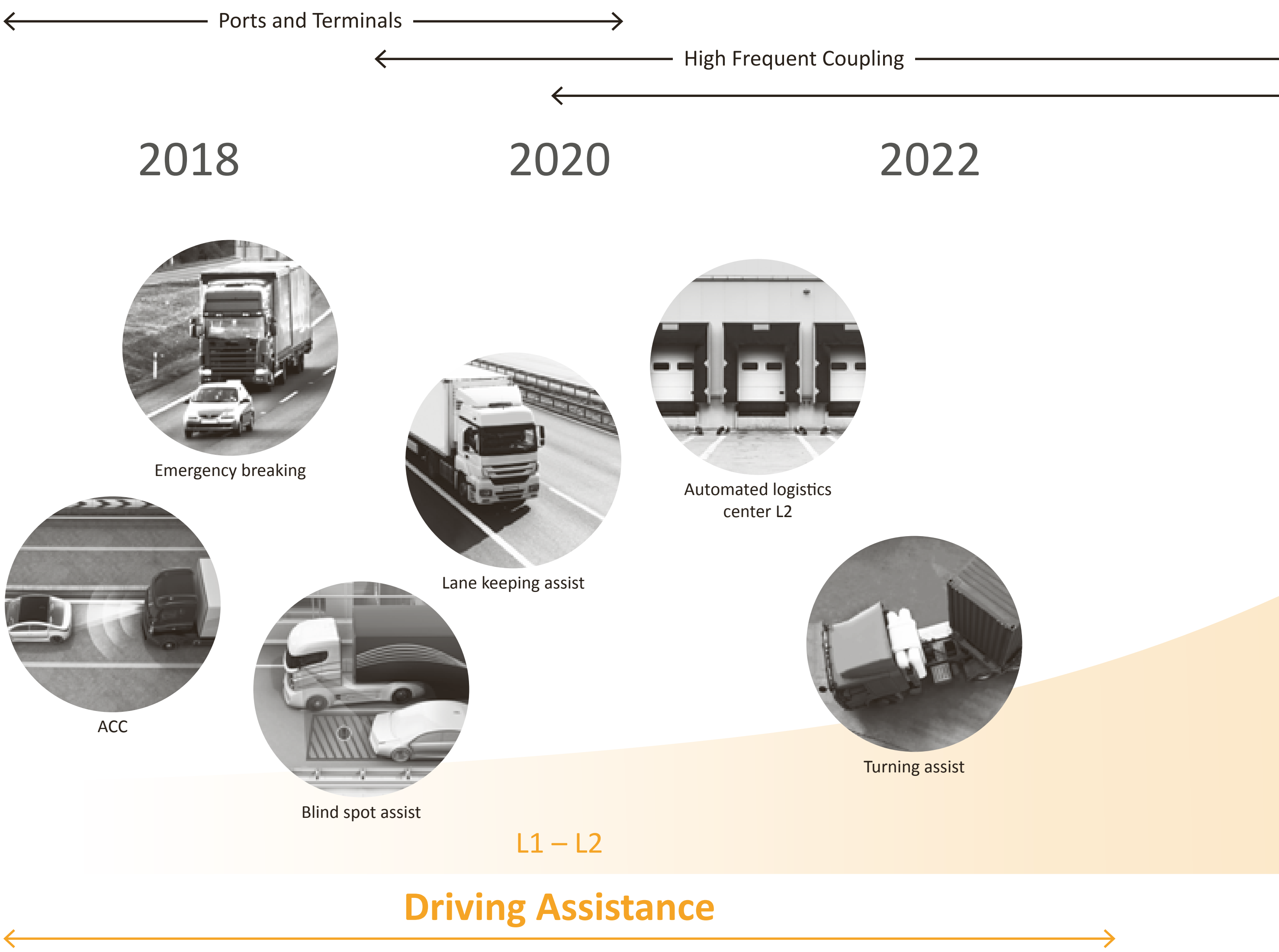
Because these arguments have forced a public debate, the truck and trailer combinations of freight forwarders today are at least allowed to travel in groups on freeways. Preparations for the next level of automation are now in full swing. In Western countries, nearly one in three new vehicles is delivered with Level 4 automation technology, where drivers are still on board, but like Hannah Meier, can opt to hand over control of the vehicle for most of the journey.

On her trip to Turin, Meier is doing her homework for her distance learning course in logistics. She describes the way in which automated driving has taken hold in the field of freight transportation. Naturally, it all began with research. The first road tests took place on the A81 between the cities of Stuttgart and Singen in the 1990s. Twenty years later, commercial vehicle manufacturers and startups in the United States took advantage of the latitude offered by local laws, which allowed self-certification but at the cost of much greater risks in product liability. Once automation technology had shown what it could do in a research environment, manufacturers took this knowledge to the public roads.


78

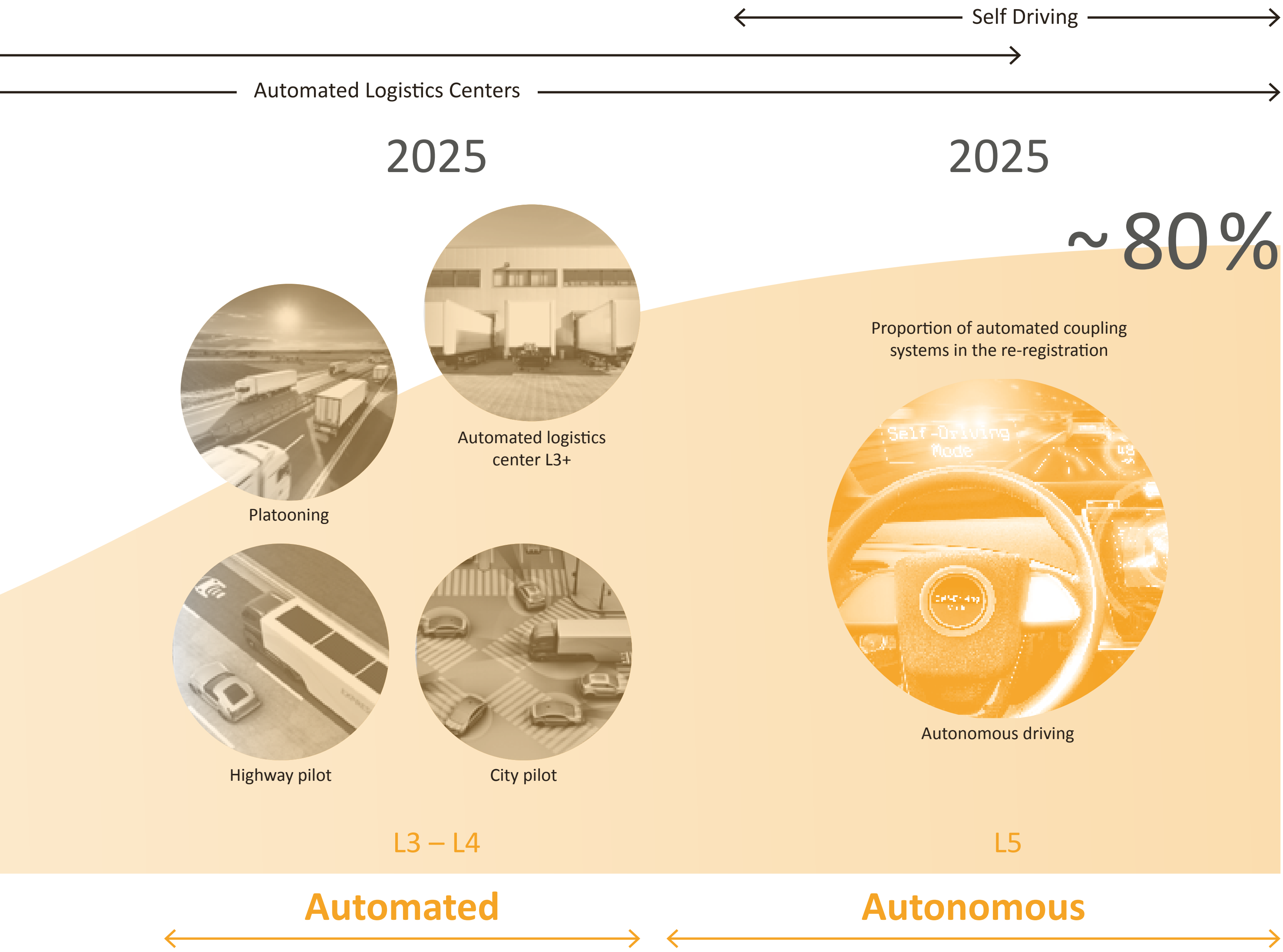
Assumption

Autonomous driving will be established.
The coupling process will be automated.



Things were different in Europe. Because there was no legal basis for autonomous driving on public roads, the industry evolved only gradually. It did this by means of active assistance systems such as cruise control, lane keeping and emergency brake assistants. This prompted manufacturers to equip trucks and trailers with the necessary sensors for semi-automated and fully automated driving, enabling them to reduce costs through economies of scale. Manufacturers also advanced the search for viable business models for off-highway automated commercial vehicle solutions for use on privately owned property.

What began in individual logistics yards and ports is experienced by Hannah Meier today throughout Europe in her day-to-day work life. When she arrives at a logistics center, she gets out at the entrance gate and immediately showers and eats. The truck automatically drives to the loading ramp and is just as automatically loaded or unloaded. The digital loading manager specifies the correct load distribution. If necessary, the trailer is completely unloaded and then reloaded in the right balance with the additional goods. Smart air springs and other sensors report how much weight is resting on the trailer axles and can also detect dangerous shifts in the load while driving. When it is necessary for the trailer to continue on with another tractor,



the trailer automatically releases itself, travels across the yard with an electric axle drive and automatically couples with the new tractor.

SAF-HOLLAND has been one of the technological pioneers in this area. Under the guiding principle of SMART STEEL, the company has been systematically developing solutions combining hardware and software. Projects in ports and logistics yards, in particular, have contributed to the advance in interfaces for the automated coupling of trucks and trailers. SAF-HOLLAND and its partners initially developed solutions for trucks that couple and uncouple hundreds of trailers a day in port facilities and loading yards. To save the need for constant maneuvering and disembarking, sensors in the fifth wheel check the mechanical, pneumatic and electrical connections during coupling. The sensors' information is sent directly to a screen in the cab. These types of stand-alone solutions have now also been approved for public roads after legislators were won over by the practical evidence of their functional safety.

These types of intelligent solutions are necessary to ensure that trucks will be able to do entirely without drivers in the future. The logistics industry will then reap the full benefits of automation – and save another 40 percent in operating costs compared to semi-automated driving. Capacity utilization is also rising because, aside from refueling and maintenance stops, autonomous trucks are able to drive around the clock.

Hannah Meier takes this development seriously, which is the reason she is pursuing her part-time studies. In the future, she hopes to play a part in the planning of automated, digitally networked logistics chains.

The road to the autonomous truck, however, is still a long way off. The interfaces are not yet unified between the trucks and different trailers of the still nearly four hundred manufacturers in Europe. There remains a huge variety of control devices and software. Small and medium-sized trailer manufacturers in particular have been calling for further standardization. Proof of functional safety is even more challenging for autonomous trucks that do not require drivers. When there is no driver to inspect the tension belts and tires or to detect noises during braking and acceleration, sensor systems need to perform these tasks safely and reliably at all times. With its predictive maintenance solutions for axle and chassis systems, SAF-HOLLAND makes a key contribution to the all-around monitoring of the vehicle.

Proof of functional safety is not only necessary for the individual systems but also for the coordination and interaction of autonomous trucks with other road users. There are still questions such as how to ensure safe continued operation in the event of faults in the LTE and 5G networks and in what way insurance companies will reward the declining risk of accidents. Also still unanswered is the question of how the industry will be impacted from the fact that only a few large players have started making the appropriate investments to realize the cost advantages of platooning on freeways. The only exception applies to groups where identical trucks from the same manufacturer are traveling and pulling trailers with a comparable loading weight. This restriction is intended to prevent chain reactions during emergency braking, so that different braking paths resulting from differing payloads and vehicle conditions do not lead to a crash in the group.

Still, in spite of all the unanswered questions, the efficiency of freight transportation on the road has risen significantly, even with the automated partial solutions. Fleet managers are registering increasing revenue per vehicle. One reason is that drivers who need to assume only sporadic responsibility require fewer breaks. Another reason is that fleet managers can optimize their payload based on real-time vehicle data. In addition, unplanned breakdowns almost never occur thanks to predictive maintenance. In the year 2025, even accidents and follow-up costs will be the exception. Fuel consumption on long-haul routes will have fallen by a tenth. Overall operating costs will be almost one euro per kilometer lower than a decade earlier. As a result, there will be a short payback period on any additional investments per vehicle because of additional sensor systems, software and communication technology.

Automated transportation on the road has proven to be a revenue driver for truck and trailer manufacturers and their system suppliers. Not only can they sell additional sensor and electronic components and integrate them into their systems, but they can also develop new business models for data-driven services. This is a sensible investment for logistics service providers: Driverless truck and trailer combinations promise significantly lower operating costs and can stay on the road around the clock because there are no longer any driving or rest time requirements to comply with.

The benefits are also clear to Hannah Meier. Although her profession will change, she is certain there will be plenty of truck and trailer combinations on the road in the future. This is the reason why SAF-HOLLAND continues to further develop its steel core components for trailers. Steel will always be needed for transporting goods and “smart” is a new, innovative feature. After all, times are changing, and with them the transport industry.

What is the biggest benefit of digital networking in the eyes of freight forwarders and transportation companies?

"Above all, digital tools can help save time. Be it on the street, at the loading ramp or at the rest area."

We have to reserve a time slot at the unloading ramp several days in advance because our recipients have limited capacity. When there are delays due to traffic jams or snow, waiting times can stretch for several hours. Digital tools can be used to avoid delays by suggesting better alternate routes. If a delay can't be avoided, the recipient's access to the GPS system of the arriving vehicles could help with the disposition. These types of systems would also be useful for crowded rest areas.

Georg Wittwer, Managing Director at Spedition Wittwer, Garmisch-Partenkirchen

"Digital networking creates transparency and helps us make important decisions more efficiently."

Meanwhile, the transportation industry has recognized the potential of digital networking, which offers more transparency, for example, when it comes to driving quality and fuel consumption. This enables us to make decisions more efficiently, reduce transportation costs and meet environmental goals. The prerequisite for this is flexible IT systems that we tailor to our needs and continue to develop. These systems process and manage our extensive fleet data so that we can put it to good use.

Siegfried Hegelmann, CEO Hegelmann-Express GmbH, Karlsdorf-Neuthard

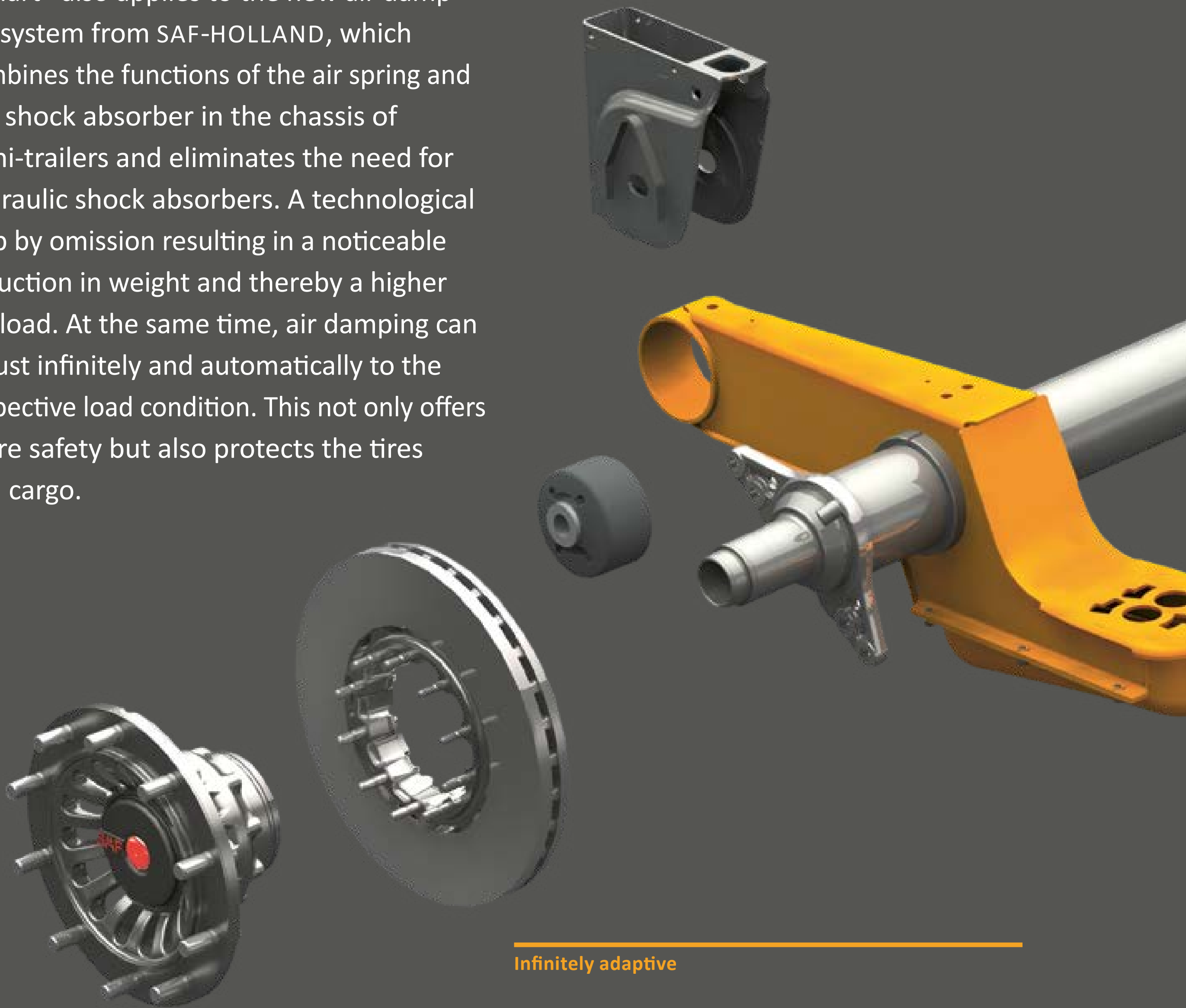
"Digitization offers tremendous potential, especially in the area of agriculture, merely as a result of being able to find the right unloading point."

We are already using SAF-HOLLAND's air springs today to measure the weight of our tank semi-trailers to ensure they are not overloaded with liquid fertilizer. We transport this fertilizer from the biogas plants to the fields between Lake Zurich and Lake Constance. Digitization offers tremendous potential, especially in the area of agriculture. The right unloading point can be found using special GPS systems alone. These systems also divide the field into virtual lanes allowing the tractor to move autonomously and apply the exact amount of fertilizer required.

Peter Briner, Managing Director at Peter Briner AG, Hagenbuch (Switzerland)

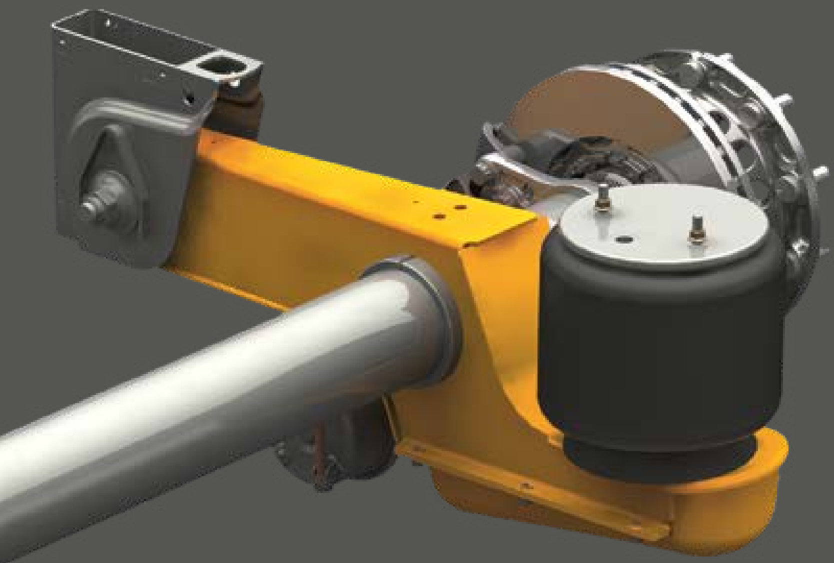
The Art of Simplicity

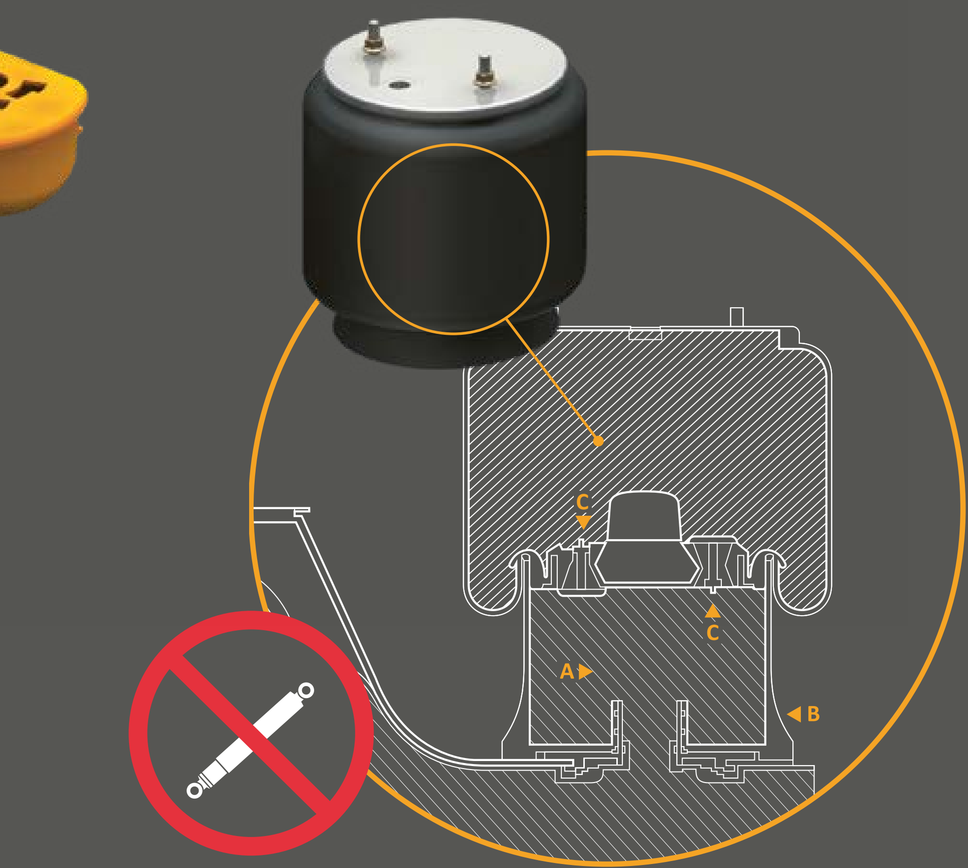
“Smart” also applies to the new air damping system from SAF-HOLLAND, which combines the functions of the air spring and the shock absorber in the chassis of semi-trailers and eliminates the need for hydraulic shock absorbers. A technological leap by omission resulting in a noticeable reduction in weight and thereby a higher payload. At the same time, air damping can adjust infinitely and automatically to the respective load condition. This not only offers more safety but also protects the tires and cargo.



Infinitely adaptive

Shock absorbers ensure the contact between the road and the tire. If shock absorbers are designed too stiffly for empty runs, then the semi-trailer “hops” across the road. Infinitely adaptive air damping prevents this from happening. When there is little cargo on board, fewer air molecules flow through the valve and damping is softer. The higher the axle load, the more air that is needed. This creates additional valve friction and damping increases.





A

Below the two air springs in both ends of the axle stub is another air chamber that provides a second, separate volume of air together with a hollow plunger.

B

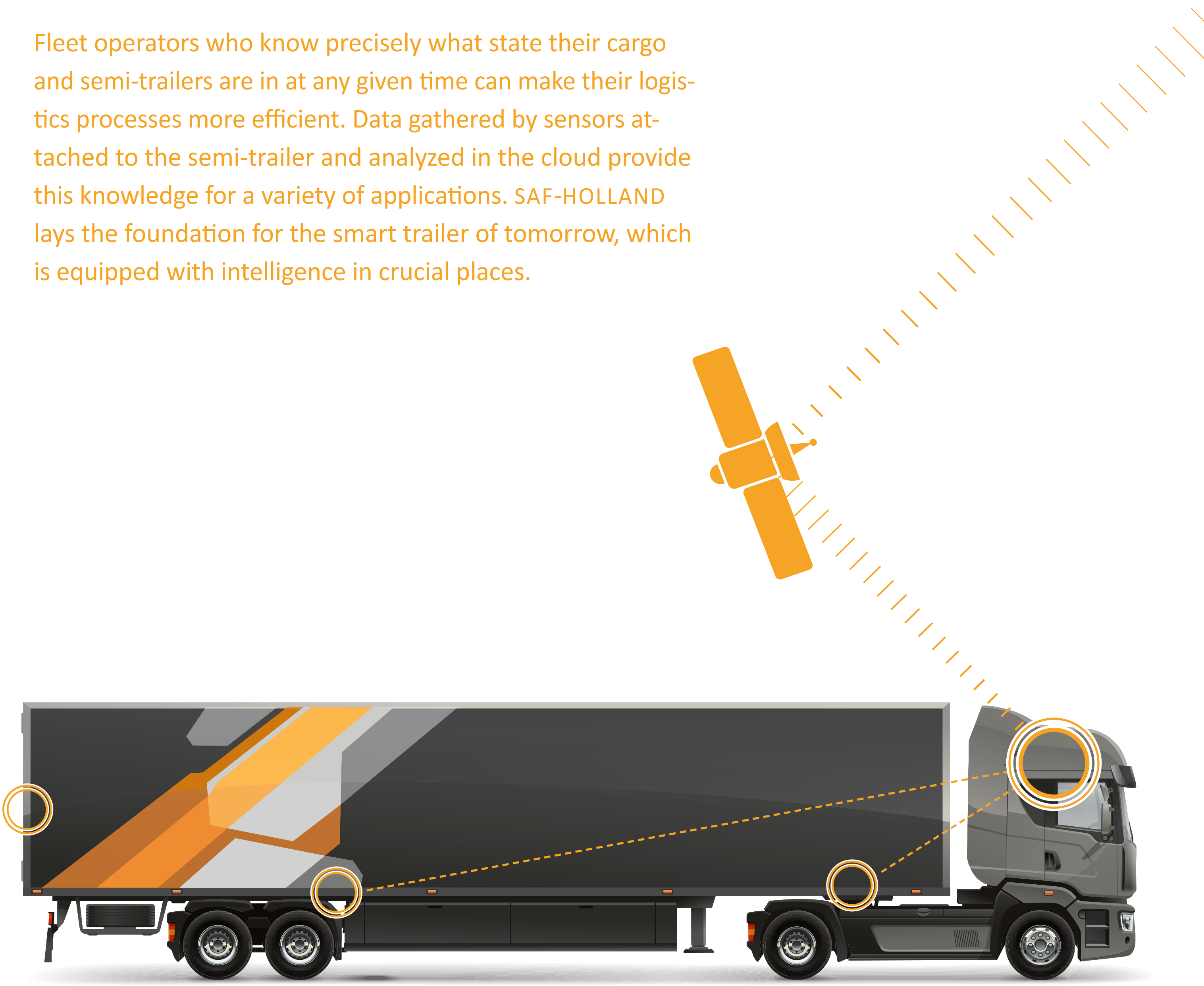
During compression, the plunger pushes upwards and opens a valve. For pressure equalization, air flows into the second volume of air. When rebounding, it flows back through a second valve.

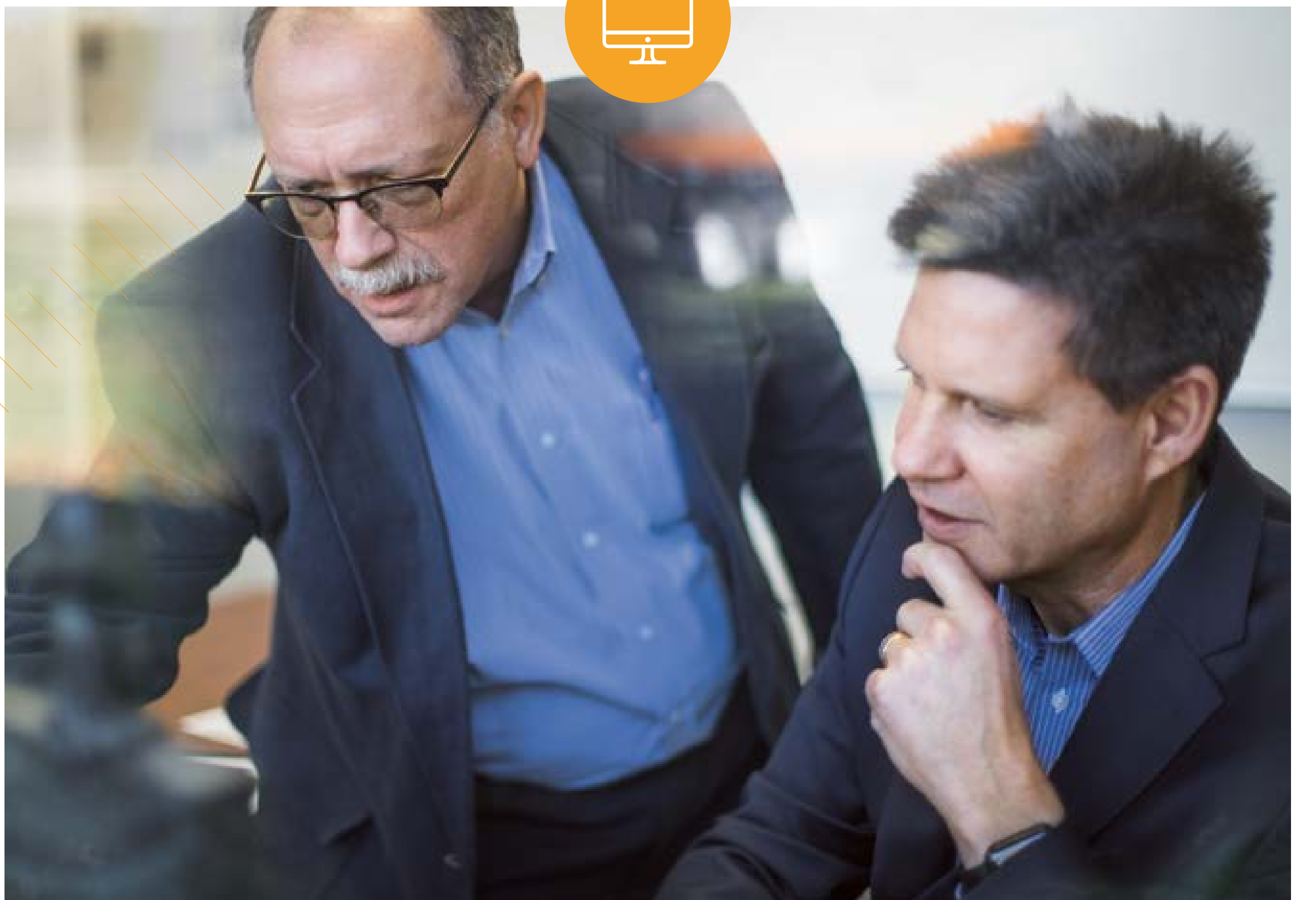
C

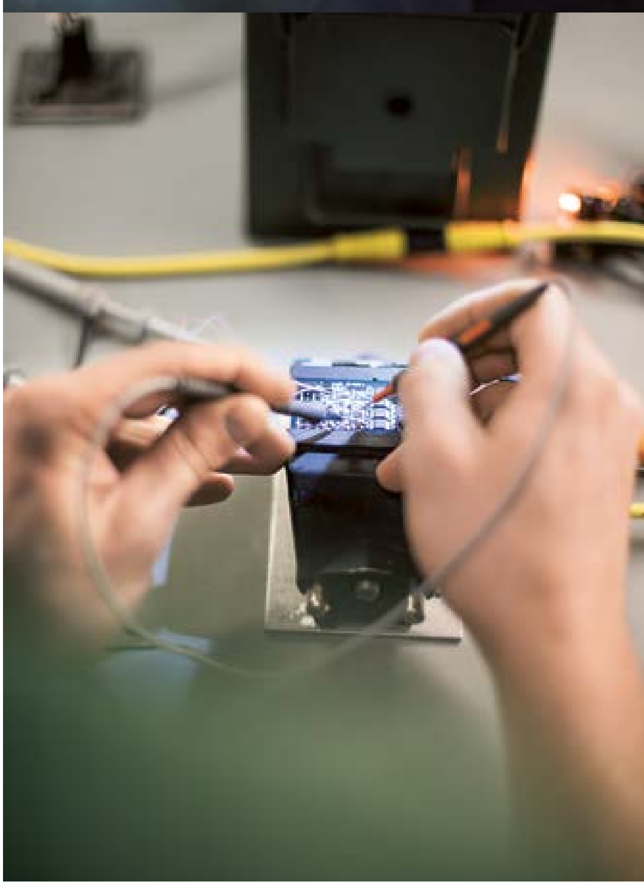
The flow of air through the narrow valve creates friction. The mechanical energy introduced to the chassis through shocks and bumps is converted into heat and thereby damped.

A Treasure Trove of Data

Fleet operators who know precisely what state their cargo and semi-trailers are in at any given time can make their logistics processes more efficient. Data gathered by sensors attached to the semi-trailer and analyzed in the cloud provide this knowledge for a variety of applications. SAF-HOLLAND lays the foundation for the smart trailer of tomorrow, which is equipped with intelligence in crucial places.







The digitization of the entire logistics chain from the shipping agent to the carrier to the consignee fundamentally changes freight transportation because vehicle components and goods now leave digital traces everywhere. When these traces are systematically collected and processed, transportation companies can use them to their benefit and optimize their processes. The semi-trailers in which the goods are stored play a central role because a fully networked logistics chain is only possible when the trailer gets "smarter" at the same time. "The trailer contains a number of components that can provide important data for networked transportation," says Mark Molitor, who is responsible for the product development of the North American market at SAF-HOLLAND. "While OEMs provide the trailer structure, SAF-HOLLAND provides several major components such as suspensions, axles, wheelends, landing legs, and the kingpin that connects the trailer to the tractor. The kingpin is likely to connect to a fifth wheel that was designed and developed by SAF-HOLLAND." SAF-HOLLAND is looking to enrich all of these components with intelligence.

To achieve this, Molitor and his team are working on smart trailers. This is a tremendous opportunity for logistics companies because having the appropriate data means they can check the technical condition of the trailer and its cargo in real time, monitor compliance with highway load limits and prevent theft. Most importantly, data extracted from the trailer can be incorporated into transportation management systems to optimize cargo loading in addition to providing route and service planning in a predictive and efficient manner. Ultimately, this data also allows transportation companies – who are always under severe cost pressure – to reduce their running costs and generate more revenue with better vehicle utilization. "Together with our customers, we are currently evaluating which applications can add the most value," adds Molitor. "It's not just about getting the right data; it's also about understanding what this data is telling you and making it usable and available over digital networks."

"The semi-trailer contains several components that can provide important data for networked transportation."

Mark Molitor, Vice President Product Engineering

The possibilities and approaches with the smart trailer are many. For example, SAF-HOLLAND already offers systems that tell the driver when brake pads are in need of service. "In the future, it will be possible to send this data to a cloud system for feedback telling us when the pads need to be replaced," described Molitor. Having this data allows fleet managers to automatically upload maintenance intervals via their logistics systems and minimize downtimes. Another example of future development are sensors that are mounted around the wheel hubs to measure the temperature while driving. Bearing damage and brake system malfunctions can cause overheating – the temperature sensors would detect this and alarm the driver to prevent major damage.

Smart trailers can also help prevent unforeseen stops along the way, starting with the tires, which are continuously monitored by the European "SAF TIRE PILOT." If the air pressure drops below the setpoint, the tractor's compressor supplies the tires with more air. In the future, air springs or weight sensors on the axles can determine the correct load and send a warning when the semi-trailer is overloaded or the load distribution is no longer optimal due to cargo slippage. Should an accident still occur, position sensors can detect when the semi-trailer or trailer is overturned and send an automatic message to emergency services and fleet operators.

Mark Molitor: Smart trailers can also help prevent unforeseen stops along the way.

Sensors can detect the technical condition of the semi-trailer and cargo.

“Cargo theft is another problem our customers are facing,” says Molitor. To prevent theft, sensors could be installed on the smart trailer’s doors to detect whether they are open or closed. The system could warn the fleet manager of possible theft if the doors are opened at a location that differs from the scheduled loading points. In order to do this, however, the system needs to know the trailer’s precise location. This is accomplished by GPS sensors, which report the trailer’s GPS coordinates to the fleet manager at regular intervals via the cloud. A smart trailer offers even more options. In the end, one thing is certain: The automation and digitization of processes that previously went unrecorded or required a great deal of manual effort to record opens up tremendous potential for transportation companies to achieve higher efficiency in the future.

"Fleet managers want to carefully plan their resources and, above all, avoid downtimes because they cause the highest costs."

Alexandre Charpiot, Vice President Sales OEM & Aftermarket Europe

Alexandre Charpiot
Vice President Sales OEM & Aftermarket Europe at SAF-HOLLAND. Together with his specialized teams, he takes care of a variety of customers ranging from truck and trailer manufacturers and fleet customers to wholesalers and repair shops.

What do freight forwarders and commercial vehicle manufacturers expect from the new digital technologies emerging in transportation? And what solutions are being developed by SAF-HOLLAND? Spare parts and sales meets research and development: A revealing dialogue between Olaf Drewes, Director Advanced Research & Technology, and Alexandre Charpiot, Vice President Sales OEM & Aftermarket Europe.

Alexandre Charpiot: Our customers are already seeing the benefits of predictive systems today. For example, with brake pads, which are usually the first part of the trailer that needs to be replaced – although shock absorbers also belong to this category. Fleet managers want to carefully plan their resources and, above all, avoid downtimes because they cause the highest costs.

Olaf Drewes: This is where sensors can help by alerting you to which components need to be changed before a trip, so you can avoid a standstill 1,000 kilometers down the road.

Alexandre Charpiot: Our customers also want to bring down the time they spend at the repair shop. Predictive systems can help the fleet manager schedule repair shop visits by showing precisely when an individual vehicle needs maintenance and then directing it to the nearest shop in the service network via an app.

Olaf Drewes: In the case of brake pads, SAF-HOLLAND has been offering wear detection for a long time. The so-called contact wear indicator signals when a pad needs to be replaced. We have also developed a continuous wear sensing system that monitors the pads from the very start. This allows us to predict when the pads' wear limit has been reached – which is the first step towards predictive maintenance.

Olaf Drewes
Manages SAF-HOLLAND's advanced development activities in Europe and, with his team of engineers, focuses on future-oriented areas such as the intelligent networking of axles and chassis, electromobility and lightweight construction.

Alexandre Charpiot: But there's also another way: Our new SAF Air Damping system eliminates the need for a shock absorber – another component that can wear out. Air damping is a good example of how regular communication between the sales and development departments can flow into new solutions for customers.

Olaf Drewes: In any case, our common goal is to help fleet operators use digital methods to increase safety and efficiency. If you know when specific maintenance needs to take place, you can then move on to the next stage and automate the processes – all the way from the repair shop appointment to the automatic ordering of spare parts.

Alexandre Charpiot: But I miss the personal interaction. Even our spare parts business lives from competent advice. The two need not be mutually exclusive.

Olaf Drewes: IT-based systems can also help us provide consulting. The treasure trove of data we are able to gather using intelligently networked sensors will allow us to develop new products in an even more targeted manner based on customer requirements and areas of application.

"The treasure trove of data we are able to gather using intelligently networked sensors will allow us to develop new products in an even more targeted manner based on customer requirements and areas of application."

Olaf Drewes, Director of Advanced Research & Technology

Imprint

Published by
SAF-HOLLAND S.A.
68- 70 Boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg

Editorial office
Stephan Haas, SAF-HOLLAND GmbH
Alexander Pöschl, SAF-HOLLAND GmbH
Nicole Kügler, SAF-HOLLAND GmbH
Redaktionsbüro delta eta –
Paschek & Winterhagen GbR

Concept and Design
3st kommunikation GmbH

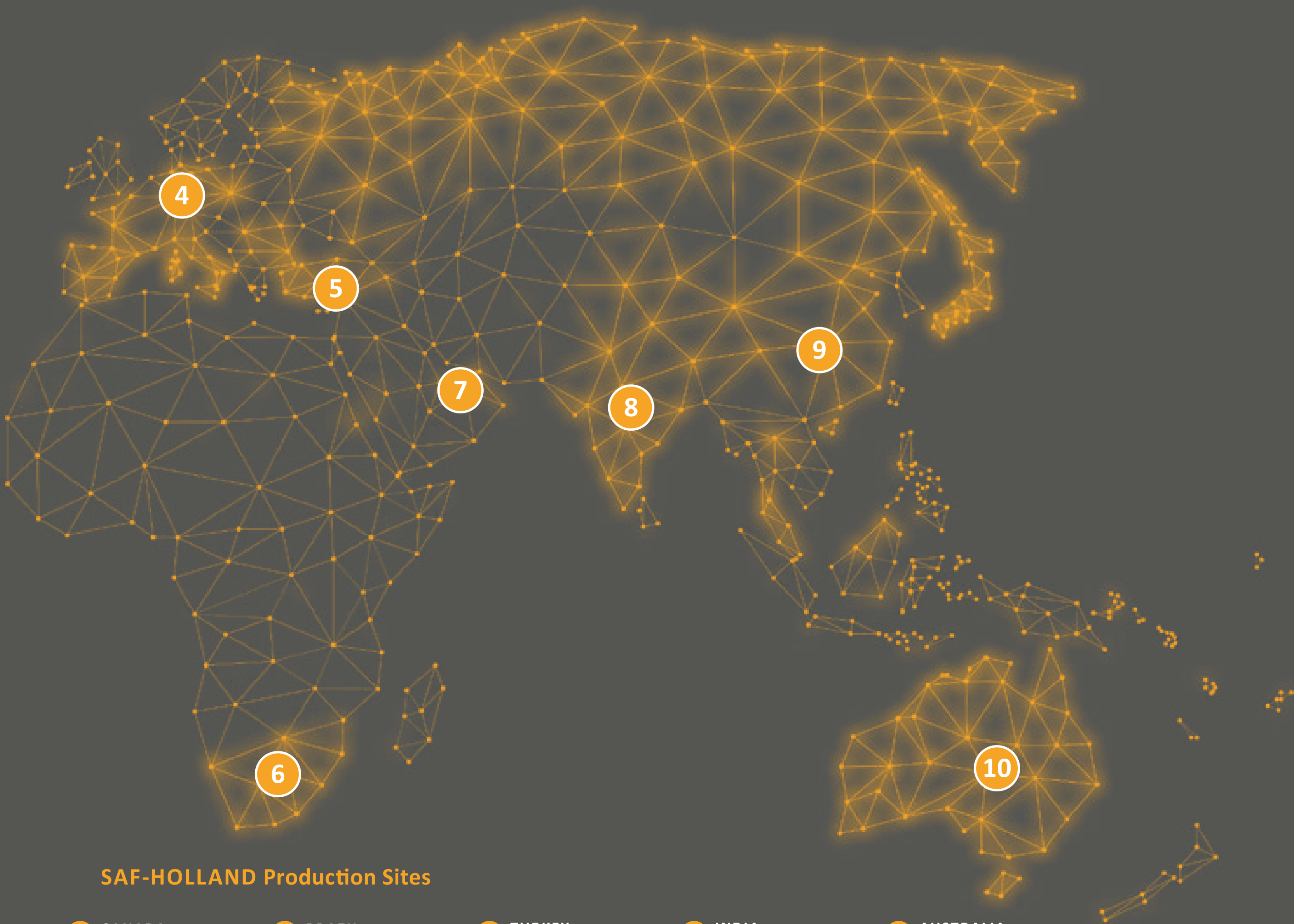
Digital
3st digital GmbH

Video/Digital
Content4Marketing

Images
Matthias Haslauer, Hamburg

This report is available in German and English. Both versions are also available on the Internet at gb2017.corporate.safholland.com (German) and ar2017.corporate.safholland.com (English).

SAF-HOLLAND Production Sites & Subsidiaries



SAF-HOLLAND Production Sites

1 **CANADA**
Woodstock

2 **USA**
Cincinnati, OH
Dumas, AR
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **BRAZIL**
Alvorada

4 **GERMANY**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

5 **TURKEY**
Düzce

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
Jaguariúna
Alvorada

BULGARIA
Sofia

CHINA
Hong Kong
Beijing
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

USA
Muskegon

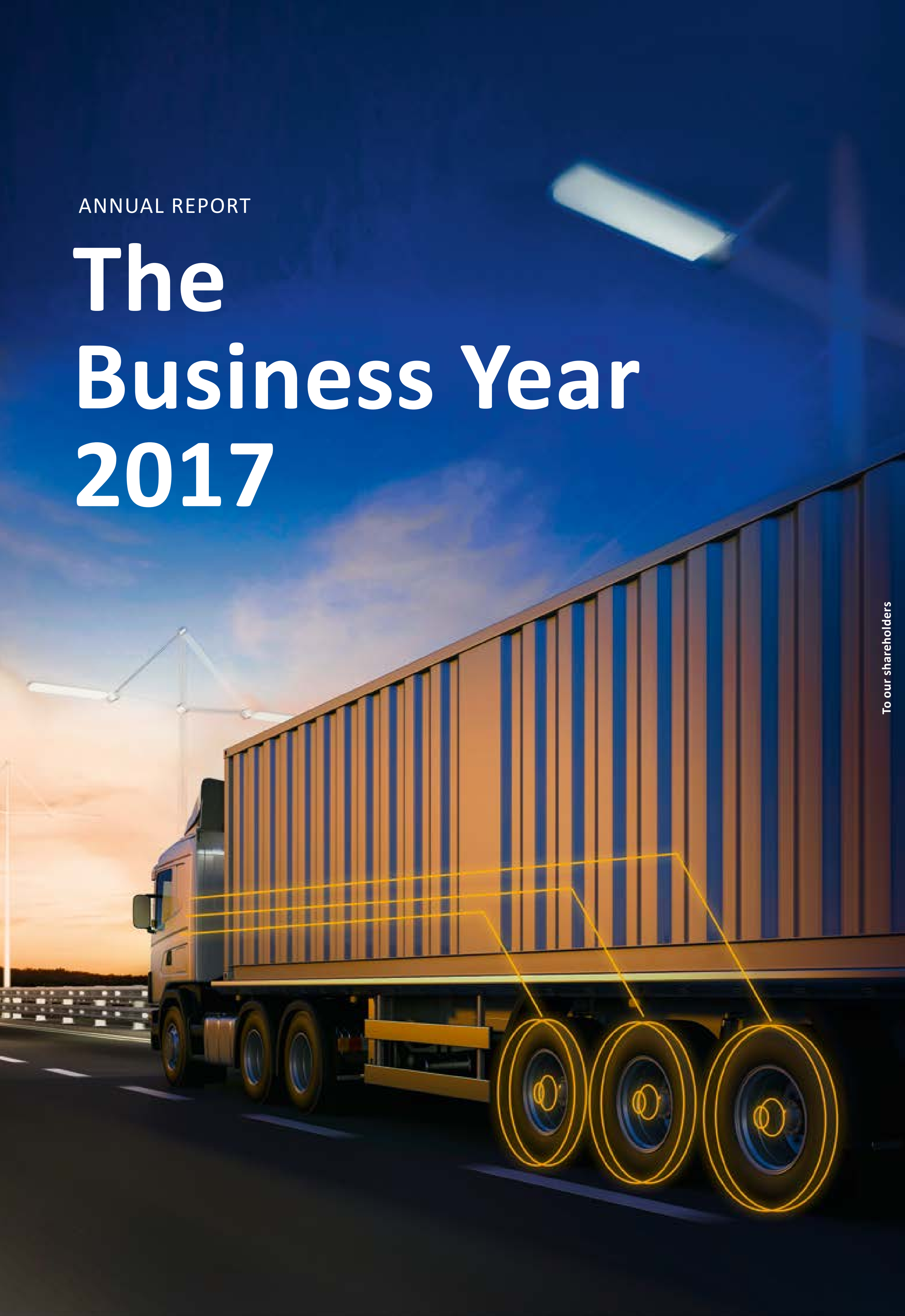
UNITED ARAB EMIRATES
Dubai

This annual report is also available with interactive media and additional footage on the Internet at **ar2017.corporate.safholland.com.**

www.safholland.com

ANNUAL REPORT

The Business Year 2017

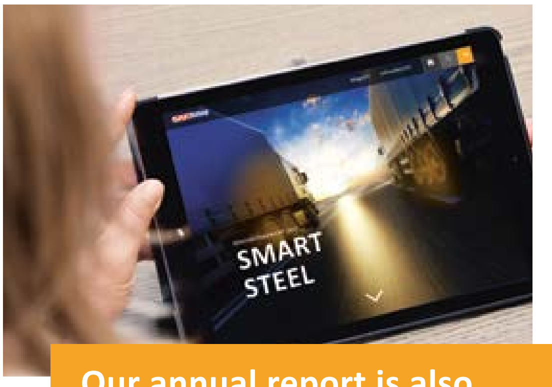


CONTENTS

04
TO OUR SHAREHOLDERS

19
MANAGEMENT REPORT

77
SUSTAINABILITY



Our annual report is also available on the Internet at ar2017.corporate.safholland.com

83

CONSOLIDATED FINANCIAL STATEMENTS

153

ADDITIONAL INFORMATION

LETTER FROM THE CEO

Detlef Borghardt, Chief Executive Officer (CEO)

Ladies and Gentlemen,
Dear Shareholders and Investors,

The 2017 financial year was a challenging year. Still, SAF-HOLLAND significantly exceeded its original sales target and increased sales by EUR 96.9 million to a total of EUR 1.138,9 million. The Group also achieved its operating earnings targets, though at the lower end of the targeted range.

We also took some important steps during the reporting year towards achieving our medium-term targets as part of our Strategy 2020. We worked intently on designing solutions for smart trailers, increasing our contribution to autonomous driving and implementing a significant number of digitization projects. And we're on the right road to complement our growth through acquisitions and joint ventures – also an important objective of our Strategy 2020.

In 2017, the world economy grew stronger than originally expected. Most of the major economies developed positively. The global commercial vehicle markets in the 2017 financial year largely returned to their long-term growth trend, even if some of the important regional markets, such as Brazil, made little progress or, in the case of the commercial vehicle production in Turkey, showed clear signs of weakness. The dynamic increase in demand for trucks and trailers in the second half of 2017 in the United States turned out not to be a solely positive development for us.

The Group's individual segments saw very divergent development. While the EMEA/I and APAC/China regions both posted an outstanding development in sales as well as in earnings, the earnings performance in the Americas region came in noticeably below plan.

The unexpected dynamic recovery in the truck and trailer markets in North America in the second half of 2017, at a time when we were already in the middle of relocating our plants in the course of our US plant consolidation started in the spring, presented us with great production and logistical challenges.

The measures taken in this challenging environment to guarantee our customers timely and error-free delivery led to significant additional operating expenses. This placed an obvious burden on our 2017 financial year results and caused us to come in at the lower end of our original target margin corridor of 8 to 9 %.

It was no question for us that the priority was the needs and requirements of our customers, and we did our best to meet them. After all, making our customer needs a priority is the basis upon which we have built our long-term successful working relationship, not only with our customers in the original equipment business but also with the fleets and in the spare parts business.

We were still able to reach some key operating milestones last year in the US. By relocating the Holland production site in September and the plant in Muskegon at the end of December, the Group was able to complete the relocation measures planned within the scope of the U.S. plant consolidation on schedule at the end of 2017.

The focus in the current 2018 financial year will be to optimally reintegrate the logistics and production processes of our plant network, which has been centralized in five locations instead of seven. After a successful start-up phase, the planned cost savings and efficiency gains from the network's restructuring are to be realized. We then expect to see a successive and sustainable improvement in the region's profitability. This is the focus of our 2018 Management Action Plan (MAP) for the region.

The Chinese commercial vehicle market posted high growth rates again in 2017. Sales of trucks and trailers benefited significantly from stricter loading limits and increased safety regulations. This is leading to higher demand for lightweight solutions and sophisticated axle and air suspension systems with disc brake technology, which are our areas of specialty. We are therefore expecting high growth in the premium area. The large fleet operators are investing in the modernization of their vehicle fleets.

This trend opens up tremendous opportunities for SAF-HOLLAND – and we have already positioned ourselves strategically for what is ahead. By beginning the construction of a new production center on 46,000 square meters of production space in Yangzhou, we have taken a large step towards driving sales in the APAC/China region to well over EUR 100 million by 2020. This new plant is expected to commence operations in the first half of 2019.

We are also very pleased with our business performance in the core EMEA/I region. Even though there was only minimal growth in the region's truck and trailer markets, we were still able to increase our sales by 7.6 %, gain further market share and position ourselves with new products. The startup of our new plant in Düzce, Turkey, was very successful despite a difficult environment. Meanwhile, our capacities there are well utilized, and we are currently running a two-shift operation. The rising demand from neighboring countries has contributed significantly to this success.

New product developments and future trends also took the spotlight in 2017. We are increasingly combining our mechanical components with sensors and electronics, and thereby embarking on a new chapter on our way to future, complementary business models such as preventive maintenance.

How truly active our company already is in these areas of the future and what type of opportunities may arise can be found in the magazine section of our new digital annual report where we have exciting audio-visual content. We hope you will enjoy it.

Taking a look at what lies ahead, in the 2018 financial year our plan is to continue to grow and expand our organic sales by 4 % to 5 % and reach a range of around EUR 1,180 million to EUR 1,195 million. Achieving this will bring us another step closer to achieving our Strategy 2020 goal of raising our organic sales to EUR 1,250 million by the year 2020.

External growth is and will remain a core component of our strategy. We have set ourselves the goal of growing our sales to EUR 1.5 billion by the year 2020, and this target includes acquisitions. We believe we are on the right track with our M&A activities. After withdrawing our offer for HALDEX in 2016, we have shown that we do not stray away from our financial discipline.

In the first quarter of the 2018 financial year, we accomplished a further milestone in our 2020 growth strategy by acquiring a majority stake in the Italian company V.ORLANDI S.p.A. This further strengthens our number two position in Europe for fifth-wheel couplings and expands our specialty business with coupling systems and components. Regionally Orlandi complements our position in hitches and trailer couplings in markets out of Europe such as China, the Middle East and Australia. Besides we have been working on other projects that could propel us forward from both a regional as well as a technological standpoint. The contribution expected from this latest acquisition will add to our stated organic sales and earnings outlook for the 2018 financial year.

Profitable growth is our priority. The adjusted EBIT margin is expected to reach a minimum of 8 % again in full-year 2018 and, from today's standpoint, should be in the range of 8 to 8.5 %. In the Americas region, we expect to incur further additional operating expenses in the first half of 2018, but foresee a gradual improvement in earnings over the course of the year.

Our medium-term 2020 target has been set out clearly: total sales of EUR 1.5 billion and an adjusted EBIT margin of at least 8 %. The share of sales from emerging economies should trend higher in the direction of 30 % because it is in these markets that we expect the transportation industry to see its highest growth rates in the coming years.

I would like to conclude by saying that the overall solid result achieved in the 2017 financial year was due to a large extent to the tremendous expertise and high level of commitment of our employees worldwide. Their strong motivation greatly contributed to this success. With readiness and determination, they have also supported our colleagues in the Group's other regions, some of whom were faced with a difficult year and particularly demanding tasks.

The SAF-HOLLAND Group has shown that everyone involved is moving in the same direction, and for this, I would like to thank all of our employees, also on behalf of my colleagues on the Management Board and Board of Directors. We would also like to show our special appreciation to SAF-HOLLAND's development partners, customers and suppliers for their reliable and faithful cooperation. Besides, we are very pleased with the long-term commitment shown by our shareholders. Stay with us in 2018, and accompany us further on our way.

Sincerely,

Detlef Borghardt
Chief Executive Officer (CEO),
Member of the Board of Directors
Member of the Management Board

MANAGEMENT BOARD

Steffen Schewerda – Alexander Geis – Detlef Borghardt – Dr. Matthias Heiden – Guoxin Mao (from left to right)

DETLEF BORGHARDT

Chief Executive Officer (CEO) and 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

ALEXANDER GEIS

President Region EMEA/Indien

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

GUOXIN MAO

President Region China

Since July 1, 2016 President Region China

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

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, among others CFO SAP Germany and Middle and Eastern Europe

Doctorate degree in economics and degree in business administration from Saarland University, as well as qualified banker

STEFFEN SCHEWERDA

President Region Americas

Since January 1, 2016 President Region Americas

Since 1997 in various management roles at SAF-HOLLAND, among others President Trailer BU

Engineering degree from the University Aachen and a MBA degree from the Universities of Augsburg and Pittsburgh

ARNE JÖRN

Chief Operating Officer (COO) until February 28, 2018

From October 17, 2016 to February 28, 2018 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

REPORT OF THE BOARD OF DIRECTORS

Martina Merz, Chair of the Board of Directors

Ladies and Gentlemen,

Dear Shareholders and Investors,

In 2017, the global commercial vehicle markets resumed their long-term growth trend. This was especially true in North America, which recorded very strong growth rates in the second half of the year – a development that neither we nor market analysts had expected at the start of the year. As a result, we significantly exceeded our sales target for the 2017 financial year. This development, however, also presented us with some major challenges. The US market pickup occurred as we were completing our plant relocation activities in the scope of our US plant consolidation and led to temporary capacity constraints. This, in turn, resulted in a considerable amount of additional operating expenses, causing the adjusted EBIT margin to reach only the lower end of the range projected.

Despite this, we are satisfied overall with the results in the 2017 financial year. Now with the completion of the US plant consolidation and the start-up of the new production network, we are entering the years ahead with more efficient structures. We were able to further improve our position in our relevant markets and win additional market share.

COOPERATION BETWEEN THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The Board of Directors carefully carried out its duties in accordance with the law and the Company's Articles of Association during the 2017 financial year. In doing so, the Board of Directors advised the Management Board regularly on the 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, compliance and the financial position were also jointly discussed and debated. 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.

The Board of Directors also addressed non-financial reporting. As part of Corporate Social Responsibility (CSR) and CSR reporting, the Board of Directors also discussed the aspects of corporate responsibility and the potential impact of SAF-HOLLAND's business policies on society. The main issues discussed were employees, social and environmental concerns, respect for human rights and the fight against corruption and bribery.

FOCUS OF DISCUSSIONS

One of the key topics discussed in the meetings of the Board of Directors during the reporting year was potential acquisitions. The Board reviewed a number of acquisition targets in detail and discussed not only the financial aspects of a takeover but also the strategic reasons for doing so. Discussions focused on suppliers that could expand or complement SAF-HOLLAND's product and technology portfolio and on companies with a strong presence in growth regions, where SAF-HOLLAND plans to expand significantly in the years ahead under its Strategy 2020.

MARTINA MERZ ASSUMES CHAIR OF THE BOARD OF DIRECTORS

The Board of Directors also focused on organizational adjustments resulting from personnel changes within the Board of Directors. After the longtime chair of the Board of Directors, Bernhard Schneider, left the Board at the end of the 2017 Annual General Meeting, Martina Merz, who until that point had been vice chair, was elected as the new chair at the Board meeting on April 27, 2017. Dr. Martin Kleinschmitt was elected vice chair of the Board of Directors at that same meeting. Sam Martin also left the Board of Directors at the end of the 2017 Annual General Meeting, and Carsten Reinhardt was newly elected by the Annual General Meeting to the Board. Jack Gisinger, who had been an associate member of the Board since December 6, 2016, was approved by the Annual General Meeting. As part of these changes, the Audit Committee was reorganized, the Remuneration Committee was established, and the Board of Directors adopted new rules of procedure.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met regularly during the 2017 financial year. Five of the meetings were conducted in person, and two were in the form of conference calls. Meetings were held at least once per quarter. All meetings were fully attended by the Board of Directors with the exception of one conference call that one member could not attend.

In the meeting on March 14, 2017, the Board of Directors focused on the consolidated financial statements and the group management report for the 2017 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 approved the agenda for the 2017 Annual General Meeting, which included the proposal for the reappointment of PriceWaterhouseCoopers Société Coopérative (PwC) as the external auditor for the 2017 financial year and for an increase in the dividend per share to EUR 0.44. The Board also approved the agenda for the 2017 Extraordinary General Meeting, which included the proposal to increase the authorized share capital excluding subscription rights from 10 to 20 % of share capital.

At the second meeting of the Board of Directors on April 27, 2017, which took place directly after the Annual and Extraordinary General Meetings, Martina Merz was elected as chair and Dr. Martin Kleinschmitt as vice chair of the Board of Directors. In addition, Carsten Reinhardt and Martina Merz were newly elected to the Audit Committee. Dr. Martin Kleinschmitt continues to serve as chair of the Audit Committee and meets the requirement of financial expert. All members of the Audit Committee fulfill the requirement of financial expert. The Board also resolved to create a remuneration committee.

In addition to the business development report for the first quarter of 2017, the meeting of the Board of Directors on May 8, 2017, focused primarily on possible acquisition targets. A further focus was the report of the Management Board on SAF-HOLLAND's research and development activities. In this context, there was a discussion about current development projects, product launches, research and development processes, the research and development budget (R&D budget) and future goals.

The meeting on August 8-9, 2017 was held as a conference call. In addition to the report on business development in the second quarter of 2017, the Board again discussed potential acquisitions. Other topics included the proposal of the Remuneration Committee regarding the remuneration of the Management Board and an update on the business development in China.

The meeting on October 5, 2017 was also held as a conference call. In addition to the business performance in the third quarter of 2017, the Board of Directors discussed the agenda for the upcoming strategy meeting in November 2017 and the business development in China. Personnel issues were also discussed, including management changes at subsidiaries requiring the approval of the Board of Directors.

The Board of Directors held a three-day meeting from November 6-8, 2017 that not only focused on the business development report for the third quarter of 2017 but also the Company's strategy. The Board of Directors and the full Management Board jointly discussed the progress made so far in the context of Strategy 2020 and outlined the priorities for the next few years. In the course of the three-day meeting, both the Remuneration Committee and the Audit Committee also met for discussions.

The final meeting of the year took place on December 7, 2017. As usual, the focus was on the budget for the upcoming year, mid-term planning and the performance targets for the Management Board. The Board of Directors also approved the plan to build a new plant in China, as well as the related increase in investment planned for the year 2018.

AUDIT COMMITTEE

The work of the Board of Directors is supported by the Audit Committee, which met on three occasions during the reporting year. The Committee primarily 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.

REMUNERATION COMMITTEE

Also in the 2017 financial year, the Board of Directors established the Remuneration Committee, which held its first meeting on May 8, 2017. The Remuneration Committee met three times during the reporting year and, among others, dealt with the determination and review of the remuneration for the Management Board. The services of an external advisor specialized in remuneration issues were used to perform this task. The members of the Remuneration Committee are Martina Merz (chair), Jack Gisinger, Anja Kleyboldt, Dr. Martin Kleinschmitt and Carsten Reinhardt.

NOMINATION COMMITTEE

In the 2017 financial year, preparations were completed for the creation of a nomination committee. The Nomination Committee will begin its work in early 2018.

CORPORATE GOVERNANCE

SAF-HOLLAND S.A. is a Luxembourg-based Société Anonyme (S.A.), listed exclusively in Germany. As such, SAF-HOLLAND S.A. is subject to Luxembourg and not German company law. The Company is also not required to comply with the German corporate governance regulations that apply to listed German companies. Nevertheless, we have decided to comply with the recommendations of the German Corporate Governance Code on the principles of good corporate governance to a certain extent because SAF-HOLLAND S.A. believes the German Corporate Governance Code represents an important foundation for responsible corporate governance.

During the 2017 reporting year, the Board of Directors intensively dedicated itself to the issue of corporate governance. The 2017 Declaration of Conformity on the recommendations of the German Corporate Governance Code was submitted by the Board of Directors of SAF-HOLLAND on March 14, 2017. The current Declaration of Conformity submitted on March 15, 2018, can also be found on the Company's homepage.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTS REVIEW MEETING

PricewaterhouseCoopers Société Coopérative (PwC) audited the December 31, 2017 consolidated financial statements 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 net assets, financial position, results of operations and the cash flows of the SAF-HOLLAND Group. The auditor confirmed that the Group management report, including the Corporate Governance Declaration, is consistent with the consolidated financial statements.

The consolidated financial statements, Group management report and the 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 Audit Committee discussed the results of the audit with PWC in its meeting on March 14, 2018. The auditor presented his key audit findings and was available for any in-depth questions from the Board members. In its meeting on March 15, 2018, the Board of Directors discussed the consolidated financial statements presented, approved the statements and adopted them. The Board of Directors endorsed the Management Board's proposal for the appropriation of retained earnings and recommended proposing a slightly higher dividend per share of EUR 0.45 (previous year: EUR 0.44) for the 2017 financial year at the Annual General Meeting on April 26, 2018.

EXTENDED TERMS OF OFFICE FOR MEMBERS OF THE BOARD OF DIRECTORS

Detlef Borghardt's term of office as a member of the Board of Directors was confirmed by the Annual General Meeting on April 27, 2017, and extended to the end of the Annual General Meeting for the 2019 financial year.

The Board of Directors would also like to thank the shareholders for their long-term commitment and all of the employees, the employee representatives and the Management Board for their tremendous dedication and successful contribution during the 2017 financial year.

Luxembourg, March 15, 2018

Martina Merz
Chair of the Board of Directors

SAF-HOLLAND ON THE CAPITAL MARKET

OVERVIEW OF STOCK MARKET AND SHARE PRICE PERFORMANCE

SAF-HOLLAND SHARES SIGNIFICANTLY OUTPERFORM THE DAX AND SDAX INDICES

After enjoying an increase of 9.2 % in 2016, SAF-HOLLAND's shareholders saw their shares climb a further 31.5 % in 2017 in an overall favorable capital market environment. Ending at a closing price of EUR 13.64 in 2016, SAF-HOLLAND shares rose steadily in the 2017 financial year driven by a generally buoyant market environment and positive corporate news, such as the increase in the dividend for the 2016 financial year and the very solid results in the first and second quarters of 2017. The shares reached an interim high of EUR 17.50 on September 19, 2017. On October 9, 2017, the Company adjusted its 2017 full-year forecast by sharply raising its outlook for sales but bringing the projected EBIT margin down towards the lower end of the planned range. The shares responded with a temporary steep correction and then rallied sharply higher, which turned into an uptrend leading to a year high of EUR 18.08 on December 27, 2017 (closing price). The share closed the 2017 trading year just under this high at EUR 17.94. Including a dividend of EUR 0.44 per share, the total return for SAF-HOLLAND shareholders in 2017 amounted to an impressive 34.8 %. As a result, in 2017 SAF-HOLLAND's shares outperformed the increase of 12.0 % in the DAXsector Automobile index, which is the relevant sector index. SAF-HOLLAND's shares also outperformed the SDAX (24.9 %) and the DAX (12.5 %) indices.

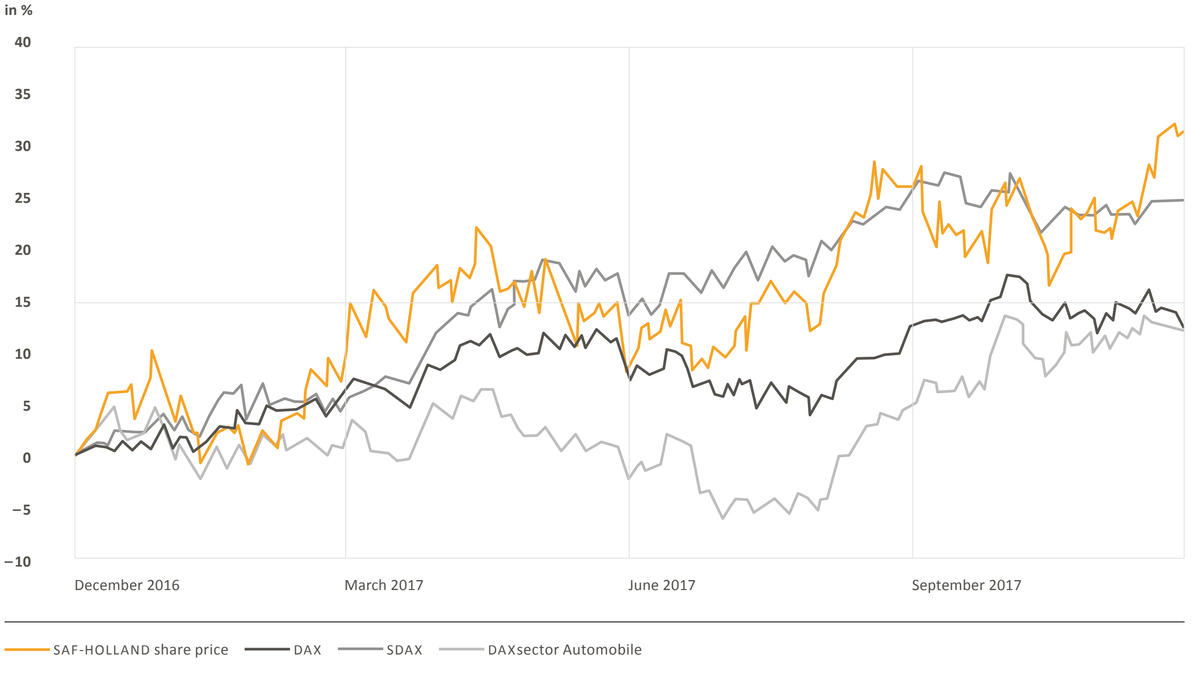
TRADING VOLUME IN SAF-HOLLAND SHARES CONTINUES TO INCREASE

The development of the share's trading activity, which is an important investment criterion particularly for institutional investors, was very positive in 2017. The average daily turnover in SAF-HOLLAND shares rose 11.0 % during the year to EUR 1.8 million (previous year: EUR 1.6 million). At the same time, the higher share price meant that the average number of SAF-HOLLAND shares traded each trading day fell to 116,300 shares (previous year: 148,600), which is relatively high liquidity for an SDAX share. As in prior years, the trading volume in SAF-HOLLAND shares on alternative trading platforms known as dark pools (such as BATS Chi-X Europe, Turquoise and Chi-X), was very high in 2017. Trading in dark pools is mainly executed by investment banks, brokerage firms and institutional investors who deal directly with one another. In 2017, these alternative trading platforms accounted for around 56 % of the volume traded (previous year: 55 %), which once again was higher than the share of volume traded on the regular German stock exchanges.

POSITION IN INDEX RANKING

Based on SAF-HOLLAND's closing price for the year, the Company's market capitalization on December 29, 2017 amounted to roughly EUR 814 million. SAF-HOLLAND ranked 71st in terms of free-float market capitalization in Deutsche Börse AG's index ranking as of December 31, 2017 (previous year: 68th), which determines the composition of the MDAX and SDAX indices. SAF-HOLLAND's shares also clearly outperformed the DAX in terms of price performance. New listings on the stock exchange during the year included numerous initial public offerings (IPOs) and spin-offs of subsidiaries from larger groups with comparatively higher market capitalizations and trading volumes. Although these listings placed ahead of SAF-HOLLAND in the index ranking, SAF-HOLLAND's shares remain one of the more important stocks in the SDAX, ranking 79th in terms of trading volume (previous year: 67th), and continue to have a comparatively high share of long-term investors, such as life insurance companies and pension funds.

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



INVESTOR RELATIONS AND CAPITAL MARKET ACTIVITIES

SAF-HOLLAND RECEIVES GERMAN INVESTOR RELATIONS AWARD

In June 2017, SAF-HOLLAND was awarded two coveted German Investor Relations Awards by the German Investor Relations Association e.V. (DIRK) in cooperation with the business magazine WirtschaftsWoche and the corporate access company WeConvene Extel. SAF-HOLLAND received awards for the SDAX company with the best investor relations practices and the best SDAX investor relations manager. We see these awards as recognition of our investor relations efforts in recent years and as an incentive to continue to foster service-oriented and proactive communications with both capital market participants and representatives of the business media.

FIRST DIGITAL ANNUAL REPORT RECEIVES MULTIPLE AWARDS

SAF-HOLLAND's 2016 Annual Report 2016, our first report in digital form, received numerous awards and prizes, including awards from FOX FINANCE and iNova. The report was also awarded the "Winner" in the "Digital" category in the 2017 Automotive Brand Contest.

As part of our investor relations activities, we keep investors and other interested parties continuously updated on our business model, the Company's ongoing business development and where we stand with the implementation of our strategic objectives. We also pay special attention to sector-related issues, such as the current trends in the international truck and trailer markets and the new technological approaches emerging in the age of digitization in the transportation markets. Investor and analyst conference calls on our annual financial results and the regular conference calls with the publication of the quarterly figures are other examples of our activities. Another focus of the Investor Relations department is to maintain an active dialog with investors, analysts, journalists and other capital market participants through private meetings, investor conferences, roadshows, and regular updates on Twitter.

In 2017, SAF-HOLLAND underwent a targeted expansion of its investor relations activities. Members of the Management Board and/or the Investor Relations team presented the Company's latest business performance, growth prospects and strategic objectives in a total of seven roadshows and eleven capital market conferences in both Germany and abroad. As in previous years, the focus of the activities was not only in Germany but also other major international financial centers such as London and the United States. Other roadshow and capital market conference locations in the 2017 financial year included Switzerland, France, the Netherlands, and Scandinavia. The interest of capital market participants in SAF-HOLLAND was also reflected by the high number of company visits from investors and analysts. SAF-HOLLAND provided visitors with an insight into manufacturing and engineering. In addition to the factory tours, key topics included the Company's future prospects and technology trends, particularly weight savings and digitization.

Further detailed, up-to-date information about the Company's shares and corporate and convertible bonds is published on SAF-HOLLAND's Investor Relations website at http://corporate.safholland.com/en/investor-relations. The website also provides key figures, current financial news, reports, presentations and conference call recordings, as well as all relevant information regarding the Annual General Meeting.

PREDOMINATELY POSITIVE ANALYST RATINGS

SAF-HOLLAND is covered by analysts at both German and international banks and research firms who regularly publish detailed research reports on the Company. At the end of 2017, analysts at 14 brokers covered SAF-HOLLAND's shares. Nine of these analysts recommended either buying the shares or expected SAF-HOLLAND's shares to outperform the overall market. Four analysts had a "hold" or neutral rating on the shares, and one analyst rated the shares a "sell." The analysts who actively cover the shares and publish regular research reports on the Company had price targets for the shares ranging between EUR 16.50 and EUR 22.00, with the average price target at around EUR 17.79.

Current analyst ratings

Nov. 9, 2017	Bankhaus Lampe	Buy
Dec. 7, 2017	Berenberg	Buy
Nov. 2, 2017	Commerzbank	Hold
May 10, 2017	Deutsche Bank	Hold
Aug. 10, 2017	equinet	Accumulate
Oct. 17, 2017	Exane BNP Paribas	Neutral
Nov. 9, 2017	Hauck & Aufhäuser	Buy
Jul. 25, 2017	HSBC	Hold
Dec. 6, 2017	Kepler Cheuvreux	Buy
Nov. 10, 2017	Macquarie Capital	Outperform
Nov. 29, 2017	M.M. Warburg	Buy
Dec. 22, 2017	Montega	Buy
Jan. 18, 2017	ODDO BHF	Buy
May 31, 2017	Quirinbank	Sell

SHAREHOLDER STRUCTURE: HIGHER PORTION OF INSTITUTIONAL INVESTORS

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 shareholder base consists primarily of institutional investors such as fund managers, asset managers, banks and insurance companies, as well as private investors from both Germany and abroad. The major shareholders are primarily capital investment companies from Great Britain, the United States, France, Scandinavia and the Benelux countries.

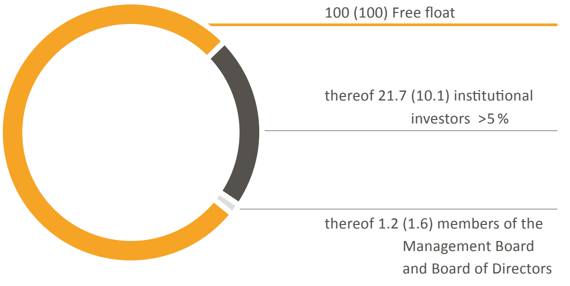
As of the end of 2017, voting right notifications showed that four institutional investors held more than 5 % of the Company's share capital. JP Morgan Asset Management and Kempen Oranje Participaties established positions in the Company during the 2017 financial year. NN Group N.V. became a shareholder in SAF-HOLLAND following its acquisition of Delta Lloyd N.V.

Shareholder name	share of notified voting rights
NN Group N.V.	6.56 %
JP Morgan Asset Management	5.08 %
Kempen Oranje Participaties	5.07 %
FMR LLC	5.03 %

The share of institutional investors holding more than 5 % of the Company's share capital has doubled compared to the previous year. The members of the SAF-HOLLAND Management Board and Board of Directors together held a total of 1.2 % of the outstanding shares.

Shareholder structure 2017

in %



Status: December 31, 2017

2017 ANNUAL GENERAL MEETING RESOLVES TO INCREASE DIVIDEND TO EUR 0.44 PER SHARE

The Annual General Meeting of SAF-HOLLAND S.A. on April 27, 2017 resolved to distribute a 10 % higher dividend amounting to EUR 0.44 per share (previous year: EUR 0.40) for the 2016 financial year. This is equivalent to a total dividend payout of approximately EUR 20.0 million (previous year: EUR 18.1 million), representing a payout ratio of 46.4 % (previous year: 38.6 %) of the result for the period and marking a continuation of SAF-HOLLAND's sustainable dividend policy of distributing between 40 and 50 % of the net income to shareholders. The dividend yield based on the SAF-HOLLAND share's closing price at the end of 2016 remained unchanged at 3.2 % (previous year: 3.2 %).

EXTRAORDINARY GENERAL MEETING EXTENDS THE DURATION OF AUTHORIZED SHARE CAPITAL AND AUTHORIZES SHARE REPURCHASE

The Extraordinary General Meeting, which took place immediately after the Annual General Meeting, resolved to extend the duration of the Company's authorized share capital (Authorized Capital I) in the remaining amount of EUR 119,588.52 (11,958,852 shares; nominal value of EUR 0.01 each) by an additional five years. An option was granted to exclude subscription rights for a total of EUR 45,361.11 of this remaining amount (4,536,111 shares). The Extraordinary General Meeting also extended the Company's authorization to repurchase shares of up to 10 % of the share capital at the time of the resolution for a further period of five years.

Key share information

WKN/ISIN	A0MU70/LU0307018795
Ticker symbol	SFQ
Number of shares	45,394,302
Designated sponsors	Commerzbank AG, ODDO SEYDLER BANK AG, Kepler Cheuvreux
Year high/low[1]	EUR 18.08/EUR 13.50
Year-end closing price[1]	EUR 17.94
Market capitalization	EUR 814.4 million

[1] XETRA closing price

CORPORATE BOND OVERVIEW

SAF-HOLLAND CORPORATE BOND

SAF-HOLLAND has had a corporate bond listed in the Prime Standard segment for corporate bonds on the Frankfurt Stock Exchange since 2012. This bond has a total nominal value of EUR 75.0 million, a coupon of 7.0 % and matures on April 26, 2018. The company plans to repay this bond upon maturity.

As of December 29, 2017, the bond was quoted at 101.90 % and was thereby approaching the redemption price of 100.0 % at maturity.

SAF-HOLLAND CONVERTIBLE BONDS

In 2014, SAF-HOLLAND issued convertible bonds with a total nominal value of EUR 100.2 million, which are listed on the open market of the Frankfurt Stock Exchange. The convertible bonds have an interest coupon of 1.0 % and mature on September 12, 2020. The first conversion took place in the 2017 financial year with four convertible bonds converted into 33,190 shares of SAF-HOLLAND S.A. The conversion increased the Company's share capital by a total of EUR 331.90.

Based on the cash dividend payment to the SAF-HOLLAND S.A. shareholders resolved at the 2017 Annual General Meeting, the conversion price and conversion ratio were adjusted in accordance with the bond conditions. The adjusted conversion price effective April 28, 2017 is EUR 12.0517 (previously: EUR 12.1823), and the adjusted conversion ratio is 8,297.5846 (previously: 8,208.6306).

The convertible bond's positive performance in 2017 remained in line with the development of SAF-HOLLAND's share price. After ending the year 2016 at a price of 121.6 %, the convertible bond was quoted at 139.0 % on December 29, 2017. This corresponds to a 14.3 % increase in the bond price. The bond reached a year high of 145 % in May.

The corporate and convertible bonds prices and most important key figures and conditions can be found on the Investor Relations website under the menu item "Share & Bonds."

COMPANY'S BBB CREDIT RATING WITH STABLE OUTLOOK RECONFIRMED

On April 5, 2017, the rating agency Euler Hermes reconfirmed SAF-HOLLAND's BBB investment grade rating with a stable outlook for the next twelve months. In its analysis, Euler Hermes justified the investment grade rating citing SAF-HOLLAND'S positive growth prospects, higher global transportation volumes and the SAF-HOLLAND Group's excellent market position, particularly in axle and suspension systems in the core markets of Europe and fifth wheel couplings in North America. Euler Hermes positively acknowledged the fact that profitability and capital returns have risen steadily. Euler Hermes' assessment also pointed out a slightly higher business risk due to dependency on cyclical sectors and at the same time confirmed SAF-HOLLAND S.A.'s low financial risk due to its very solid financial structure and financial flexibility. Euler Hermes did not see any need to modify the anchor rating, as the operational risks are adequately managed and consistent with the anchor rating. Euler Hermes expects these ratios to continue to improve in the years to come, especially in light of the Company's 2020 strategy targeting growth in new markets.

MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

The SAF-HOLLAND S.A., located in Luxembourg, is the largest independent listed commercial vehicle supplier in Europe. With sales of EUR 1,138.9 million and an average of 3,565 employees in 2017, the SAF-HOLLAND Group is one of the international leading manufacturers of chassis-related systems and components, primarily for trailers, but also for trucks, buses and recreational vehicles. 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 (OEM) 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. With the innovative SMART STEEL – ENGINEER BUILD CONNECT campaign, SAF-HOLLAND combines mechanical components with sensors and electronics and is driving ahead the digital networking of commercial vehicles and logistics chains.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

SAF-HOLLAND generates around 62 % of its sales with OEM customers in the trailer industry. SAF-HOLLAND products account for roughly one-third of the total value of a standard trailer. In addition to the trailer manufacturers, SAF-HOLLAND also sells to end customers, such as fleet operators. For many products, such as axle and suspension systems, it is the end customers themselves who determine most of the trailer specifications and choose their own suppliers. This contact with the end customers ensures that SAF-HOLLAND remains close to its customers so that it can offer the right solutions for their ever-changing requirements. Business with OEM customers from the truck industry currently accounts for about 13 % of Group sales.

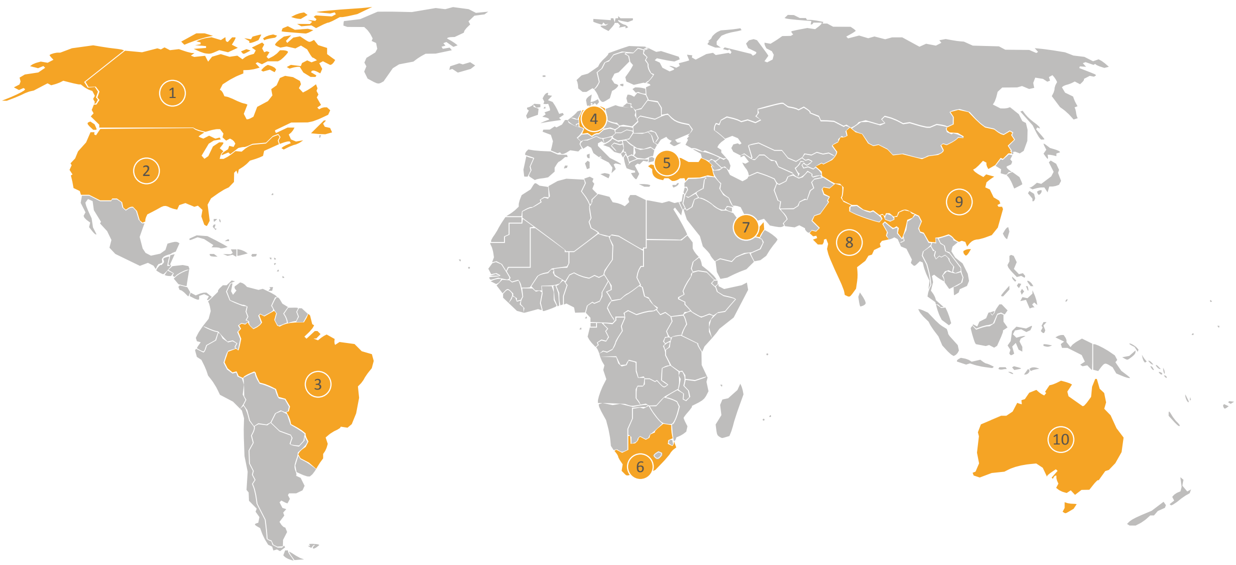
SAF-HOLLAND's product portfolio is unique in its focus on products that are crucially important to truck and trailer manufacturers in terms of quality, performance, innovation and standard of safety. SAF-HOLLAND's lightweight components and their inherent weight savings are setting industry standards and allowing end customers to optimize their total cost of ownership.

Apart from the Original Equipment Manufacturers (OEM) business, another key component of the Company's business model is the aftermarket business (Original Equipment Suppliers – OES), which represents almost 25 % of Group sales. SAF-HOLLAND possesses the largest and densest spare parts and service network in both Europe and North America. Through collaborations, SAF-HOLLAND has 10,000 spare parts and service stations available worldwide. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers and at the same time represents a high barrier to entry for potential competitors. Because the demand in the aftermarket business trails 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: A GLOBAL PRESENCE IN ALL MAJOR COMMERCIAL VEHICLE MARKETS

SAF-HOLLAND is one of the suppliers in the sector with the largest geographical footprint. With a total of 17 production locations spread over six continents, the Company is present in all of the major truck and trailer markets worldwide. In addition to its regionally focused plants in North America, Europe and China, SAF-HOLLAND also has production and assembly facilities in Brazil, South Africa, Turkey, India, Australia, and the United Arab Emirates.

SAF-HOLLAND production locations



1 **Canada**
Woodstock

2 **USA**
Cincinnati, OH
Dumas, AR
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **Brazil**
Alvorada

4 **Germany**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

5 **Turkey**
Düzce

6 **South Africa**
Johannesburg

7 **United Arab Emirates**
Dubai

8 **India**
Chennai

9 **China**
Baotou
Xiamen

10 **Australia**
Melton

With roughly 10,000 spare parts, service stations, dealers and repair shops in over 80 countries, SAF-HOLLAND also has one of the broadest spare parts and service networks in the industry. 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. A total of roughly 90 % of sales were generated in these two regions in the reporting year. SAF-HOLLAND's activities outside of these established sales markets are mainly concentrated in the BRIC countries, the Middle East and Australia. In China and Brazil, among others, SAF-HOLLAND is not only active in the truck and trailer sector but also in the segment for bus suspensions.

PRODUCTS AND CUSTOMERS: CUSTOMIZED SOLUTIONS FOR CUSTOMERS

Our key products include axle and suspension systems, kingpins and landing gear for trailers, fifth wheels for trucks and suspension systems for vocational vehicles and buses. While the trailer component 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 globally operating truck manufacturers as well as smaller regional providers and manufacturers of vocational vehicles.

SAF-HOLLAND markets its products to original equipment manufacturers under three umbrella brands worldwide: SAF, HOLLAND and NEWAY. The SAF brand features axle and suspension systems for trailers, the HOLLAND logo is used on products with coupling and lifting technology, and NEWAY is the brand for suspensions for tractors and buses. SAF-HOLLAND also uses the TRILEX brand at the local level, mainly in the Middle East and East Africa.

SAF-HOLLAND supplies spare parts dealers and repair shops as well as large fleet operators from its global 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

SAF	Holland	NEWAY
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.

SAF-Holland ORIGINAL PARTS	SAUER GERMANY QUALITY PARTS / GOLD LINE QUALITY PARTS
SAF-HOLLAND ORIGINAL PARTS	**SAUER GERMANY QUALITY PARTS and GOLDLINE QUALITY PARTS**
is the aftermarket brand for our premium products developed and tested for the most stringent requirements.	are the aftermarket brands for our quality products developed and tested as the industry standard.

LEADING POSITION IN AN OLIGOPOLISTIC MARKET ENVIRONMENT

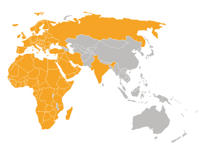
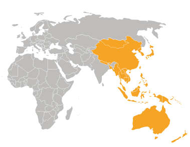
SAF-HOLLAND's core markets – Europe and North America – are mainly characterized by oligopolistic competitive structures. Nearly all product segments are dominated by the three largest suppliers who account for roughly 80–90 % of the market volume.

SAF-HOLLAND is one of the three leading suppliers in all of the relevant market segments in its core markets and the European leader in axle and suspension systems for trailers. In North America, SAF-HOLLAND is the market leader for fifth wheels, landing gear and kingpins. The Company also commands the densest service network worldwide.

ORGANIZATIONAL STRUCTURE

SAF-HOLLAND's Group structure spans three regions: EMEA/I, the Americas and APAC/China. This regional structure reflects the Group's reportable segments and includes both the original equipment and aftermarket businesses. Each segment is entirely responsible for its own results and controls all the necessary resources. Cross-segment functions and key tasks to support the business units are centrally organized within the Group.

Regionally focused structure

Americas	EMEA/I	APAC/China
		
All product groups	All product groups	All product groups

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

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 % SAF (Xiamen) 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 Beijing Technology and Development Co., Ltd.
- 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 entities, 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.

INFLUENTIAL ECONOMIC AND LEGAL FACTORS

One of the key factors influencing SAF-HOLLAND's business is the development of global transportation volumes. Cargo volumes are continuously growing worldwide driven by population growth, urbanization and the economy's growing 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.

Regulatory requirements can drive our product sales higher. Load restrictions, fuel consumption and emission requirements for commercial vehicles are becoming increasingly more stringent worldwide. This also 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 the Strategy 2020 in 2015, SAF-HOLLAND aligned its business to the global megatrends in the transportation industry. The strong projected increase in global consumption driven by factors such as a growing population and expanding purchasing power – particularly in the middle class – is leading to rising demand for goods and, consequently, steadily increasing transportation volumes. This growth calls for a substantial investment in transportation equipment, particularly in trucks and trailers, which are found at the beginning and end of every supply chain. We mainly see this structurally driven market growth in the emerging economies, particularly in the Asia Pacific, Middle Eastern, and African markets.

In pursuing our Strategy 2020, SAF-HOLLAND is transforming itself from an international company to a global group.

The Group's presence should strengthen considerably, particularly in the emerging markets, as a result of its entry into new regional markets outside of the Group's current core markets of Europe and North America. This expansion includes a product portfolio with regional solutions that are durable, reliable and tailored to customer requirements.

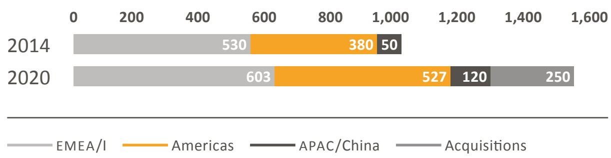
Another one of our strategic objectives is to expand our aftermarket business across all regions. Over the medium term, this business is expected to constitute at least one-quarter of the Group's sales.

In line with the goals set out in our Strategy 2020, SAF-HOLLAND is targeting an increase in organic Group sales from a level of roughly EUR 960 million in the 2014 financial year to approximately EUR 1,250 million in 2020, representing average organic growth of around 4 % p.a. Complementary collaborations, joint ventures and acquisitions are expected to add sales of roughly EUR 250 million and boost total Group sales in 2020 to around an estimated EUR 1,500 million.

The share of sales generated in regions outside of today's core markets of Europe and North America is expected to approach 30 % by the year 2020.

Strategy 2020 sales targets

in EUR millions



In accordance with our set objectives, the adjusted EBIT margin is anticipated 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 takes into account the higher number of shares resulting from the conversion rights of convertible bonds issued in 2014.

Despite this strong growth, the Group intends to retain its high level of capital efficiency. The annual average investment volume over the next several years is expected to be around 2 to 3 % of sales. To realize the strong organic growth expected in China over the next several years, especially in modern axle and suspension systems for trailers, the SAF-HOLLAND Group plans to significantly expand its production capacity in that region. In order to do so, the Group is increasing its level of investment in 2018 and will invest a high single-digit million euro amount in a new central, highly efficient production center in China. This investment will prepare us for our growth in the years ahead while at the same time achieving a core objective of our 2020 growth strategy. We therefore expect our investment volume to total EUR 38 to 40 million in the 2018 financial year.

The ratio of net working capital to sales is also expected to remain 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 2.5 would be temporarily acceptable for larger acquisitions.

Three years after formulating its 2020 growth strategy, SAF-HOLLAND is well on its way to achieving its goals. With organic sales of EUR 1,138.8 million in the 2017 financial year (excluding KLL), the Group has already increased its sales by 18.6 % versus the 2014 benchmark year. This rise corresponds to average annual growth of more than 5 %, despite facing an overall difficult market environment during this period. On the acquisition side, SAF-HOLLAND took its first major step toward strengthening its presence in the emerging markets in 2016 with the acquisition of KLL, one of Brazil's leading suppliers of air suspension systems for trucks and buses, as well as axles and mechanical and air suspension systems for trailers. In the 2017 financial year, KLL contributed around EUR 11.9 million to Group sales. Acquisitions are required to offer both strategic and financial value. SAF-HOLLAND will remain committed to these principles for any possible future acquisitions because it believes this is in the best interest of its shareholders.

SAF-HOLLAND has met its targets thus far, including those for profitability and capital efficiency. In each of the years from 2015–2017, the annual adjusted EBIT margin reached at least 8 %. The investment ratio was in the range of 2.4 and 2.6 %, the leverage ratio was between 0.9 and 1.1, and the net working capital ratio was in the range of 10.9 and 12.0 %.

With the assumption of financial liabilities over the past two years in the form of higher credit lines and the issue of a promissory note, SAF-HOLLAND has secured the financial basis necessary for the acquisitions planned under the Strategy 2020.

PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The Management Board of the SAF-HOLLAND Group relies primarily on financial key figures to assess current business performance and make future strategic and investment decisions. The most important performance indicators are based on the Group's sales and earnings development and net assets, or are derived therefrom, and include the following:

— 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 transaction 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

in EUR millions

	Target 2020	2017	2016	2015	2014	2013
Sales	1,250–1,500	1,138.9	1,042.0	1,060.7	959.7	857.0
Adjusted EBIT	≥100–120	91.2	90.4	94.0	70.7	59.3
in % of sales	≥8%	8.0	8.7	8.9	7.4	6.9
Diluted earnings per share in EUR	~1.20	0.82	0.85	0.99	0.69	0.54
Net working capital	150–180	120.6	110.3[2]	116.6[1]	102.7	76.1
in % of sales	12	11.0	10.9	12.0	10.9	9.4

1 Excluding receivables of EUR 2.0 million from the sale of property in Wörth, Germany.
2 Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements).

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

Other important financial performance indicators considered in corporate management include

— Investment volume (investments in property, plant and equipment and intangible assets)
— Leverage ratio (net debt divided by EBITDA)
— Equity ratio (ratio of equity to total assets)
— Liquidity (the sum of cash and cash equivalents, other short-term investments and freely available credit lines)
— Cash flow from operating activities
— Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets)
— Return on investment (the yield from an investment)
— Days Sales Outstanding (DSO)

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators above, SAF-HOLLAND also relies on non-financial indicators to support decision-making. These indicators include primarily data such as delivery reliability, quality, sales volume, 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.

SAF-HOLLAND also takes sustainability indicators into account when measuring its performance. These indicators include those concerning employees such as turnover rates, length of service and training, occupational safety, as well as environmental issues such as emissions, energy consumption, and volume of waste. Further details can be found in the section "Sustainability" on page 78.

INTERNAL GROUP CONTROLLING SYSTEM

Each year, SAF-HOLLAND internally prepares a medium-term plan for the forthcoming five years in addition to a yearly budget. A regular forecast is also prepared regularly each quarter 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 and forecasts. 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 LEADING INDICATORS

The Company's primary leading 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.

Accordingly, management continuously monitors and analyzes the statistics and forecasts for the overall economic development, as well as the trends in the global truck and trailer markets of the relevant countries and regions. This data includes production and registration figures, as well as order intake.

RESEARCH AND DEVELOPMENT

FURTHER EXPANDING OUR TECHNOLOGICAL LEADERSHIP

Research and development activities play a major strategic role in the long-term safeguarding of our technologies. Our goal is to use innovative technologies and solutions to secure and expand our technological edge versus our competitors and be perceived by our customers as a pioneer in the implementation of new technologies.

In the 2017 financial year, our research and development costs increased by 3.6 % to EUR 20.4 million (previous year: EUR 19.7 million). We capitalized development costs in the amount of EUR 4.2 million (previous year: EUR 3.7 million) resulting in a capitalization rate in the reporting year of 17.1 % (previous year: 15.8 %). The R&D ratio based on Group sales was 2.2 % (previous year: 2.2 %). At the end of the 2017 financial year, we employed a total of 175 people (previous year: 192) in the areas of development, design, and testing.

Multi-year overview of research and development

	2017	2016	2015	2014	2013
R&D expenses including capitalized development costs (in EUR millions)	24.6	23.4	24.6	21.9	19.1
R&D ratio (expenses as a percentage of sales)	2.2	2.2	2.3	2.3	2.2
Number of employees in the areas of development, design and testing	175	192	191	171	164

Our development activities are focused not only on developing new products but also on adapting existing solutions to customer-specific and regional market requirements. This is why our teams of developers and engineers are not only active in Germany and the United States but also worldwide. Close proximity to our customers ensures that the specific market knowledge obtained by the local entities flows directly into the different variations of our products.

SMART STEEL – ENGINEER, BUILD, CONNECT

Our goal is to offer our customers innovative products that reduce their total cost of ownership and thereby ensure their fleets operate efficiently. To achieve this goal, our research and development activities have focused for many years on the topics of weight reduction through the use of lightweight components, durability and safety. In the 2017 financial year, we added digitization to our development focus and set up a special team consisting primarily of American and European experts for this purpose.

At SAF-HOLLAND, digitization means combining our mechanical products with sensors and electronics, or more precisely, integrating electronic intelligence into our axles, suspensions, and fifth wheels. This connection is absolutely necessary first to facilitate automated driving and second to make autonomous driving a reality. This prompted us to move decisively forward with the development of a series of new, innovative products in the 2017 financial year, which vastly automate work that was previously done manually. This saves time and enables fleet operators to bring down their operating costs. At SAF-HOLLAND, all initiatives for combining mechanics and electronics fall under the motto of SMART STEEL – ENGINEER, BUILD, CONNECT.

Another aspect of digitization is the ability to link our systems intelligently and evaluate the derived data. Digitization can be used to monitor the wear and tear of components such as brake pads, thereby avoiding damage to the trailer. This goes hand in hand with an optimization of the maintenance intervals and the resulting minimization of downtimes. Fleet operators also receive accurate, real-time information about the position of the trailer, as well as about loading and the condition of the load. This information allows operators to further optimize their route and service scheduling.

SAF ADAPTIVE AIR DAMPING

In July 2017, SAF-HOLLAND unveiled the innovative SAF Adaptive Air Damping System. This system combines the functions of the air spring and shock absorber in the chassis of semi-trailers, making hydraulic shock absorbers redundant. As a result, trailers can save around six kilos of weight per axle – which adds up to 18 kilos for a three-axle trailer – and allow higher payloads. With the SAF Adaptive Air Damping System, damping is provided by two air spring valves and a bypass between the rolling bellows and the piston. The higher the axle load, the more air that flows through the valves. The additional friction that results makes damping harder. In contrast to conventional shock absorbers, which always have the same level of damping set for the maximum load, the infinitely adaptive air damping prevents the trailer from over-damping at low or no loads. This means that only minimal excess pressure of 0.5 bar enters the system compared to 5 to 6 bar for a full load and causes damping to soften. As a result, adaptive air damping contributes to increased safety, and because the damping automatically adapts to the load condition, it is especially gentle on tires and cargo.

Other advantages of the adaptive air damping system are lower maintenance costs because the system operates virtually maintenance-free. The new system is also environmentally friendly since damping does not lose any oil. The air damping system was specifically developed for curtainsiders and reefers. Other applications for semi-trailers with high empty or load ratios could follow. The launch of the new system is scheduled for the third quarter of 2018.

At the 2017 Solutrans Innovation Awards in Lyon in early December 2017, the SAF Adaptive Air Damping System received the gold award, which is the highest accolade in the equipment category. Each year, the Solutrans Innovation Awards, launched in 2011, honors the most innovative solutions in the transportation industry in the categories of Bodywork and Equipment Manufacturers.

RECOLUBE

SAF-Holland's automatic lubrication pump RECOLUBE has been available on the market since the beginning of 2017. Five independent pump elements automatically supply the fifth wheel with grease and deliver via the integrated lubrication manifold the optimum amount directly to the point where lubrication is needed. The grease is distributed over the plate via lubrication grooves. Under normal driving conditions, this happens about every one and a half hours. Only the amount of lubricant actually needed is used, meaning excess oil and grease do not end up on the road and pollute the environment. The system contains a grease reserve for approximately 100,000 kilometers or one year of operation. An electronic display in the cab of the tractor shows the system's current fill level and allows direct monitoring via the cockpit. When the supply of grease is empty, the pump can be refilled quickly and easily.

The automatic and efficient distribution of high-quality lubricants is not only environmentally friendly but also economically sensible. Additionally, with RECOLUBE it is no longer necessary for the driver or the repair shop to lubricate the fifth wheel manually. The truck manufacturer MAN has been using RECOLUBE as standard equipment on its heavy trucks since January 2017.

ELI-TE™

An important safety aspect when coupling is ensuring that the semi-trailer is securely connected to the tractor. This requires the driver to check the connection directly at the fifth wheel before departure to make sure that the semi-trailer is correctly coupled. SAF-HOLLAND has developed an automatic system called ELI-te™ (Electronic Lock Indicator - tech-enhanced), in which sensors use an electrical signal to check the correct position of kingpin and lock when coupling. With the help of a small computer mounted under the fifth wheel, the system signals the driver when there is a secure connection by lighting up four bright LEDs. If the connection is not secure than a red flashing light that can also be seen clearly from the side of the cab warns the driver. This makes a visual inspection much easier for the driver.

SAF-HOLLAND launched the ELI-te™ system in North America at the end of 2016. In early 2017 the system received the prestigious HDT Top 20 Products award from Heavy Duty Trucking (HDT) magazine. Each year, this award honors the 20 best product launches in the North American market in terms of innovation and customer value.

Following the system's launch in North America, SAF-HOLLAND is now working on further developing ELI-te™ and transferring the acquired know-how to other applications. The secure connection of the trailer to the tractor, especially in terms of automated coupling, is of crucial importance. SAF-HOLLAND has taken the initial step by setting up a project team to evaluate the ELI-te™ system's application at loading terminals and logistics centers, where coupling is frequently performed.

NUMBER OF PRIORITY APPLICATIONS INCREASE FURTHER IN THE 2017 FINANCIAL YEAR

The number of priority applications validates our innovative strength and the effectiveness of our research and development activities. The initial filing at the patent office is known as a priority application. With a total of 50 new applications in the past year, our number of patents compared to the prior year increased by a significant 38.9 %. Of these applications, 46 stemmed from SAF-HOLLAND GmbH and 4 from SAF-HOLLAND Inc.

Number of priority applications

	2017	2016	2015	2014	2013
Number of priority applications	50	36	30	41	26

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

SAF-HOLLAND is incorporated as a Société Anonyme (S.A.) under Luxembourg law. Management and control of the Company are organized differently than in 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. is oriented toward the single-tier principle of the Anglo-American board system.

BOARD OF DIRECTORS

SAF-HOLLAND S.A. is a financial holding company, and its activities are managed by the Board of Directors. The Board of Directors focuses strongly on the strategic direction of the SAF-HOLLAND Group and the monitoring of the business activities of the individual direct and indirect operating subsidiaries. During the reporting year, the SAF-HOLLAND S.A . Board of Directors advised, controlled and monitored the Management Board. The Board of Directors was regularly, promptly and comprehensively informed by the Management Board in written and verbal form about all material issues of the SAF-HOLLAND Group. The Management Board reported on the Group's net assets, financial position and results of operations, business development, key financial indicators and market trends.

The Board of Directors also addressed non-financial reporting. As part of Corporate Social Responsibility (CSR) and CSR reporting, the Board of Directors also discussed the aspects of corporate responsibility and the potential impact of SAF-HOLLAND's business policies on society. The main issues discussed were employees, social and environmental concerns, respect for human rights and the fight against corruption and bribery.

In accordance with the requirements of the German Corporate Governance Code, the chair of the Board of Directors has agreed to discuss supervisory issues in an appropriate manner with investors.

The Board of Directors may consist of external members as well as Company operating managers. SAF-HOLLAND's Board of Directors currently consists of six members. Five of these members, including the chair Martina Merz, are external members. The sixth member of the Board is Detlef Borghardt, Chief Executive Officer (CEO) of SAF-HOLLAND. This means that one member of the Board of Directors is directly involved in the Group's day-to-day business. The Board of Directors appoints a chair and vice chair from its members. In accordance with the Articles of Association the Board's decisions are made with a simple majority of the meeting's attending or represented members. At least half of the members must be present or represented (quorum).

According to the SAF-HOLLAND S.A. Articles of Association, there must generally be at least three independent members on the Board of Directors. As of December 31, 2017, three of the six members were classified as independent as defined by the Company's Articles of Association. The independent members are Martina Merz, Anja Kleyboldt and Carsten Reinhardt. When considering whether a member of the Board of Directors should be classified as dependent or independent, the Company follows the recommendations of the European Commission of February 15, 2005 on the role of non-executive or supervisory directors of listed companies. Dr Martin Kleinschmitt and Jack Gisinger are two former members of the Management Board who are now currently members of the Board of Directors. Detlef Borghardt , the Chief Executive Officer of SAF-HOLLAND, is classified as a dependent member as defined by the Articles of Association of SAF-HOLLAND S.A.

Bernhard Schneider and Sam Martin left the Board of Directors at the end of the Annual General Meeting on April 27, 2017. Bernhard Schneider had been a member of the Board since 2007 and its chair since 2009. Sam Martin had been a member since 2011. The Board of Directors elected Martina Merz as the new chairwoman of the Board of Directors at its meeting directly following the Annual General Meeting. Ms Merz had been serving as the Board's vice chairwoman since April 2016. Dr Martin Kleinschmitt was elected vice chairman of the Board of Directors.

Board of Directors

as of December 31, 2017

Name	Position	First appointment	Term expires
Martina Merz[1]	Chairwoman of the Board of Directors (since April 27, 2017) Non-Executive Director	April 24, 2014	April 2019
Dr. Martin Kleinschmitt[2, 3]	Vice Chairman of the Board of Directors (since April 27, 2017) Non-Executive Director	April 25, 2013	April 2019
Detlef Borghardt[3]	Member of the Board of Directors Executive Director	October 1, 2011	April 2020
Jack Gisinger[2, 3]	Member of the Board of Directors Non-Executive Director	April 27, 2017	April 2020
Anja Kleyboldt[1]	Member of the Board of Directors Non-Executive Director	April 26, 2012	April 2019
Carsten Reinhardt[1]	Member of the Board of Directors Non-Executive Director	27. April 2017	April 2020

[1] Independent member as defined by the SAF-HOLLAND Articles of Association
[2] Former member of the SAF-HOLLAND Management Board. Jack Gisinger was on the Management Board until December 31, 2015; Dr Martin Kleinschmitt served as interim CFO from January 1 to February 28, 2017.
[3] Dependent member as defined by the SAF-HOLLAND Articles of Association

More information on the activities of the Board of Directors during the 2016 financial year can be found in the corresponding report on page 10.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors set up two committees to help fulfill its duties: the Audit Committee and the Remuneration Committee. The Audit Committee and the Remuneration Committee are comparable to the corresponding committees of a German supervisory board.

The Audit Committee consisted of the following members as of December 31, 2017:

— Dr Martin Kleinschmitt (Chair)
— Martina Merz
— Carsten Reinhardt

Dr Kleinschmitt possesses special expertise in the application of accounting principles and internal control procedures. Two of the three members of the Audit Committee are independent members of the Board of Directors.

The Remuneration Committee, established by the resolution of April 27, 2017, consisted of the following members as of December 31, 2017:

— Martina Merz (Chair)
— Jack Gisinger
— Dr Martin Kleinschmitt
— Anja Kleyboldt
— Carsten Reinhardt

Three of the five members of the Remuneration Committee are independent members of the Board of Directors.

NOMINATION COMMITTEE

In the 2017 financial year, the Board of Directors completed preparations for the creation of a nomination committee. The Nomination Committee will begin its work in early 2018.

MANAGEMENT BOARD

The Executive Board of SAF-HOLLAND GmbH is the highest operational management body of the SAF-HOLLAND Group. It functions as a Management Board and is responsible for the operational management of the Group. In addition, the Group's worldwide activities are coordinated by a Management Board that includes other members of management from the various regions of the Group in addition to the Executive Board of SAF-HOLLAND GmbH. The members of the Management Board are appointed by SAF-HOLLAND S.A. The Board of Directors of SAF-HOLLAND S.A. and the Executive Board of SAF-HOLLAND GmbH and the Management

Board maintain a close, continuous and faithful cooperation.

In addition to the three members with functional responsibility (CEO, CFO and COO), the Management Board's responsibilities are allocated by region in line with the respective organizational structure of the SAF-HOLLAND Consolidated Group. The Americas, EMEA/I and China regions are each represented by their own President. The APAC/China region will be directed by the chief executive officer until further notice. At the end of 2017, SAF-HOLLAND's Management Board consisted of the following six members:

Management Board

as of December 31, 2017

Detlef Borghardt*	Chief Executive Officer (CEO) President Region APAC/China
Dr Matthias Heiden*	Chief Financial Officer (CFO) (since March 1, 2017)
Arne Jörn*	Chief Operating Officer (COO) (until February 28, 2018)
Alexander Geis*	President Region EMEA/I
Guoxin Mao	President Region China
Steffen Schewerda*	President Region Americas

* Managing Director of SAF-HOLLAND GmbH

PERSONNEL CHANGES IN THE MANAGEMENT BOARD DURING THE 2017 FINANCIAL YEAR

On March 1, 2017, Dr Matthias Heiden assumed the position of chief financial officer (CFO) succeeding Wilfried Trepels who had left SAF-HOLLAND at the end of 2016. During the interim period, Dr Martin Kleinschmitt temporarily assumed the function of CFO.

REMUNERATION SYSTEM

MANAGEMENT BOARD

The remuneration of the SAF-HOLLAND Management Board in 2017 was based on the Company's size and global orientation, in addition to its economic and financial situation. Remuneration is designed to be internationally competitive, providing incentives for dedicated and successful work in a dynamic business environment.

The remuneration package consists of three components:

— a fixed annual base salary paid monthly,
— variable remuneration (short-term incentive, STI) based on the financial year, and
— long-term variable remuneration (long-term incentive LTI) based on the Company's performance and its stock price over a four-year performance period.

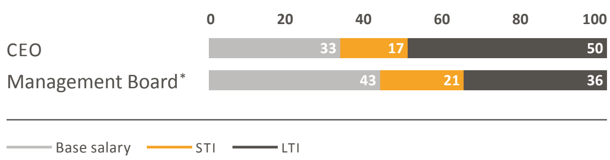
SAF-HOLLAND has not introduced a stock option program. The salary, STI and LTI components are paid to the Management Board members in the currency of their home countries.

Members of the Management Board are not required to hold the Company's shares or to invest part of their compensation in the Company's shares during their appointment.

The total remuneration for the members of the Management Board amounted to EUR 4,046,881.00 in the 2017 financial year (previous year: EUR 3,300,056.00). Of this amount, EUR 1,734,445.00 (previous year: EUR 1,579,711.00) was attributable to basic remuneration, EUR 838,906.00 (previous year: EUR 1,067,741.00) to STI and EUR 1,473,530.00 (previous year: EUR 652,604.00) to LTI payments to members of the Management Board.

Actual remuneration structure in 2017

in %



* excl. CEO

The variable remuneration components for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer are based solely on the achievement of Group targets and SAF-HOLLAND's share price performance. The variable remuneration of the regional presidents also takes into account the achievement of the respective region's budget targets.

For the variable remuneration components, the Board of Directors determines targets that are based on SAF-HOLLAND's budget for the respective financial year. The amount of the variable remuneration depends on the SAF-HOLLAND Group's achievement of certain key performance indicators.

The following criteria applied to the individual components of the Management Board's remuneration in the 2017 financial year:

- A fixed annual base salary that is paid out monthly as the member's salary.
- A variable short-term incentive component (STI) determined on the basis of the consolidated financial statements for the 2016 financial year. STI remuneration depends on the achievement of three set targets: Group sales, net working capital and adjusted EBIT. The target achievement for financial targets requires a minimum of 70 %. If the sum of the weighted individual target achievement for the financial targets is below 70 % (threshold), then there is no pro rata payout of the target bonus. The target achievement for financial targets is capped at 125 %. The amount of remuneration to be paid from the 2016 STI was determined at the meeting of the Board of Directors in March 2017 after reviewing the achievement of the targets. The payment of the 2016 STI took place after the Annual General Meeting of SAF-HOLLAND S.A. in April 2017.
- A variable LTI component determined on the basis of the 2013 LTI plan, which took effect on January 1, 2013. The allocation date of the 2013 tranche was April 2017. In 2013, a total of 191,106 share units were allocated. The aim of this plan is to align the interests of the Company's management and executives with the interests of the SAF-HOLLAND S.A. shareholders and the long-term increase in enterprise value. The performance share unit plan takes into account both company performance and stock price performance based on a four-year performance period.

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 calculated by dividing the remuneration amount allocated annually by the Board of Directors by the average share price over the last two months of the year preceding the allocation. At the end of the performance period, the allocated number of share units is adjusted by multiplying this amount by a target achievement factor. The target achievement factor is the ratio of the average company performance achieved (adjusted EBIT margin) during the performance period divided by the average target value previously set for the performance period.

The amount of the participant's payout entitlement is determined by multiplying the share units by the average share price over the last two months of the performance period and the target achievement factor:

Performance Share Unit Plan (PSUP) allocation		**Multiplier according to target achievement curve**		**Average share price in November and December of the 4th (2nd) year**		**200 % cap on gross annual base salary**
Number of share units	**x**	**Target achievement factor**	**x**	**Share price**	**=**	**PSUP payment**

An entitlement to shares of SAF-HOLLAND S.A. does not exist.

A payout from the Performance Share Unit Plan (PSUP) is limited to 200 % of the participant's gross annual salary at the time of payment.

The prerequisite for the exercisability of the stock appreciation rights is the achievement of a defined performance target. The performance target is met if, during the grant period, the Group achieves on average the minimum operating performance measured in terms of the "adjusted EBIT" performance indicator.

An overview of all share-based compensation programs can be found on page 140 of the Annual Report.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER (CEO)

The minimum and maximum remuneration of the Chief Executive Officer (CEO) that could be reached in the year 2017 based on the variable compensation components was a minimum of 0 % of the base compensation for the year 2017 and a maximum of 261 %.

BOARD OF DIRECTORS

The members of the Board of Directors receive fixed remuneration only. Performance-based or stock-based remuneration components are not granted. There is no separate remuneration granted for chairing or participating in a committee.

The remuneration paid to each member of the Board of Directors is listed below:

Renumeration of the Board of Directors

in Euro

		2017	2016
Bernhardt Schneider	Chairman of the Board of Directors (until April 27, 2017)	32,054	100,000
Martina Merz	Chairwoman of the Board of Directors (since April 27, 2017)	80,931	40,000
Dr Martin Kleinschmitt	Vice Chairman of the Board of Directors	53,643	60,000
Detlef Borghardt	Member of the Board of Directors	–	–
Jack Gisinger	Member of the Board of Directors	40,000	–
Anja Kleyboldt	Member of the Board of Directors	40,000	40,000
Sam Martin	Member of the Board of Directors	12,821	40,000
Carsten Reinhardt	Member of the Board of Directors	27,287	–

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

As a Luxembourg Société Anonyme exclusively listed in Germany, SAF-HOLLAND is not subject to the standards for corporate governance of Germany. Nevertheless, the Board of Directors, the Management Board and the Executive Board of SAF-HOLLAND GmbH are equally committed to responsible and transparent corporate governance, business integrity, sustainability and compliance with ethical values. SAF-HOLLAND therefore complies with the recommendations and suggestions of the German Corporate Governance Code in its currently valid version on a voluntary basis to the extent allowed by Luxembourg corporate law and the Company's single-tier structure. The limitations that exist are reflected in the Declaration of Conformity pursuant to Section 161 AktG, which we submit to voluntarily.

The Declaration of Conformity based on the current version of the German Corporate Governance Code dated February 7, 2017 and submitted by the Board of Directors on March 15, 2018 is permanently available on our website at http://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

A COMPLIANCE SYSTEM BASED ON A COMPREHENSIVE CODE OF CONDUCT

Corporate integrity has the highest priority at SAF-HOLLAND. 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 values. This is the reason we have established a compliance unit 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 design and effectiveness of the compliance management system are also the subject of internal audits.

Our Code of Conduct combines the compliance requirements that are binding for SAF-HOLLAND as a company, our management and 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. When there are changes in the legal framework, the corresponding information is updated, and the employees affected are informed.

The Board of Directors has ensured compliance with the law and the Company's internal guidelines and is working to ensure compliance by the Group companies. The Audit Committee of the Board of Directors dealt with the compliance management system. In the 2017 financial year, the foundation was put in place giving employees the option to provide information about legal violations in the company on a confidential basis starting at the beginning of 2018. In the meantime, third parties have also been granted this possibility.

DIVERSITY AT SAF-HOLLAND

DIVERSITY AS A FACTOR FOR SUCCESS

As part of our global corporate activities, we have employees from many nations and cultures with diverse historical, social and cultural backgrounds and lifestyles. With locations and sales offices in Dubai, Turkey, Russia, South Africa, China, India, Thailand, Malaysia, Brazil, Mexico, Canada, and the United States, almost all denominations are represented in our Group's workforce.

The importance of diversity in corporate culture and human resource policy is crucial to SAF-HOLLAND as a group active on the world's transport markets under a wide variety of local conditions. SAF-HOLLAND is firmly convinced that diverse people mean diverse opportunities and ideas at the same time.

Through numerous measures, SAF-HOLLAND is committed to diversity at work where employees of very different backgrounds bring in new perspectives and creative approaches.

- Trainees visit workshops sponsored by the self-help organization "Lebenshilfe" for two weeks at a time to learn how to interact with the severely handicapped and thereby strengthen their social skills.
- An international trainee program was launched in 2017, in which university graduates from a wide range of cultural backgrounds (e.g., China and Vietnam) take part in a training program at rotating locations within the SAF-HOLLAND Group.
- As part of our employee development program, we offer multi-culture workforce training, which has a high level of participation from executives.

TARGET FOR THE PROPORTION OF WOMEN IN MANAGEMENT POSITIONS

The law for the equal participation of women and men in management 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.

At a share of 33 %, the number of women on in the Board of Directors (BoD) at SAF-HOLLAND S.A. exceeds the women's quota of at least 30 % on Supervisory Boards required by German law. In addition, since April 27, 2017, we have a chairwoman, Martina Merz, on the Board of Directors. SAF-HOLLAND has also set targets for the proportion of women in the first and second management levels below the Management Board (Vice Presidents and Directors) at the Group's German locations. The Company is striving for a women's quota of 12.5 % at each of these management levels by mid-2022. This target compares with a total share of women in the German workforce of approximately 12 %. At the end of 2017, the proportion of women in top management positions was 5.0 % (previous year: 5.6 %). The search for women and their recruitment is proving to be challenging, especially in the commercial vehicle sector which traditionally has a low representation of women. The industry's technical focus and the related technical study courses traditionally attract a below-average proportion of women.

DIVERSITY IN THE COMPOSITION OF THE COMPANY'S GOVERNING BODIES (DIVERSITY CONCEPT)

Management Board

The composition of the Management Board is based on the members' professional qualifications for the assumed area of responsibility, their proven leadership experience and their achievements and knowledge demonstrated thus far. In addition to these criteria, the Board of Directors also takes the diversity of the Management Board into consideration when making future appointments. The Board of Directors understands diversity as different, mutually complementary profiles, with knowledge of different cultures and the fair consideration of both genders.

— Members of the Management Board should have several years of management experience, as well as experience in as many different professions as possible.
— The Management Board should have members with solid experience in production, finance and sales. If possible, members should also have experience in the field of digitization.
— Each member should have several years of experience in the three main regions/markets (Americas, EMEA/I, Asia).
— At least two members should have a technical background, as well as several years of experience in the automotive or commercial vehicle sector.
— In filling future positions, the intention is to increasingly take qualified women into account.

For all appointments, the Board of Directors takes into account all individual circumstances in determining which characteristics a new Management Board member should possess in order to join. In the 2017 financial year, women were specifically approached in the search for candidates to fill the CFO position. Ultimately, the Board chose a male candidate due to his background in digitization and broad experience. As the new CFO with extensive experience in the software industry and with diversity, in particular, Matthias Heiden is an important addition to the Board of Directors that drives the Company forward on the road towards digitization.

Board of Directors

The Board of Directors should be comprised in a manner that ensures its members have the necessary knowledge, experience and abilities to perform their duties properly.

— At least one member of the Board of Directors should have extensive Company knowledge and experience.
— At least one member should have expertise in accounting and/or auditing (financial expert).
— At least one member should have experience in the commercial vehicle industry.
— The Board of Directors shall have at least two members with special expertise in the international markets of importance to the Company.
— The Board of Directors should continue to have at least two female members.
— As a rule, the age limit for members of the Board of Directors is 70 years of age.
— The members of the Board of Directors are appointed by the SAF-HOLLAND S.A. Annual General Meeting for a maximum period of three years (up to six years under the law) whereby multiple re-elections for a further three-year term each are possible by resolution of the Annual General Meeting. As a rule, members of the Board of Directors should not be on the Board for more than 12 years.

The recommendations of the German Corporate Governance Code were taken into account in the preparation of the diversity concept for the composition of the Management Board and the Board of Directors.

Pay transparency law

In order to close the gender pay gap between women and men, the German Parliament in 2017 decided to introduce a law promoting the transparency of pay structures between men and women ("Pay Transparency Act"). The law stipulates that the same or equal work deserves equal pay, irrespective of gender. Among others, the law provides for the individual right of employees to information in companies with more than 200 employees and the obligation to report on the status of equality and equal pay for companies with more than 500 employees that are required to publish management reports.

As a result, SAF-HOLLAND conducted a review in Germany in 2017 of the equality of pay for men and women in equal jobs. A review was carried out that included all employees to determine whether men and women with equivalent jobs were in the same pay groups under the tariff agreement with the union of the Bavarian Metal and Electrical Industry. A review was also carried out on the remuneration components and amount of remuneration. When examining the groups of equivalent activities, elements of pay and rates of pay, no significant differences were found between the genders. Only in a few isolated cases were employees grouped differently due to their different seniority and experience. In this respect, timelines have been defined for future promotions.

In order to attract more female employees, we will continue to increase our efforts to provide more information and counseling to pupils and students at all of the region's schools and colleges about potential jobs at the Company – particularly in the commercial/technical area. Such efforts include events such as career fairs, Girls Day, the traveling information bus Metal Infotruck, as well as the campaigns "Youth and Technology AG" and "Jugend forscht."

ANNUAL GENERAL MEETING

The shareholders of SAF-HOLLAND S.A. exercise their voting rights at the Annual General Meeting. Each share is entitled to one vote. The Annual General Meeting adopts resolutions by a simple majority of the voting capital present unless the law provides for other majorities. Changes to the Company's Articles of Association require a two-thirds majority of the capital present or represented. In addition, at least 50 % of the issued share capital must be present (quorum) at the Annual General Meeting for amendments to be made to the Articles of Association. If this is not the case, another general meeting may be convened that does not require a quorum. The Annual General Meeting takes place each 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 resolves 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 also resolves on important corporate actions including, among others, the election of members to the Board of Directors, extensions in terms of office and the creation of authorized and conditional capital.

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 also exercise their voting rights through a proxy of their choice, a company-appointed proxy or in writing.

TRANSPARENCY

SAF-HOLLAND S.A. 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 available in the German and English languages on SAF-HOLLAND's website. 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 Board of Directors together with 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 Sociéte Coopérative, Luxembourg, who was selected by the 2017 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 (CSSF). 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 Commission du Surveillance du Secteur Financier (CSSF) 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.

During the 2017 reporting year, we received one notification of a managers' transaction and a total of three notifications of transactions from persons closely related to managers. All notifications were and are available on our website at http://corporate.safholland.com/en/investor-relations/publications/announcements.

SHAREHOLDINGS OF MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The members of the Board of Directors and the Management Board of SAF-HOLLAND S.A. held a total of 1.2 % of the shares outstanding as of the reporting date.

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 16 of this annual report.

b) The transfer of shares is not limited by 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 (current version of Transparency Directive) are as follows:

Shareholder name	Shares[1,2]	share of voting rights[1]
NN Group N.V.	2,973,432	6.56 %
JP Morgan Asset Management	2,306,047	5.08 %
Kempen Oranje Participaties N.V.	2,297,543	5.07 %
FMR LLC	2,283,397	5.03 %

[1] As of December 31, 2017
[2] Total number of SAF-HOLLAND shares: 45,394,302

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, 2017, 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 (Code of Commerce) of August 10, 1915 on commercial companies, as amended, may be elected at a general meeting of shareholders by a simple majority (i.e., 50 % plus one of the voting rights present or represented at the general meeting of shareholders) and may be removed from office with or without specifying a reason. There is no quorum requirement. Members of the Board of Directors may be reelected, but their total term of office should not exceed twelve years. 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 purpose 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 on a business day between 60 to 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 a maturity 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 40 to 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.

On December 7, 2017, the Board of Directors decided for the first time, to convert 4 convertible bonds into 33,190 shares that were then subsequently issued. This led to an increase in the share capital of EUR 331.90.

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) also include provisions in the event of a change of control. These agreements pertain to drawn and undrawn lines of credit in a total volume of EUR 156 million. Following a change of control, the Company must immediately inform the paying agent of that event. The creditors have the discretionary right to declare due via the paying agent 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 paying agent within a period of 30 days. The paying agent is obliged to inform the Company of this notification within 10 days.

Under two loan agreements dated June 13, 2016, SAF-HOLLAND S.A. 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 amounts 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) No agreements exist between the Company and members of the Board of Directors or members of the Management Board that, in the event of a takeover bid, provide for compensation arrangements for the members of the Board of Directors or members of the Management Board if the employment relationship is terminated without good reason or due to a takeover bid.

Agreements do, however, exist between the Company and a few employees in the respective departments that provide compensation arrangements for these employees under certain circumstances in the case of a takeover bid if the employment relationship while in their respective position is terminated as a direct result of a takeover. From a financial standpoint, these agreements are of minor importance for the Company and include an extension of the statutory notice period for a further three months and/or the assurance of severance pay in the amount of one average gross monthly salary per year of employment. The amount of the expenses which could arise in this connection should be deemed as very small in both their total amount and in relation to a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT: GROWTH ACCELERATES IN THE WORLD ECONOMY

The global economy posted stronger than expected growth in 2017. According to the estimates of International Monetary Fund (IMF), global growth in 2017, at 3.7 %, was half a percent above the level of 2016. Nearly all the major economies recorded stronger growth, mainly as a result of the continuation of relatively expansionary monetary policies worldwide, generally low commodity prices and the increase in investment volumes.

Gross domestic product (GDP) in the eurozone grew 2.4 % in the 2017 financial year. This compares to the IMF forecast at the start of the year for a slight increase of only 1.6 %. The economies of Germany, France, Italy and Spain were the main contributors to this positive performance. The US economy also surpassed expectations with a growth rate of 2.3 %. The US central bank increased key interest rates on three occasions in 2017 without causing any visible downturn in the US economy. The major emerging economies of the BRIC countries also recorded favorable overall economic development. Economic growth was at a very high 6.8 % in China and 6.7 % in India. Brazil recorded growth of 1.1 % while Russia recorded GDP growth of 1.8 %. Both countries turned around to achieve positive performance after still being mired in a recession in 2016.

DEVELOPMENT OF GLOBAL TRUCK MARKETS POSITIVE OVERALL – US TRUCK MARKET SIGNIFICANTLY STRONGER THAN EXPECTED IN THE COURSE OF 2017

The positive economic development experienced in most economies coupled with the rebound in global trade sparked significantly better performance in the global truck markets in 2017 than expected at the start of the year.

The recovery in order intake for trucks in North America, which began at the end of 2016, continued uninterrupted into the 2017 financial year and went on to gain unexpectedly strong momentum in the course of the year. The growing recovery in order intake also led to a noticeable increase in the production figures starting in mid-2017. Following a decline early in the year (–21 %) and a stabilization in the second quarter of 2017 (+4 %), the production of Class 8 trucks increased significantly in both the third quarter (+35 %) and the fourth quarter of 2017 (+40.5 %). This resulted in production growth for full-year 2017 of 12 % and far exceeded ACT's expectations at the start of the year for a production downturn of around 11 %. Growth was recorded in the US (+12 %) and Canada (+32 %), in particular, while the difficult environment in Mexico caused production there to decline by 10 %.

These developments were also confirmed by analyses from National Sources, LMC Automotive and ACT Research. Sales figures for the North American truck market jumped in the second half of the year bringing the full-year 2017 increase in truck sales to an unexpected 3.7 %. This followed a decline in truck sales in 2016 of –9.4 %.

In 2017, the entire Western European truck sales market grew a further 2.4 %, despite coming off of a very strong year in 2016 with year-on-year growth of 9.8 %. According to the industry association European Automobile Manufacturers Association (ACEA), new registrations for all types of commercial vehicles in 2017 increased by 3.2 % across the EU. In the heavy truck segment (over 16 tons), the relevant vehicle class for SAF-HOLLAND, new registrations increased by 0.5 % in 2017. Growth momentum had slowed down slightly over the course of the year. Whereas registrations of heavy trucks increased 2.2 % in the first half-year, sales in the second half of 2017 were virtually unchanged. In the core market of Europe, development remained steady at a high level and was in line with our expectations.

According to assessments from National Sources, LMC Automotive and ACT Research, the Central and Eastern European truck sales markets had exceptional growth of 13.2 % in 2017, after relatively disappointing year-on-year growth of 1.6 % in the prior year. Forecasts at the start of the year had underestimated the strength of the economic recovery.

The Asian market also recorded extraordinary growth in truck sales in 2017, with an increase of 30.0 %. This follows an already significant increase in the Asian truck sales market of 19.5 % in the prior year.

According to the reports from National Sources, LMC Automotive and ACT Research, the Mercosur countries also recorded growth in the truck sales market of 13.8 % in 2017. This follows a host of negative developments that had caused a decline in the truck sales market in 2016 of 29.2 %. The Brazilian market was able to rise significantly again in 2017 for the first time after registering strong losses in recent years. It should be taken into consideration that the high percentage growth rates are based on low comparisons. According to estimates by the Brazilian Manufacturers Association Anfavea (Associação Nacional dos Fabricantes de Veículos Automotores), heavy truck production increased by 52 % in 2017.

In Australia, another important regional market for SAF-HOLLAND, sales of commercial vehicles in 2017 developed significantly better than originally expected. Registrations of heavy trucks, for example, rose 22 % in the reporting year, whereas the forecast at the start of the year from LMC Automotive was for an increase of only 2.5 %.

TRAILER DEMAND IN EUROPE REMAINS AT A HIGH LEVEL

Encouraged by the good overall economic development in Europe, many fleet operators invested in the expansion and modernization of their transportation capacities in 2017. According to estimates by the market research institute Clear International Consulting, the Western European trailer market recorded an increase in production for the fifth consecutive year in 2017. Compared to the strong growth in the years 2014 to 2016, however, momentum actually slowed over the course of 2017. A solid first half-year was followed by a slight decline in the second half of 2017 versus the same period last year. Nevertheless, Clear International Consulting is forecasting a slight increase in production of 0.1 % for the whole of 2017, which is still a high absolute level. This is slightly higher than the projections at the beginning of the year for a decline of 2 %. In Eastern Europe, Clear International Consulting expects that trailer production in 2017 was also close to the level achieved in the prior year.

DEVELOPMENT OF US TRAILER MARKET SIGNIFICANTLY BETTER THAN EXPECTED IN 2017

The rebound in new trailer orders in North America, which began at the end of 2016, continued uninterrupted during the 2017 financial year, gaining unexpectedly strong momentum as the year progressed. With 2.0 % growth, the recovery in trailer production, however, was only moderate in 2017 (according to FTR) on the basis of 2016 comparisons. In 2016, the high order backlog at the beginning of the year stemming from prior years had kept 2016 trailer production virtually unchanged.

BOOM IN CHINA TRIGGERED BY REGULATORY REQUIREMENTS

The Chinese commercial vehicle market posted steep growth rates again in 2017. According to CAAM (China Association of Automotive Manufacturers), heavy truck sales in China increased 53 % last year. Sales of trailers – the more relevant segment for SAF-HOLLAND China – also reached a very high level in 2017. Both truck and trailer sales profited significantly from tightened regulatory requirements and particularly from the GB 1589 transportation standard, which limits the maximum weight and length of truck and trailer combinations. At the same time, dimension limits and loading regulations came into force for the segment of automobile transporters, which lead to a significant reduction in the number of vehicles that can be transported per trailer. Experts believe that existing transportation capacities in this segment will have to be expanded by between 20 and 40 % as a result. In addition, the new GB 7258 regulation, which will take effect gradually, prescribes the use of disc brake technology and air suspension for safety reasons for all trucks and trailers transporting dangerous goods. The bus segment in China, on the other hand, recorded a renewed decline in sales of 15 % in 2017. One reason for this is the structural change in long-haul traffic, which led to a decline in demand for journeys with intercity buses.

KEY EVENTS

RESTRUCTURING OF THE NORTH AMERICAN PLANT NETWORK

In January 2017, SAF-HOLLAND announced the consolidation and restructuring of its North American plant network. These measures were aimed at adapting the structure to the changes in the market situation and ensuring the long-term competitiveness of North American activities. Optimizing the internal logistics processes and centralizing production should also provide closer proximity to the customer's locations and improved delivery times.

At the center of the restructuring measures was the plant consolidation in which the number of manufacturing plants in the U.S. was reduced from the previous seven plants to five. This led to a transfer of the production from the Muskegon (MI) and Holland (MI) locations to the Group locations in Dumas (AR), Cincinnati (OH), Warrenton (MO), and Wylie (TX). The production of individual product groups, which until that time had been dispersed over different Group locations, was largely centralized at one location. The remaining locations are closer geographically to the major truck and trailer customers making it easier to deliver to these customers and meet their requests for local supply.

NEW PLANT OPENING IN TURKEY

At the end of March 2017, SAF-HOLLAND opened a new plant in the Turkish city of Düzce. The Company invested a total of roughly EUR 5 million in the new 11,000 square meter plant. Over the next two to three years, the production volume in Turkey is expected to expand to a total of 35,000 axles annually. The range of products produced in Turkey is set to increase over the medium term and will include fifth wheels, among others. SAF-HOLLAND also plans to significantly expand its local spare parts business.

By setting up local production, SAF-HOLLAND is targeting higher market share in the strategically important Turkish market. The plan over the medium-term is to develop this location into a hub for fast and affordable delivery to the adjacent sales markets in the Middle East and North Africa. By opening a new plant in Turkey, SAF-HOLLAND has completed a further step on the road to benefiting from the future growth of the transport industry in new emerging markets, which is one of the Company's stated objectives under its Strategy 2020.

ADJUSTMENT IN FULL-YEAR OUTLOOK

On October 9, 2017, SAF-HOLLAND adjusted its outlook for the 2017 financial year with its publication of inside information under Article 17 MAR. Based on the high organic growth recorded in the first nine months of the year and the business development expected during the remainder of the 2017 financial year, the Company raised its forecast for organic sales in the 2017 financial year to a range of EUR 1,125 million to EUR 1,135 million (previous year: EUR 1,042 million). The Group had previously expected sales to tend toward the upper end of the range of EUR 1,060 million to EUR 1,090 million.

SAF-HOLLAND also revised its earnings expectations in this context due to temporary additional expenses caused by the strong demand from numerous original equipment customers in North America during the ongoing US plant consolidation. The target for the EBIT margin remained unchanged at a range of 8 to 9% percent. However, after previously forecasting a margin tending toward the middle of this range, SAF-HOLLAND updated its forecast to a margin rather tending toward the lower end of the projected range.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

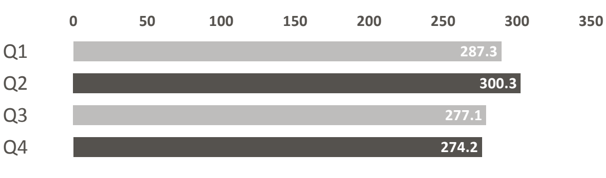
COMPANY EXCEEDS 2017 HIGHER REVISED SALES TARGET AND REACHES LOWER END OF TARGETED MARGIN CORRIDOR

Sales of the SAF-HOLLAND Group increased by 9.3 % to EUR 1,138.9 million in the 2017 financial year. Organic sales grew by 9.3 % to EUR 1,138.8 million and clearly exceeded SAF-HOLLAND's original full-year organic sales target of EUR 1,060 million to EUR 1,090 million. All of the Group's regions contributed to surpassing the Group's sales target.

With the presentation of the half-year figures in August 2017, SAF-HOLLAND had slightly adjusted its sales target, expecting sales at the upper end of the targeted range of EUR 1,060 million to EUR 1,090 million. Unexpected strong demand in North America during the year, increasing sales in China and solid sales performance in the EMEA/I region prompted SAF-HOLLAND to raise its target sales range on October 9, 2017 to EUR 1,125 million to EUR 1,135 million. After a renewed acceleration in organic growth in the fourth quarter of 2017, SAF-HOLLAND managed even to surpass the upper end of this higher forecast range.

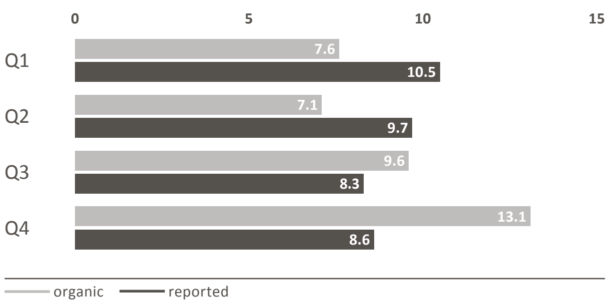
Sales by quarter 2017

in EUR millions



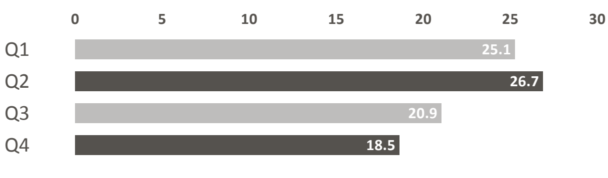
Sales growth by quarter (yoy) 2017

in %



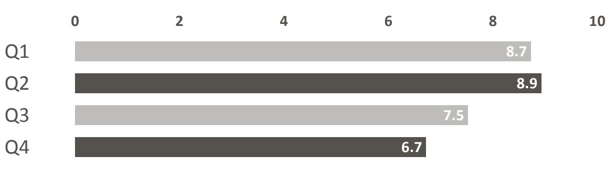
Adjusted EBIT by quarter 2017

in EUR millions



Adjusted EBIT margin by quarter 2017

in EUR millions



The SAF-HOLLAND Group also recorded a solid overall operating result in the 2017 financial year, which was overshadowed by unplanned additional operating expenses in both the third and fourth quarters of 2017 stemming from the ongoing US plant consolidation. The significantly higher-than-expected demand from many original equipment customers in North America, which coincided with the already advanced relocation measures from the ongoing plant consolidation and the resulting temporary capacity constraints, led to significant production inefficiencies starting in the middle of 2017.

The Americas region recorded one-time restructuring costs of EUR 10.9 million in the 2017 financial year, which were excluded in the calculation of adjusted EBIT. The region also incurred unscheduled additional operating expenses of EUR 10.3 million in connection with the US plant consolidation, which placed an equal burden on the gross profit and adjusted EBIT.

SAF-HOLLAND adjusted its earnings target on October 9, 2017 as a consequence of the unplanned additional expenses and due to the further development expected in the Americas segment in the third quarter of 2017. The Company reconfirmed its target range of 8 to 9 % for the adjusted EBIT margin. After previously forecasting a margin tending toward the middle of this range, SAF-HOLLAND changed its forecast to a margin tending toward the lower end of the planned 8 to 9 % target range.

At EUR 6.3 million, additional operating expenses in connection with the US plant relocations in the US were higher in the fourth quarter of 2017 than was assumed in the forecast adjustment in October 2017. The EMEA/I and APAC/China regions were able to largely offset these burdens in the fourth quarter of 2017 with their above-plan sales and earnings performance. All in all, with an adjusted EBIT margin of 8.0 %, the SAF-HOLLAND Group reached the lower end of the 8 to 9 % range forecast for 2017 and thereby remained within the target corridor.

	Actual 2016	Forecast 2017 (March 2017)	Adjustment August 2017	Adjustment October 2017	Actual business development 2017
Sales	EUR 1,042.0 million	Between EUR 1,060 million and EUR 1,090 million (organic)	To tend toward upper end of the range of EUR 1,060 million and EUR 1,090 million (organic)	Between EUR 1,125 million and EUR 1,135 million (organic)	EUR 1,138.9 million reported (organic: EUR 1,138.8 million)
Adjusted EBIT margin	8.7 %	To tend toward the middle of the 8 to 9 % range	–	To tend toward the lower end of the 8 to 9 % range	8.0 %
Net working capital ratio	10.9 %*	12 to 13 %	–	–	11.0 %

* The net working capital ratio was adjusted retroactively for the 2016 financial year.

NET WORKING CAPITAL REMAINS NEAR THE PRIOR YEAR'S LEVEL

In terms of capital efficiency, SAF-HOLLAND has either achieved or slightly exceeded its target for the 2017 financial year. At 11.0 % (previous year: 10.9 %), the Group's net working capital ratio remained below the forecast range of 12 to 13 %. Although the 9.3 % increase in sales led to an increase in net working capital of EUR 10.3 million, active receivables and inventory management allowed the Group to keep its net working capital ratio stable versus the good prior-year figure and come in below the target range.

SALES AND EARNINGS PERFORMANCE

GROUP SALES EXCEED EXPECTATIONS

In the 2017 financial year, SAF-HOLLAND was able to further expand its market position and increase Group sales by 9.3 % to EUR 1,138.9 million (previous year: EUR 1,042.0 million). Total sales adjusted for currency and consolidation effects also increased 9.3 %. The negative currency effects of EUR 9.1 million for full-year 2017 were offset by the additional sales contribution of EUR 9.2 million from the Brazilian company KLL Equipamentos para Transporte Ltda. (KLL) in the first nine months of the 2017 financial year. SAF-HOLLAND acquired a majority stake in KLL in 2016. The Brazilian company has been included in the SAF-HOLLAND Group's scope of consolidation since October 2016. Consequently, KLL's sales contribution in the first nine months of the 2017 financial year was adjusted in the calculation of the Group's organic sales growth.

Organic sales growth accelerates in the fourth quarter of 2017

In the fourth quarter of 2017, organic sales growth gained further momentum versus the previous quarter (Q3 2017: 9.6 %) and increased by 13.1 %. Reported sales increased by 8.6 % to EUR 274.2 million (previous year: EUR 252.6 million) and included negative currency translation effects of EUR 11.4 million.

Effect on Group sales

	Q4 2017		2017	
	in EUR millions	change	in EUR millions	change
Sales in the prior-year period	252.6	–	1,042.0	–
Organic growth	33.0	13.1 %	96.8	9.3 %
Currency effects	–11.4	–4.5 %	–9.1	–0.9 %
M&A (KLL)	0.0	0.0 %	9.2	0.9 %
Sales in the 2017 reporting period	**274.2**	8.6 %	**1,138.9**	9.3 %

All of the Group's regions contributed to the higher-than-expected sales growth. Starting from a comparably low level, SAF-HOLLAND achieved the highest growth rate in the 2017 financial year of 37.8 % in the APAC/China region. The increase in organic sales amounted to 40.5 %. Sales in the EMEA/I region increased 7.6 % on a reported basis and 7.7 % on an organic basis. In the Americas region, reported sales increased 6.7 %. Adjusted for currency and consolidation effects, the Americas region achieved growth of 6.0 %.

Sales performance by business area

	2017		2016	
	in EUR millions	share	in EUR millions	share
Original equipment	861.3	75.6 %	772.2	74.1 %
Spare parts	277.6	24.4 %	269.8	25.9 %
Total	**1,138.9**	**100.0 %**	**1,042.0**	100.0 %

ORIGINAL EQUIPMENT BUSINESS STANDS OUT AS KEY SALES DRIVER

Sales in the original equipment (OE) business increased by 11.5 % to EUR 861.3 million in the 2017 financial year (previous year: EUR 772.2 million). The consolidation of KLL, which added EUR 9.2 million to original equipment sales, contributed to the double-digit growth. Strong growth resulted in an increase in the proportion of original equipment sales versus total Group sales to 75.6 % (previous year: 74.1 %).

In the original equipment business in the 2017 financial year, the APAC/China region achieved the highest percentage growth rate within the Group. Sales development benefited in particular from the significant increase in demand from the Chinese commercial vehicle market as a result of legislation.

The Americas region also recorded surprisingly strong growth, which had not been expected to such an extent at the beginning of 2017. In addition to the launch of new products in the trailer segment and the increasingly evident trend among customers to buy fully dressed axle and suspension systems, the unexpected improvement in the market environment was the main driver of the positive development of the original equipment business in North America. Brazil also saw the first signs of a recovery in demand.

The EMEA/I region was also able to increase sales in the original equipment business segment. The persistently strong demand for heavy trucks and trailers along with expanding market share fueled the region's positive business development.

In the period from October through December 2017, sales in the original equipment business increased 11.4 %, reaching EUR 209.3 million (previous year: EUR 187.9 million). In the fourth quarter of 2017, the APAC/China region achieved the highest growth rate of the year in the original equipment business. The strong market recovery in the United States continued in the fourth quarter of 2017 and led to a significant revival of sales in the OE business compared to the same quarter a year ago. Based on constant exchange rates, original equipment sales in the United States increased 13.7 %.

SALES DEVELOPMENT IN THE SPARE PARTS BUSINESS AFFECTED BY PRODUCTION RESTRAINTS IN NORTH AMERICA

In the spare parts business (Aftermarket), sales increased 2.9 % to EUR 277.6 million in full-year 2017 (previous year: EUR 269.8 million). After a slight decline in sales in the spare parts business during the third quarter of 2017 due to production restraints in the Americas region, the aftermarket business recorded positive growth of 0.4 % to EUR 65.0 million in the fourth quarter of 2017 (previous year: EUR 64.7 million).

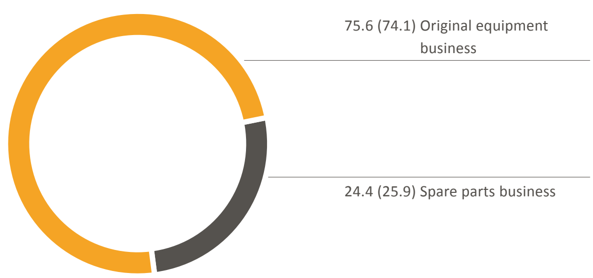
The main factors driving the lower year-on-year increase in sales in the spare parts business were not only negative currency effects but also the lower than planned sales trend in the Americas region. The unexpected strong demand in the original equipment business in combination with temporary capacity constraints resulting from the ongoing US plant consolidation led to noticeable restraints in deliveries to the aftermarket. This resulted in discernible order overhangs in the spare parts business in the Americas region until the end of 2017. Overall, sales in the spare parts business in the region held steady at the prior year's level.

The EMEA/I region posted sales increases in its spare parts business in both the fourth quarter of 2017 and the year 2017 as a whole, driven by the significant increase in the number of SAF-HOLLAND systems sold in the market in recent years, the age structure of the fleets and continued positive demand for transportation services in most of the region's submarkets.

The APAC/China region posted the strongest percentage growth in both the fourth quarter of 2017 and the year 2017 as a whole. Similar to the original equipment business, however, sales in the spare parts business were starting off from a relatively low level. SAF-HOLLAND's focus in the APAC/China region was on building up its original equipment customer base and broadening its product range. At the same time, the Company began actively expanding its network of spare parts and service stations in the Chinese market for the aftermarket business. At the end of the year, SAF-HOLLAND had already more than 60 service partners in China (previous year: 35).

Share of Group sales by business area in 2017

in %



Income Statement

	2017		2016	
	in EUR millions	share of sales	in EUR millions	share of sales
Sales	1,138.9	100.0 %	1,042.0	100.0 %
Cost of sales	−933.8	−82.0 %	−835.5	−80.2 %
Gross profit	**205.1**	**18.0 %**	**206.5**	**19.8 %**
Other operating income	1.6	0.1 %	1.2	0.1 %
Selling expenses	−62.1	−5.5 %	−60.7	−5.8 %
Administrative expenses	−53.6	−4.7 %	−50.9	−4.9 %
Research and development costs	−20.4	−1.8 %	−19.7	−1.9 %
Operating result	**70.6**	**6.2 %**	**76.4**	**7.3 %**
Share of net profit of investments accounted for using the at equity method	2.1	0.2 %	2.1	0.2 %
Earnings before interest and taxes	**72.7**	**6.4 %**	**78.5**	**7.5 %**
Finance result	−16.5	−1.4 %	−13.5	−1.3 %
Result before tax	**56.2**	**4.9 %**	**65.0**	**6.2 %**
Income taxes	−15.2	−1.3 %	−21.5	−2.1 %
Result for the period	**41.0**	**3.6 %**	**43.5**	**4.2 %**
Number of shares[1]	45,361,385		45,361,112	
Basic earnings per share in EUR	0.95		0.98	
Diluted earnings per share in EUR	0.82		0.85	

[1] Weighted average number of ordinary shares.

2017 EARNINGS PERFORMANCE AFFECTED BY RESTRUCTURING COSTS AND ADDITIONAL EXPENSES FOR US PLANT CONSOLIDATION

The overall solid operating earnings performance of the SAF-HOLLAND Group in the 2017 financial year was overshadowed by temporary pressure from the US plant consolidation carried out in the course of 2017 (see Segment Reporting on p. 50).

In the 2017 financial year, SAF-HOLLAND incurred EUR 10.9 million of non-recurring restructuring costs for the plant consolidation measures in North America. These cost mainly consisted of relocation costs, impairment charges on tools and equipment and severance payments. Of this amount, EUR 3.0 million was attributable to the third quarter and EUR 1.6 million to the fourth quarter of 2017. The completed merger of the two production sites in Brazil required EUR 1.0 million in restructuring costs, while restructuring and product reorganization of the Chinese bus suspension specialist Corpco required EUR 0.7 million.

In the 2017 financial year, the Group incurred a total of EUR 13.2 million (previous year: EUR 6.6 million) in one-off restructuring and transaction costs. A total of EUR 1.7 million in one-off restructuring expenses was recognized in the fourth quarter of 2017.

In the 2017 financial year, noticeable production inefficiencies resulted from the significantly higher than anticipated demand from many original equipment customers in North America, which coincided with the already advanced relocation measures as part of the ongoing US plant consolidation and the resulting temporary capacity constraints. Managing the high production volumes temporarily required a significantly higher number of employees than originally planned and sharply higher freight and logistics costs.

In the Americas region, these factors resulted in unplanned additional operating expenses of EUR 10.3 million in the second half of 2017, which were charged to expenses and had an equal impact on gross profit, the operating result and adjusted EBIT. A total of EUR 6.3 million in additional operating expenses were necessary in the fourth quarter of 2017 alone. This amount also included compensation payments of EUR 1.1 million made at the end of 2017 that were based on supply agreements.

In addition, one-time effects in connection with the takeover bid for Haldex and the takeover of KLL, both of which occurred in the 2016 financial year, should also be taken into account when making a year-on-year comparison of earnings. The previous year's result included transaction costs of EUR 4.1 million and expenses of EUR 5.2 million for hedging the purchase price offered in Swedish krona for Haldex. These amounts were offset by income of EUR 5.7 million from the sale of Haldex shares.

MAJORITY OF US CONSOLIDATION EXPENSES RECOGNIZED IN GROSS PROFIT

The strong increase in sales in conjunction with the efficiency enhancement measures carried out allowed for a disproportionate improvement in earnings in the EMEA/I and APAC/China segments. This improvement, however, was overshadowed at the Group level by the pressure on earnings from the plant consolidation in North America.

Almost all of the aforementioned restructuring costs and additional operating expenses for the consolidation of the North American plant network were recognized in the cost of sales. As a result, the Group's gross profit fell by 0.7 % to EUR 205.1 million (previous year: EUR 206.5 million) despite the EUR 96.9 million increase in sales in the 2017 financial year. The gross margin fell to 18.0 % (previous year: 19.8 %). The gross margin for the 2017 financial year would have remained essentially unchanged had both, restructuring costs of EUR 10.9 million (previous year: EUR 1.1 million), which were recognized in the cost of sales, and additional operating expenses of EUR 10.3 million been excluded. The segment mix between the original equipment and spare parts businesses had a negative impact because the growth of the original equipment business significantly outpaced the growth of the spare parts business. The declining share of the higher-margin aftermarket business amid booming growth in the original equipment business was particularly evident in North America. The gross margins in both Europe and North America were also impacted by the steady rise in steel and steel scrap prices in the course of 2017. Generally, there is a considerable time lag between price increases and when these increases can be passed on to customers. This cost pressure was offset by the positive impact from the cost-cutting and productivity-enhancing measures implemented at the production sites in Europe and Asia, as well as by the increased bundling of purchasing volumes within the Group.

In the fourth quarter of 2017, SAF-HOLLAND generated a gross profit of EUR 46.4 million (previous year: EUR 48.5 million) and a gross margin of 16.9 % (previous year: 19.2 %). Next to restructuring costs of EUR 1.7 million, additional operating expenses of EUR 6.3 million related to the US plant consolidation were the main factor responsible for the reduction in gross profit. The cost situation in the Americas region, which was also accompanied by further increases in steel prices, was partially offset by the positive development of the gross margins of the Group's other segments. In the EMEA/I region, SAF-HOLLAND also benefited from a positive effect on the cost of materials amounting to EUR 4.5 million in the fourth quarter of 2017 as a result of attaining specific purchasing volumes.

STRICT COST MANAGEMENT LIMITS THE RISE IN OPERATING EXPENSES

Operating expenses, consisting of selling and administrative expenses and research and development costs, increased by a total of 3.6 % to EUR 136.1 million (previous year: EUR 131.3 million). This rise, however, was well below the rise in sales. Measured in terms of Group sales, the total operating expense ratio declined to 11.9 % (previous year: 12.6 %). This was the result of strict cost management. It should be noted that costs relating to the Haldex offer were also included in the comparable prior-year figure.

Cost management had a significant impact, particularly on selling expenses, which increased only around 2.3 % to EUR 62.1 million in the 2017 financial year (previous year: EUR 60.7 million).

Administrative expenses also recorded disproportionately low growth of 5.3 % to EUR 53.6 million in the 2017 financial year (previous year: EUR 50.9 million). This slight increase compared to the 2016 financial year was also due, however, to the high comparative figures from the prior year. The 2016 figure included one-time transaction costs (such as legal, consulting and brokerage fees) of EUR 4.1 million in relation to the takeover bid for Haldex and the acquisition of KLL.

The Company incurred research and development costs for numerous development projects launched in the course of 2017 of EUR 20.4 million (previous year: EUR 19.7 million). Development costs of EUR 4.2 million (previous year: EUR 3.7 million) were capitalized and partly offset by scheduled amortization of EUR 1.1 million (previous year: EUR 0.7 million). Including capitalized development costs, the Group spent EUR 24.6 million (previous year: EUR 23.4 million) on research and development (R&D). Due to the higher level of sales, the R&D ratio remained unchanged at 2.2 % compared to the previous year.

Other operating income totaled EUR 1.6 million in the 2017 financial year (previous year: EUR 1.2 million).

ADJUSTED EBIT SLIGHTLY EXCEEDS PREVIOUS YEAR'S LEVEL WITH MARGIN AT LOWER END OF 8 TO 9 % FORECAST RANGE

The Group's earnings before interest and taxes (EBIT) amounted to EUR 72.7 million in the 2017 financial year (previous year: EUR 78.5 million). The decline of 7.4 % compared to the previous year was mainly due to the additional operating expenses of EUR 10.3 million described in connection with the US plant consolidation and the increase in restructuring and transaction costs to a total of EUR 13.2 million (previous year: EUR 6.6 million), which were also largely due to the restructuring of the US plant network. These costs could not be fully offset by the earnings contributions from incremental sales and the disproportionately low increase in other operating expenses. The EBIT margin in the 2017 financial year was 6.4 % (previous year: 7.5 %).

EBIT amounted to EUR 15.5 million in the fourth quarter of 2017 (previous year: EUR 17.6 million).

At EUR 91.2 million, adjusted EBIT in 2017, which excludes the one-time restructuring and transaction costs of EUR 13.2 million (previous year: EUR 6.6 million) and negative purchase price allocation effects (depreciation/amortization from PPA) of EUR 5.3 million (previous year: EUR 5.3 million), was slightly above the previous year's level of EUR 90.4 million. Due to their operational nature, the aforementioned EUR 10.3 million of additional operating expenses for the US plant consolidation were not adjusted and are, therefore, recognized as an expense in the adjusted EBIT for the financial year. The adjusted EBIT margin was 8.0 % (previous year: 8.7 %) and thus at the lower end of the initial forecast range of 8 to 9 % for 2017 as a whole.

Adjusted EBIT in the fourth quarter of 2017 fell to EUR 18.5 million (previous year: EUR 19.8 million), mainly due to the burdens in the Americas region already mentioned. The adjusted EBIT margin was 6.7 % (previous year: 7.8 %) in what is usually a weaker quarter in the year due to seasonal factors.

Reconciliation of operating results to adjusted EBIT

in EUR millions

	2017	2016
Operating result	70.6	76.4
Share of net profit of investments accounted for using the at equity method	2.1	2.1
EBIT	**72.7**	**78.5**
Depreciation/amortization of property, plant and equipment and intangible assets from PPA	5.3	5.3
Restructuring and transaction costs	13.2	6.6
Adjusted EBIT	**91.2**	**90.4**

INCREASED INTEREST EXPENSE IN FINANCE RESULT

The finance result for full-year 2017 amounted to EUR –16.5 million (previous year: EUR –13.5 million). This decline versus the previous year resulted, in part, from higher net interest expenses on interest-bearing loans and bonds in the amount of EUR 13.3 million (previous year: EUR 11.7 million). This higher interest expense was caused by the creation of the financing base necessary for the prior year's takeover bid for Haldex, which was ultimately withdrawn. SAF-HOLLAND had taken out additional loans and a promissory note loan to create this financing base. In addition, the prior year's finance result had included a positive net effect of EUR 0.5 million from the income of EUR 5.7 million from the sale of Haldex shares that were acquired before the takeover offer was submitted. In the previous year, this income was offset by expenses of EUR 5.2 million for hedging the purchase price in Swedish krona (SEK). The previous year's figure also included realized gains on foreign currency loans and dividends amounting to EUR 0.8 million. In the 2017 financial year, this item recorded a significantly lower level of income in the amount of EUR 0.2 million.

In the fourth quarter of 2017, the finance result was EUR –3.8 million (previous year: EUR –4.1 million). Net interest expenses fell EUR 0.1 million to a total of EUR 3.1 million compared to EUR 3.2 million in the prior year. It should be noted, however, that the fourth quarter of the previous year included an extraordinary expense of EUR 0.9 million. Although the disposal of Haldex shares resulted in income for the year 2016 as a whole, it had resulted in a loss in the fourth quarter of 2016 because the carrying amount as of September 30, 2016 was higher than the average selling price achieved.

EFFECT ON EARNINGS FROM US PLANT CONSOLIDATION AND HIGHER INTEREST EXPENSES CAUSE DECLINE IN RESULT BEFORE TAX

The 22.2 % increase in net finance costs meant that the result before tax in the 2017 financial year declined more sharply than EBIT. At EUR 56.2 million (previous year: EUR 65.0 million), the Group's result before tax was 13.5 % lower than in the previous year. In the fourth quarter of

2017, the result before tax amounted to EUR 11.7 million (previous year: EUR 13.5 million).

GROUP INCOME TAX RATE SIGNIFICANTLY LOWER THAN IN THE PRIOR YEAR

While the US tax effects, including the statutory changes from the US tax reform, resulted primarily in one-time positive extraordinary effects in the amount of EUR 4.5 million, impairment on recognized deferred tax assets for loss carryforwards at other subsidiaries had a countering effect of around EUR 2.6 million. If the earnings situation at the respective subsidiaries improves in the years ahead, the related impairment would be reversed. The net positive effect of these items in relation to the Group's income taxes amounted to approximately EUR 2.0 million in the 2017 financial year. The Group's overall income tax rate fell to 27.1 % in the 2017 financial year (previous year: 33.1 %).

RESULT FOR THE PERIOD AT EUR 41.0 MILLION

The Group's result for the period amounted to EUR 41.0 million in the 2017 financial year (previous year: EUR 43.5 million). This corresponded to a year-over-year decline of 5.8 %.

After deducting non-controlling interests (EUR –1.9 million in the 2017 financial year compared to EUR –0.8 million in the 2016 financial year), the result for the period attributable to the shareholders of the parent company in 2017 was at EUR 42.9 million (previous year: EUR 44.2 million) and slightly below the previous year's level. The year-on-year increase in the loss attributable to non-controlling interests was mainly due to negative contributions from the KLL, Brazil, and Corpco, China, subsidiaries. The SAF-HOLLAND Group holds a 57.5 % stake in the Brazilian company KLL and an 80.0 % stake in the Chinese company Corpco.

The US tax effects and impairment of recognized deferred tax assets for loss carryforwards in the fourth quarter of 2017 were responsible for the fact that income tax expenses were significantly lower in the quarter, dropping to EUR 1.3 million (previous year: EUR 6.4 million). This partially compensated for the effect of the additional operating expenses for the US plant consolidation on the result after tax. In the fourth quarter of 2017, the result for the period rose to EUR 10.4 million (previous year: EUR 7.1 million).

Based on approximately 45.4 million ordinary shares outstanding, basic earnings per share amounted to EUR 0.95 in the 2017 financial year (previous year: EUR 0.98). Diluted earnings per share amounted to EUR 0.82 (previous year: EUR 0.85).

Reconciliation of adjusted earnings figures

in EUR millions

	2017	2016
Result for the period	41.0	43.5
Income taxes	15.2	21.5
Finance result	16.5	13.5
Depreciation and amortization from PPA	5.3	5.3
Restructuring and transaction costs	13.2	6.6
Adjusted EBIT	**91.2**	**90.4**
in % of sales	8.0	8.7
Adjusted result for the period	**52.7**[1]	**53.7**[2]
in % of sales	4.6	5.2
Number of shares[3]	45,361,385	45,361,112
Adjusted basic earnings per share in EUR[4]	**1.16**	**1.18**
Adjusted diluted earnings per share in EUR[5]	**1.00**	**1.03**

[1] A uniform tax rate of 29.4 % was assumed to calculate the adjusted result for the period.
[2] A uniform tax rate of 30.2 % was assumed to calculate the adjusted result for the period.
[3] Weighted average number of ordinary shares.
[4] The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR –1.9 million (previous year: EUR –0.8 million).
[5] Calculated taking into account 8.3 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 –1.9 million (previous year: EUR –0.8 million).

ADJUSTED RESULT FOR THE PERIOD NEAR PRIOR YEAR'S LEVEL

The adjusted result for the period of EUR 52.7 million in the 2017 financial year (previous year: EUR 53.7 million) was slightly below the previous year's level. Restructuring and transaction costs, as well as effects from the purchase price allocation, were excluded from the calculation of the adjusted result for the period and a uniform tax rate of 29.4 % (previous year: 30.2 %) was applied.

The development of the adjusted result for the period was largely determined by the aforementioned additional operating expenses of EUR 10.3 million for the US plant consolidation. These additional operating expenses were not adjusted due to their operational nature, while the one-off restructuring and transaction costs were adjusted and increased adjusted earnings. Based on the approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the year as a whole amounted to EUR 1.16 (previous year: EUR 1.18) and adjusted diluted earnings per share amounted to EUR 1.00 (previous year: EUR 1.03).

DIVIDEND TO INCREASE TO EUR 0.45 PER SHARE

SAF-HOLLAND's dividend policy provides that, as a rule, between 40 % and 50 % of the net income should be distributed as a dividend to the shareholders. The Management Board and the Board of Directors will propose to SAF-HOLLAND S.A.'s Annual General Meeting to be held on April 26, 2018, that a slightly higher dividend of EUR 0.45 per share (previous year: EUR 0.44) be distributed for the 2017 financial year. This corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.0 million) and a payout ratio of 49.9 % (previous year: 45.9 %) of the result for the period and 47.6 % (previous year: 45.1 %) of the result for the period attributable to shareholders of the parent company. Based on the 2017 year-end SAF-HOLLAND share price of EUR 17.94, the dividend yield for shareholders amounts to 2.5 % (previous year: 3.2 %).

SEGMENT REPORTING

Regional overview

in EUR millions

	EMEA/I		Americas		APAC/China		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Sales	611.8	568.8	429.4	402.3	97.7	70.9	1,138.9	1,042.0
Cost of sales	−483.9	−451.6	−371.9	−326.9	−78.0	−57.0	−933.8	−835.5
Gross profit	**127.9**	**117.2**	**57.5**	**75.4**	**19.7**	**13.9**	**205.1**	**206.5**
in % of sales	20.9	20.6	13.4	18.7	20.2	19.6	18.0	19.8
Sundry operating income and expenses[1]	−60.2	−58.9	−41.4	−45.4	−12.3	−11.8	−113.9	−116.1
Adjusted EBIT	**67.7**	**58.3**	**16.1**	**30.0**	**7.4**	**2.1**	**91.2**	**90.4**
in % of sales	11.1	10.3	3.7	7.4	7.6	3.0	8.0	8.7

[1] Sundry operating income and expenses consist of selling and administrative expenses, research and development costs, other operating income and the share of net profit of investments accounted for using the equity method less restructuring and transaction costs of EUR 13.2 million (previous year: EUR 6.6 million) and depreciation/amortization from PPA of EUR 5.3 million (previous year: EUR 5.3 million).

STRONG SALES AND EARNINGS GROWTH IN EMEA/I SEGMENT

In the EMEA/I region, sales increased 7.6 % to EUR 611.8 million in the 2017 financial year (previous year: EUR 568.8 million). Sales on a currency-adjusted basis increased 7.7 % to EUR 612.6 million. The market environment was robust in most countries. Fleet operators continued to invest in expanding and upgrading their transportation capacities as the economic growth in the EMEA/I region accelerated. Significant growth impetus in the 2017 financial year came from Southern European countries such as Spain, Italy and France. Some of the Eastern European countries also posted a noticeable increase in sales momentum. This was especially true for Poland, as well as for Russia where there was significant pent-up demand after years of market weakness.

SAF-HOLLAND recorded solid overall development in the markets in the Middle East and Africa despite the difficult political conditions in some countries in the region, which had a growth-restraining effect.

At the end of March 2017, SAF-HOLLAND opened a new assembly plant for the production of axle systems in the Turkish city of Düzce, thereby strengthening its relationships with local customers. This location will also be used to supply neighboring growth markets in the region. Despite the difficult conditions in the overall market in 2017 and a strong decline in the trailer market in Turkey versus 2016, production at the new plant was still ramped up on schedule during the year. By the end of 2017, the plant's single-shift operation was well utilized based on significant orders from Turkish customers and customers from major neighboring countries. Over the medium term, this location will be expanded further and used as a hub for fast delivery to the adjacent sales markets.

The increase in the adjusted EBIT in the EMEA/I region of 16.1 % outpaced the increase in sales in the 2017 financial year and amounted to EUR 67.7 million (previous year: EUR 58.3 million). The effect of higher steel prices and a high sales volume of standard products were offset by cost reductions, further process improvements and economies of scale. The strong increase in sales and pooling purchases made it possible to achieve high purchase volumes at important suppliers, which had a favorable effect on the cost of materials in the fourth quarter of 2017. The adjusted EBIT margin for the full year of 2017 reached 11.1 % and was above the previous year's level (10.3 %).

The EMEA/I region seamlessly continued the solid business performance of the first nine months of 2017 in the fourth quarter of 2017. In the period from October to December 2017, SAF-HOLLAND increased its sales in the region by 7.1 % (currency-adjusted: 8.1 %) to EUR 147.8 million (previous year: EUR 138.0 million). Adjusted EBIT increased to EUR 19.4 million (previous year: EUR 13.7 million). In the year-end quarter, a favorable product mix and the aforementioned cost of materials development also had a positive effect, enabling the adjusted EBIT margin to reach 13.1 % (previous year: 9.9 %).

AMERICAS SEGMENT: UNEXPECTED STRONG DEMAND DURING ONGOING US PLANT CONSOLIDATION CAUSES HIGH ADDITIONAL OPERATING EXPENSES

Sales in the Americas region increased 6.7 % to EUR 429.4 million in 2017 (previous year: EUR 402.3 million). Adjusted for negative currency effects of EUR 6.3 million and the first-time sales contribution of EUR 9.2 million from the Brazilian axle and suspension system specialist KLL, which was acquired in October 2016, the region was able to increase organic sales by 6.0 %. After organic growth of 3.6 % in the first half-year, growth rates in the region continued to increase in the third (6.4 %) and fourth quarters of 2017 (11.0 %). This rise was mainly the result of the unexpectedly strong jump in customer demand in the original equipment business. Sales in the spare parts business, in contrast, remained at a level only slightly higher than in the prior year. Strong growth was achieved by the Americas segment, particularly in the US and Canadian markets, while the Mexican market, which is important for SAF-HOLLAND, was weak due to economic and political conditions and lagged far behind the original sales and earnings expectations.

Based on the 2017 forecasts from market research institutes and customers at the beginning of the year, the Company had anticipated a significant decline in trailer and truck production in North America and therefore decided to consolidate the existing US plant network and reduce the number of production locations from a total of seven locations to just five locations. The goal was to produce the respective product groups closer to the customers, centralize processes and optimize delivery times. Implementation started in the spring of 2017. The relocation of production from the Holland (Michigan) and Muskegon (Michigan) sites to the Cincinnati (Ohio), Warrenton (Missouri), Dumas (Arkansas) and Wylie (Texas) sites resulted in one-time restructuring costs for relocation, severance payments and impairment on machinery and tools amounting to EUR 10.9 million, which were readded in the calculation of adjusted EBIT. In the second half of 2017, the unexpectedly strong customer demand in the original equipment business coincided with the relocation measures in progress and the resulting temporary capacity constraints. Coping with the high volume of production temporarily required a higher number of employees than originally planned and significantly higher costs for logistics and express freight. Strong fluctuations in capacity utilization – especially in the third and fourth quarters of 2017 – also led to significant production inefficiencies.

The above led to additional operating expenses of EUR 10.3 million in the Americas region in the second half of 2017 in addition to restructuring costs. Due to their operational nature, these expenses were recognized in full as expenses and had an equal impact on the operating result and the adjusted EBIT. The continued rise in customer demand in the fourth quarter of 2017 also caused capacity constraints during this period and resulted in additional operating expenses of EUR 6.3 million in the period from October 2017 to December 2017. In addition to higher personnel and freight costs, these additional expenses also included compensation payments in the amount of EUR 1.1 million in accordance with supply agreements. Despite the difficult conditions, the plant consolidation measures in North America were completed at the end of 2017. The relocations of the production sites in Holland and Muskegon were important milestones achieved.

Now that the actual relocation measures have been completed, the focus in 2018 will be on improving the plants' production and internal logistics processes and optimizing their capacity utilization. There will also be a reduction in the temporary increase in the number of employees and the higher express freight and logistics costs.

The merger of the production of the two Brazilian companies at the larger and more modern KLL site in Alvorada was also completed in the course of 2017. SAF-HOLLAND spent a total of EUR 1.0 million on restructuring measures in the 2017 financial year for the closure of the old Jaguariúna site and the relocation of tools and equipment to KLL's Alvorada site.

In addition, profit and loss was burdened by further increases in steel prices, which can usually be passed on to customers but only with a considerable delay. The adjusted EBIT in the Americas region fell to EUR 16.1 million in 2017 (previous year: EUR 30.0 million), and the segment's adjusted EBIT margin fell to 3.7 % (previous year: 7.4 %). Consequently, the result for the region in 2017 was significantly lower than originally planned.

In the fourth quarter of 2017, sales in the Americas region increased by 1.6 % to EUR 94.1 million (previous year: EUR 92.6 million). Excluding negative currency effects of EUR 8.7 million, organic growth was 11.0 %. Sales of original equipment in the US increased by a currency-adjusted 13.7 %. As a result, the Americas region achieved its highest organic growth rate for the year 2017 in the fourth quarter during the ongoing plant consolidation. In addition to restructuring costs of EUR 1.6 million, the associated capacity restraints in the fourth quarter of 2017 also resulted in noticeable additional operating expenses of EUR 6.3 million. Strong growth in the original equipment business led to restraints in the supply of the higher-margin aftermarket business. As a result, adjusted EBIT decreased to EUR –3.9 million in the fourth quarter of 2017 (previous year: EUR 5.7 million) bringing the adjusted EBIT margin to –4.1 % (previous year: 6.2 %).

APAC/CHINA SEGMENT: MORE STRINGENT TRANSPORTATION REGULATIONS DRIVE DEMAND IN CHINA, PROFITABILITY IMPROVES

The APAC/China region generated the strongest percentage increase in sales in the 2017 financial year with growth of 37.8 % to EUR 97.7 million (previous year: EUR 70.9 million). Sales in the region on a currency-adjusted basis even rose by 40.5 %.

Business development in the APAC/China region was largely driven by strong demand for trailer components in China. The regulatory introduction of load limits for commercial vehicles (GB 1589) and the announcement of stricter safety regulations (GB 7258) for dangerous goods transportation starting at the beginning of 2019 led to a noticeable increase in the investments of fleet operators in new trucks and trailers (see Risk and Opportunities Report, page 68). The premium segment, to which SAF-HOLLAND traditionally sells its products, benefits in particular from this higher investment.

In this changed environment, SAF-HOLLAND, with its weight-saving components and range of air suspensions and axle systems with high-performance disc brake technology, was able to gain market share and acquire important large orders. Production volumes increased significantly at the Xiamen site. To prepare for the strong need for capacity in China, in early 2018, SAF-HOLLAND announced the construction of a new production center at the Yangzhou site in the Yangtze River Delta with a production area of around 46,000 m² (see Events after the Balance Sheet Date, page 70).

Business was difficult, on the other hand, for our subsidiary Corpco Beijing Technology and Development Co. Ltd. (Corpco). Due to persistently weak demand in the intercity bus segment in China, Corpco adapted its capacities to the changes in the market environment and began expanding its product portfolio for bus suspension systems to new segments in the bus market. Amid this environment, the company recorded a significant decline in sales in the 2017 financial year as well as a loss. SAF-HOLLAND spent EUR 0.7 million on restructuring costs for the realignment.

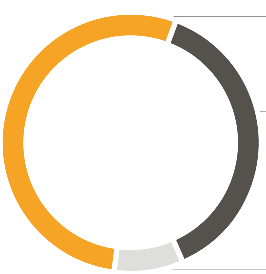
In the other APAC countries, demand in the 2017 financial year was generally subdued. By the end of the year, most of the APAC markets experienced a noticeable recovery in demand.

The clear double-digit sales growth in the 2017 financial year and the economies of scale that were achieved led to a noticeable improvement in the adjusted EBIT in the APAC/China region. Adjusted EBIT increased to EUR 7.4 million (previous year: EUR 2.1 million). As a result, the adjusted EBIT margin rose to 7.6 % (previous year: 3.0 %). This positive development was all the more pleasing because SAF-HOLLAND is still almost exclusively active only in the original equipment business in China. In the current 2018 financial year, the main focus will be on further expanding the aftermarket network in China. The improved profitability was driven by the restructuring and automation measures initiated at the end of last year. It should be noted that the previous year's result came under pressure from extraordinary factors totaling EUR 1.6 million. In 2016, typhoon damage and valuation adjustments with the introduction of a SAP system led to impairments on inventories and old stock at the Xiamen subsidiary. Warranty expenses and inventory adjustments at Corpco were also required in the 2016 financial year.

Despite the difficult comparisons based on the fourth quarter of 2016 where sales had already increased by 51.8 %, the APAC/China region once again achieved dynamic sales growth of 46.8 % to EUR 32.3 million in the fourth quarter of 2017 (previous year: EUR 22.0 million). Sales on a currency-adjusted basis increased 52.9 % to EUR 33.6 million. Adjusted EBIT in the APAC/China region improved significantly to EUR 3.0 million in the fourth quarter of 2017 (previous year: EUR 0.4 million). The corresponding adjusted EBIT margin increased to 9.3 % (Q4 2016: 1.8 %). It should be noted that the fourth quarter in the prior year had included a large part of the aforementioned warranty expenses and inventory adjustments from Corpco.

Group sales by segment in 2017 (2016)

in %



NET ASSETS

TOTAL ASSETS NEARLY UNCHANGED DESPITE STRONG BUSINESS EXPANSION

Despite the strong increase in sales in the 2017 financial year, total assets as of December 31, 2017 decreased by EUR 15.9 million to EUR 998.1 million (previous year: EUR 1,014.0 million). A key factor in this decline was a EUR 29.3 million drop in non-current assets. This reduction, however, was offset by an increase in current assets of EUR 13.4 million resulting from higher working capital.

GROWTH-RELATED RISE IN NET WORKING CAPITAL

Net working capital grew by EUR 10.3 million to EUR 120.6 million in the 2017 financial year (previous year: EUR 110.3 million). The strong increase in sales led to a significant increase in net working capital to EUR 144.8 million in the first quarter of 2017. In the quarters that followed, the increase in net working capital was limited by improvements in the management of receivables and inventory. The Group was able to reduce net working capital in the fourth quarter of 2017 alone by EUR 22.1 million, supported by year-end factors.

At 11.0 %, the net working capital ratio remained almost at the previous year's level (previous year: 10.9 %) and well below the target range for the 2017 financial year of 12 to 13 %. As of September 30, 2017, the net working capital ratio was still 12.9 %. In the fourth quarter of 2017, it was possible to reduce the ratio by 190 basis points.

The main reason for the minor rise in working capital in 2017 as a whole was the trend in trade receivables, which had increased by EUR 19.0 million to EUR 135.7 million as of December 31, 2017 (previous year: EUR 116.7 million). In addition to the strong rise in sales, a planned reduction in factoring led to an increase in receivables of EUR 2.8 million. Days sales outstanding (DSO) as of December 31, 2017 rose accordingly to a total of 45 days (previous year: 42 days). Compared to their level as of September 30, 2017 (EUR 157.3 million or 51 days), receivables by the end of the year had fallen by EUR 21.6 million to EUR 135.7 million and DSO by 6 days.

Despite the strong sales growth, there was only a slight increase in inventories by the end of 2017 to EUR 133.7 million compared to EUR 129.4 million in the previous year. Because the rise in inventories was lower than the rise in sales, days inventory outstanding as of December 31, 2017 decreased to 53 days (previous year: 57 days). The Group was able to reduce inventories by EUR 5.6 million in the fourth quarter of 2017 in comparison to the levels as of September 30, 2017 (EUR 139.3 million and 54 days).

CONTINUED HIGH LIQUIDITY

Cash and cash equivalents (total cash and cash equivalents as well as other short-term investments) declined slightly to EUR 337.1 million as of December 31, 2017 (previous year: EUR 344.6 million) but still represented the largest single asset item.

CURRENCY-RELATED DECLINE IN NON-CURRENT ASSETS

Non-current assets decreased by EUR 29.4 million as of December 31, 2017 to EUR 377.8 million (previous year: EUR 407.2 million) partly due to the reduction in deferred tax assets (EUR –10.9 million). Exchange rate effects mainly from the appreciation of the euro against the US dollar led to a lower valuation of other intangible assets (EUR –9.2 million) and property, plant and equipment (EUR –6.5 million). Investments in property, plant and equipment and intangible assets amounted to EUR 27.1 million and exceeded related depreciation of EUR 24.6 million by EUR 2.5 million.

Overview of net assets

in EUR millions

	12/31/2017	12/31/2016[2]
Total assets	998.1	1,014.0
Equity	301.0	304.9
Equity ratio in %	30.2	30.1
Net debt[1]	105.5	97.1
Net working capital	120.6	110.3
Net working capital in % of sales	11.0	10.9

[1] Taking into account cash and cash equivalents and other short-term investments of EUR 337.1 million as of December 31, 2017 (previous year: EUR 344.6 million).

[2] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

EQUITY RATIO REMAINS STABLE AT 30.2 %

The Group's equity as of December 31, 2017 was 1.3 % lower year-on-year, amounting to EUR 301.0 million (previous year: EUR 304.9 million). A key reason for this decline was the appreciation in the euro against important Group currencies. This resulted in the recognition of negative foreign exchange differences directly in equity in the amount of EUR 25.3 million (previous year: positive currency difference of EUR 5.7 million) from the translation of financial statements from foreign operations. The dividend payment for the 2016 financial year of EUR 20.0 million also had an effect. These equity-reducing factors in the 2017 financial year were in contrast to a result for the period of EUR 41.0 million. The equity ratio remained virtually unchanged as of December 31, 2017, amounting to 30.2 % (previous year: 30.1 %).

When viewing the equity ratio, it is important to keep in mind that the balance sheet ratios continue to be influenced by the high level of liquidity being maintained in anticipation of acquisitions and investments planned as part of the 2020 growth strategy.

LITTLE CHANGE IN TOTAL LIABILITIES

Non-current liabilities totaled EUR 461.9 million at the end of 2017 (previous year: EUR 555.4 million). The decline of EUR 93.5 million resulted mainly from the reclassification of non-current loans and bonds to current interest-bearing loans and bonds with residual maturities of less than one year. Non-current interest-bearing loans and bonds as of December 31, 2017 declined to EUR 361.3 million (previous year: EUR 435.6 million), primarily due to the shorter remaining term of an issued EUR 75 million corporate bond, moving it to the "current" category from the "non-current" category.

Current liabilities, in contrast, increased to EUR 235.3 million as per the end of December 2017 (previous year: EUR 153.7 million). Current interest-bearing loans and bonds rose to EUR 81.3 million (previous year: EUR 6.1 million). Trade payables increased to EUR 114.2 million (previous year: EUR 106.7 million). This rise partially compensated for the increase in the asset positions of working capital. In comparison to September 30, 2017, trade payables had declined by EUR 5.7 million as of the end of the fourth quarter of 2017, and trade payables had risen by EUR 7.5 million compared to the end of 2016.

NET DEBT SLIGHTLY HIGHER

Non-current and current liabilities from interest-bearing loans and bonds stood at a virtually unchanged level of EUR 442.6 million as of December 31, 2017 (previous year: EUR 441.7 million). The Group's net debt (after deducting cash and other short-term investments) was relatively low at the end of 2017, amounting to EUR 105.5 million (previous year: EUR 97.1 million). Operating free cash flow in the fourth quarter of 2017 was supported by the lower capital commitment in working capital and amounted to EUR 26.8 million, almost matching the high level of the previous year (EUR 29.2 million). As a result, net debt declined by EUR 22.7 million in the final quarter of 2017.

FINANCIAL POSITION: CASH FLOWS

2017 OPERATING CASH FLOW REMAINS STRONG

Cash flow before changes in net working capital declined by 4.7 % to EUR 99.5 million in the 2017 financial year (previous year: EUR 104.4 million). This was primarily due to the decline of 13.5 %, or EUR 8.7 million, in the result before tax in the 2017 financial year. The higher net balance of finance expenses of EUR 16.5 million (previous year: EUR 13.5 million), which are readded in the calculation of cash flow before changes in net working capital, partially offset the decline in result before tax.

It should be noted that the substantial increase in restructuring and transaction costs amounting to EUR 13.2 million (previous year: EUR 6.6 million) and the additional operating expenses in connection with the US plant consolidation in the amount of EUR 10.3 million – a major portion of which was cash effective – not only affected the result before tax, but also cash flow.

GROWTH-RELATED RISE IN NET WORKING CAPITAL

At the same time, the growth-related increase in net working capital led to a cash outflow of EUR 25.4 million (previous year: cash inflow of EUR 2.0 million). After the strong increase in net working capital at the beginning of 2017, further expansion was effectively limited in the following quarters. In the fourth quarter of 2017, the decline in net working capital resulted in a cash inflow of EUR 14.4 million (previous year: EUR 18.6 million).

High organic sales growth of EUR 96.8 million resulted in an accompanying cash outflow of EUR 27.0 million from higher trade receivables (previous year: cash outflow of EUR 4.1 million). The increase in inventories also resulted in a cash outflow of EUR 13.8 million (previous year: cash outflow of EUR 8.1 million). The US plant consolidation also had an impact, as certain volumes had to be held in advance of the upcoming relocation measures. The increase in trade payables, in contrast, generated a cash inflow of EUR 13.9 million (previous year: EUR 12.7 million). Net working capital increased overall in the 2017 financial year. Net cash flow from operating activities fell by 38.7 % to EUR 56.8 million (previous year: EUR 92.7 million). At EUR 33.2 million, net cash flow from operating activities in the fourth quarter of 2017 was below the previous year's level of EUR 38.8 million.

The cash conversion rate, which is an indicator of the Company's ability to generate cash inflows from its operating business, reached 81.3 % in the 2017 financial year (previous year: 117.7 %).

Overview of financial position

in EUR millions

	2017	2016
Cash flow from operating activities before income taxes paid	74.1	106.4
Cash conversion rate in %[1]	81.3	117.7
Net cash flow from operating activities	56.8	92.7
Net cash flow from investing activities	–84.3	89.8
Investments in property, plant and equipment and intangible assets	–27.1	–25.0
in % of sales	2.4	2.4
Net cash flow from financing activities	–33.7	15.3
Free cash flow[2]	29.7	67.7

[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.

HIGHER INVESTMENT IN FUTURE GROWTH

Net cash flow from investing activities in the 2017 financial year amounted to EUR –84.3 million (previous year: EUR 89.8 million). The 2017 financial year was affected by the acquisition of other financial assets resulting in a cash outflow of EUR 58.1 million. This was in contrast to the prior year, which saw a positive impact from the sale of other short-term investments with a cash inflow of EUR 115.0 million. Excluding these two opposing effects, net cash flow from investing activities in 2017 would have been EUR –26.2 million and EUR –25.2 million in the previous year.

In preparation for future growth, the SAF-HOLLAND Group increased its payments for investments in property, plant and equipment and intangible assets by EUR 2.1 million in 2017. In total, payments for investments in property, plant and equipment increased by EUR 2.5 million to EUR 21.8 million (previous year: EUR 19.3 million), while investments in intangible assets amounted to EUR 5.3 million (previous year: EUR 5.7 million). Overall, the SAF-HOLLAND Group's investment ratio in the 2017 financial year remained unchanged at 2.4 %.

Net cash flow from investing activities in the prior year included a payout for the takeover of KLL in the amount of EUR 7.5 million. In addition, the acquisition of Haldex shares in the second quarter of 2016 and the subsequent sale of the shares in the fourth quarter of 2016 resulted in a positive effect on net cash flow from investing activities of EUR 5.7 million.

FREE CASH FLOW OF APPROX. EUR 30 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) reached a solid EUR 29.7 million in the 2017 financial year (previous year: EUR 67.7 million). As a result, the dividend distribution in 2017 for the 2016 financial year was once again fully covered by the generation of internal funds. The decline in free cash flow compared to the previous year was due, in part, to the temporary increase in restructuring and transaction costs and the necessary additional operating expenses in connection with the US plant consolidation, which together amounted to EUR 21.2 million. The growth-related increase in net working capital also caused a decline. Despite again high additional operating expenses in the US, at EUR 26.8 million, free cash flow in the fourth quarter of 2017 almost reached the previous year's high level (previous year: EUR 29.2 million).

The net cash flow from financing activities amounted to EUR –33.7 million in the 2017 financial year (previous year: EUR 15.3 million). In addition to the dividend payment of EUR 20.0 million (previous year: EUR 18.1 million), this amount mainly reflected interest paid. It should be noted that the net cash flow from financing activities for 2016 had included a cash inflow of EUR 50.0 million from the assumption of a loan and a cash outflow of EUR 5.1 million from hedging the Haldex purchase price offered in Swedish krona.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2017 FINANCIAL YEAR

The year 2017 for the SAF-HOLLAND Group was satisfactory overall. We were very pleased with the business development in the EMEA/I and APAC/China regions where SAF-HOLLAND was able to further expand its market position and achieve solid sales and earnings growth. These successes, however, were overshadowed by the unsatisfactory earnings performance in North America. The unexpected strong recovery of the truck and trailer markets in the second half of 2017, which coincided with the relocation measures for the US plant consolidation that were already at an advanced stage, presented the SAF-HOLLAND Group with significant production and logistical challenges. Due to the resulting additional operating expenses, only the lower end of the originally planned target corridor for the adjusted EBIT margin, the Group's key performance indicator, was achieved in the 2017 financial year.

There were also important operational milestones achieved in the past year. With the relocation of production from the Holland site at the end of September 2017 and the Muskegon site at the end of December 2017, the Group completed the US plant consolidation as scheduled at the end of 2017. In the current 2018 financial year, the focus will be on optimally linking the logistics and production processes of the new production network and, after a successful start-up phase, realizing the cost advantages and efficiency gains associated with restructuring the plant network. The region's profitability is therefore expected to see a gradual and sustainable improvement.

Significant progress has been made in the implementation of the 2020 Growth Strategy objectives, not only in terms of the Group's strong organic growth but also the achievement of significantly above-average growth rates in the emerging markets outside the existing core markets of Europe and North America. SAF-HOLLAND benefits from the strong growth of the premium segment, for example in China, where the Company was able to position itself early on. With the new plant in Turkey, SAF-HOLLAND is well equipped to benefit from the future growth of the transportation industry in this region and in the neighboring markets.

Overall, the SAF-HOLLAND Group believes it is well on track to participate disproportionately in the structural growth in the target markets and at the same time achieve the objectives of its 2020 Growth Strategy.

OPPORTUNITIES AND RISK REPORT

PRINCIPLES OF THE SAF-HOLLAND GROUP RISK MANAGEMENT SYSTEM

SAF-HOLLAND has a comprehensive risk management system anchored in all of 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 likely to occur are systematically and uniformly recognized, analyzed and evaluated as best as possible and then communicated. The risk management system intentionally omits general and non-specific risks to the Company (for example, macroeconomic risks), as well as risks that are impossible to monitor (for example, natural catastrophes). The risk management system is solely devoted to recognizing risks and not 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 takes place both at the level of the Group and the individual subsidiaries and takes into consideration the respective loss potential and probability of occurrence. Control instruments and, if possible, corrective measures have been defined for each risk. Individual risks are combined into risk areas, each with their own specified risk policy.

CENTRALLY ORGANIZED INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEMS THAT APPLY GROUP-WIDE

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 by 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 controlling and risk management system is used to ensure the reliability and accuracy of financial reporting and the compliance of the Group's accounting and financial statements with IFRS reporting standards. 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.

INTERNAL CONTROLLING SYSTEM MEETS ALL STATUTORY REQUIREMENTS

The other business processes are also included in the Internal Controlling and Risk Management System (ICS). The risk-adequate design of the ICS and the guarantee of compliance with its specifications, rules and process instructions are the responsibility of the Management Board. The Board of Directors does its own review to determine the effectiveness of the ICS in the context of performing its supervisory role through the Audit Committee. The independent Internal Audit department reviews the implementation and effectiveness of the internal controlling system and provides suggestions for its continual improvement. The financial reporting of the segments and subsidiaries are included in these reviews. The Internal Audit department forwards its audit reports to the respective divisional management, the Management Board and the auditor and reports to the Audit Committee of the Board of Directors. The Audit Committee regularly receives reports on the results of the audits carried out and the status of the implementation of the improvement measures. A further method of external monitoring of the Group's financial reporting process is the audit of the consolidated financial statements by independent auditors.

OVERALL RISK SITUATION IMPROVES AT SAF-HOLLAND IN 2017

The criteria "probability of occurrence" and "scope of risk" are used to evaluate risks. We also subdivide risks into the categories of "low," "medium" and "significant" risk as shown in the graph below. The scope of risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) prior to risk mitigation (in gross terms).

Risk categories

Scope of risk in kEUR

	Probability of occurrence				
	<10%	10%–30%	30%–70%	70%–90%	>90%
<1,500	Low	Medium	Medium	Medium	Medium
1,500–3,000	Low	Medium	Medium	Significant	Significant
>3,000	Medium	Medium	Significant	Significant	Significant

Low Medium Significant

In gross terms, SAF-HOLLAND Group's overall risk potential at the end of the 2017 financial year amounted to around EUR 33 million, which was more than 5% lower than in the previous year (EUR 35 million). 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, continues to be manageable and easy to control. Sufficient precautions were taken for identified risks in the form of depreciation, amortization, impairments and provisions.

Strategic risks during the past financial year represented almost 30% of the overall risk potential and continued to be the most important risk area. Due to the lower risk category assigned to the competitive situation and the dependence on individual customers, the scope of strategic risk in 2017 was significantly lower overall compared to 2016. The Group's financial risk also declined; however, this decline was partially offset by an increase in legal and regulatory risks.

RISK OVERVIEW

Risk areas[1]		Individual risks	Individual risk 2017 vs. prior year[2]	Total risk 2017 vs. prior year[3]
Strategic risks	Significant	Customer dependency risk	unchanged	
	Significant	Competitive risk	lower	
	Significant	Vertical integration	higher	lower
Legal and regulatory risks	Medium	Trademark and patent protection risks	unchanged	
	Significant	Liability risks	higher	
	Low	Trade risks	lower	
	Low	Other regulatory risks	unchanged	higher
Technology risks	Medium	Marketing risks	unchanged	
	Medium	Risks from technological progress	unchanged	
	Low	Risks from the loss of a cooperation	unchanged	unchanged
Operating risks	Medium	Procurement risks	unchanged	unchanged
IT risks	Medium	System outage and cybercrime risks	unchanged	unchanged
Personnel risks	Low	Loss of knowledge risk	higher	
	Low	Strike risks	unchanged	unchanged
Financial risks	Low	Financing risks	unchanged	
	Low	Currency risks	lower	
	Medium	Impairment risks	unchanged	lower
Other risks	Medium	Compliance risks	unchanged	
	Medium	Business relationship risks	unchanged	unchanged

Low Medium Significant

[1] The individual risk areas are arranged according to their respective scope of risk (descending order).
[2] Any change in the assessment of individual risks compared to the prior year is based on a change in the risk category.
[3] Changes compared to the prior year of more than EUR 0.5 million lead to increases and decreases in risk assessments.

MACROECONOMIC AND SECTOR DEVELOPMENTS ARE NOT INCLUDED IN RISK MANAGEMENT SYSTEM

Macroeconomic and sector risks are not included in SAF-HOLLAND's risk management system because they are difficult to quantify and control. These risks, however, are indirectly reflected as general conditions in the following risk categories. It is also important to keep in mind that these risks also harbor opportunities that are not quantified.

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

REDUCING RISK BY MEANS OF BROAD REGIONAL DIVERSIFICATION

We counter the risks described by means of broadly diversified products, customers and regional markets. In the past, the investment cycles in the truck and trailer markets and in our key regional markets have often failed to coincide. As a result, we were often able to at least partially offset temporary demand weakness in one market through a steady or upward trend in demand in another market. Our strength in the spare parts business – which is seldom impacted by economic cycles – also helps to compensate for fluctuations in our OEM business.

OVERALL STRATEGIC RISK FALLS

Classification of customer dependency risk unchanged due to diversification

The global truck business is dominated by a relatively small number of global manufacturers. Consequently, the dependency in this segment on individual customers is relatively high. The trailer business – the more important business for SAF-HOLLAND – has a much less condensed 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 vehicles 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 improve its risk profile. In the 2017 and 2016 financial years, no one customer represented more than 10% of the Group's sales.

Competitive risks continue to play a major role

Although competitive risk was rated lower in the 2017 financial year, it continues to be one of the "significant" individual risks for the Group. We rate the general intensity of competition in our markets as high, mainly as a result of new, usually lower cost suppliers entering established markets from emerging markets. This is the reason we conduct ongoing market and competitive analyses.

We mitigate this risk by taking several actions. For one, we make certain that our cost structures are always competitive and in line with the market. We also maintain our technological advantage through continued innovation. We accomplish this by having one of the most extensive research and development activities among our competitors, especially in the area of axle and suspension systems, coupling systems, lightweight construction and new technologies. Another crucial competitive advantage is our aftermarket network, which spans more than 10,000 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 of major trailer customers in Europe remains a regional risk

The trend towards increased vertical integration has been seen among trailer manufacturers for several years, not only in Europe but also in Asia, where some manufacturers no longer purchase axles from suppliers but choose rather to manufacture them themselves. This change in purchasing behavior on the part of trailer manufacturers, however, has also presented us with some opportunities because now other trailer manufacturers, especially in North America, are starting to purchase entire axle systems, which gives us a chance to significantly increase our sales per vehicle.

Although we believe the risk posed by vertical integration is significant overall, it only affects SAF-HOLLAND to a limited extent. Manufacturing axles in-house makes economic sense for only a small number of trailer manufacturers and refers only to the manufacture of standard axles. In addition, it is the fleet customers who largely determine the trailer's specifications and, consequently, the axle system used. This makes having direct access to the end customer a decisive competitive advantage.

LEGAL AND REGULATORY RISKS INCREASE SLIGHTLY

Active management of trademark and patent protection risks

The misuse of our trademark 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, also in the spare parts business. In the context of priority registrations, SAF-HOLLAND ensures that it patents its in-house developments at an early stage so that they are protected.

Liability risks cannot fundamentally be excluded

Liability risks include product liability and quality risks that may result from the production of products with insufficient quality or with defects. Any pollution of the soil, air and water can also give rise to corresponding environmental risks. Manufacturing companies can therefore never completely eliminate liability risks.

To isolate these risks as best as possible, SAF-HOLLAND manufactures Group-wide in accordance with high quality standards. 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 we are able to meet the requirements of the international DIN ISO 9001:2008 quality standard and the special requirements of the automotive industry (ISO/TS 16949:2009) at all of the locations supplying 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.

SAF-HOLLAND also maintains strict compliance with the relevant environmental protection regulations. In addition, our certifications in terms of product quality and system performance contribute significantly to environmentally friendly production. Most of our plants, especially in North America, have a certified environmental management system that conforms to the international ISO 14001 standard.

Market entry and trade risks categorized as low
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 internal monthly forecast.

The UK's decision to leave the European Union on March 29, 2019 (Brexit) is not expected to have a major impact on the Company's operations. SAF-HOLLAND is not operating in the United Kingdom through its own subsidiary but serves the local market through a distribution partner (local country representative) who invoices in euros. In the 2017 financial year, SAF-HOLLAND's exports to Great Britain accounted for around 2.4 % of Group sales. We do not expect Brexit or the depreciation of the British pound versus the euro since the referendum to have any effect on our relative competitive position because none of our major competitors has any significant production capacity in Great Britain.

Other regulatory risks at SAF-HOLLAND categorized as low
Other 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 ongoing evaluation of analyses from leading market research companies such as ACT Research and FTR.

TECHNOLOGY RISKS UNCHANGED OVERALL

Unchanged level of marketing risk by maintaining ongoing dialog with customers
We counter marketing risks first and foremost by maintaining an ongoing dialog with our customers. This enables us to recognize changes in demand at an early stage and develop new demand-oriented solutions. The information we gain helps us to avoid misdirecting our technological and conceptual efforts as a result of misinterpreting the needs of the market. We are also continuously monitoring our competitors, particularly with respect to their product range and the focus of their research and development. We use benchmarking, among other tools, to monitor our competitors' relevant products and activities.

Research and development risks mitigated with proprietary activities and continuous market monitoring
Although we place high importance on our research and development activities, 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.

Risk of termination of cooperation contractually limited
The termination of 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 in both the sourcing and sales markets. We also make it our aim to cooperate only on the basis of contractual strategic alliances.

OPERATING RISKS UNCHANGED OVERALL COMPARED TO THE PRIOR YEAR

Procurement risks limited by multi-supplier strategy
Procurement risks can result from supply bottlenecks or substantial cost increases for materials and intermediate products. This includes the risk of restricted production and delivery capabilities and higher procurement costs. In terms of supply risk, the degree of the Company's dependence on individual suppliers plays a major role. To limit this risk, we employ a multi-vendor strategy where we arrange multi-year framework contracts containing defined quantities and prices with our core suppliers. In addition, we usually keep a certain level of inventory available to compensate for any short-term bottlenecks.

A particularly important price risk is the development of raw materials prices, especially the price of scrap steel. We minimize these risks by linking the prices in the majority of our customer contracts to commodity price movements, thereby passing on raw material price increases to a large extent to our customers. These types of adjustments, however, are often only possible after a certain time lag, which may result in initial temporary additional costs in procurement. The development of steel prices may vary strongly across regions in the Group's respective reporting segments. Punitive duties and other trade restrictions can have a significant impact on the short-term supply situation and purchase prices in the respective regions. Because of its global organization, SAF-HOLLAND cannot rule out this risk completely but partially limit it.

IT RISKS UNCHANGED

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 combat these types of risks by implementing sufficiently powerful structures that meet the industry's standards. Our comprehensive and up-to-date IT security approach ranges from access restrictions and controls to measures for data protection. Back-ups exist for essential hardware structures.

PERSONNEL RISKS CONTINUE TO BE CONSIDERED LOW

Loss of knowledge risk limited through systematic succession planning

Personnel risks are primarily those arising from the loss of managers and expert personnel in key positions. We prevent these risks through a systematic succession planning process and a Group-wide knowledge management system. We also have clearly defined deputy rules for all relevant management positions.

Strike risks continue to be categorized as low

To minimize 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 LOWER THAN PRIOR YEAR DUE TO FINANCIAL ANALYSIS AND PLANNING

Financing risks continue to be categorized as low

We counter the risk of insufficient liquidity 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 management also continually monitors compliance with financial covenants from long-term credit agreements.

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 2017.

Market-induced interest rate changes may have an impact on the interest burden of variable-interest financial liabilities. This interest rate risk is generally hedged by at least 70% using suitable instruments. At present, the Group's interest rate risks are low, as fixed interest rates have been agreed for a large portion of financial liabilities.

Further information on the Company's liquidity and financing can be found on pages 59ff. of this management report.

Currency risk less pronounced

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 invoice customers primarily in the respective local currencies. Sales and costs in most currency areas are largely recognized in the same currencies. Therefore only low transactions risk arises from the valuation of foreign currencies.

Translation risk that arises when converting the national currencies into the Group's reporting currency, the euro, is difficult to control. Currency fluctuation risks for the given outlook depend on the exchange rate development of the relevant local currencies and cannot be ruled out. These risks are generally accompanied by corresponding opportunities. Therefore, our sales forecasts are calculated on an organic basis, that is, on a constant currency basis.

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 the 2016 financial year, there is virtually no longer any risk that the valuation of intra-company foreign currency loans may have a potential negative impact on results. Since that time, intra- company foreign currency loans are being accounted for 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). The corresponding assessment of currency risks for the past financial year was "low" (previous year: "significant").

Impairment risks at a moderate level
Impairment risks can arise from the need to recognize unscheduled depreciation or amortization of 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 remained unchanged at a moderate level in the 2017 financial year.

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

NO NEW OTHER RISKS

Compliance risks addressed by Code of Conduct and Compliance Unit
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. SAF-HOLLAND bases its compliance system on common ethical and moral principles.

Corporate integrity is a top priority at SAF-HOLLAND. We believe compliance is not just about complying with applicable national and international laws and regulations but is also about being committed to ethical values. We have set up a compliance unit to help our employees fulfill these objectives. Our Code of Conduct summarizes our compliance requirements, which are binding for SAF-HOLLAND as a company, our management and each and every employee. Other compliance matters, such as how to handle gifts or insider information, are regulated by mandatory guidelines and memorandums throughout the Group. When there are changes in the legal framework, the relevant information is updated and the employees affected are informed. The Board of Directors works to ensure compliance with and adherence to the statutory provisions and corporate policies.

Risks from individual business relationships remain at moderate level
Risks arising from individual relationships with business partners are inherently limited by the broad diversification of our customer and supplier base. Identified risks are addressed and limited as much as possible in cooperation with the respective business partner.

OVERVIEW OF OPPORTUNITIES

SUPPORT FROM THE GLOBAL MEGATRENDS AND THE GROWTH IN INTERNATIONAL FREIGHT TRANSPORTATION

Worldwide freight transportation and, consequently, the markets for trucks and trailers, are reaping the long-term benefits from several of the global megatrends. The growing world population, especially in developing and emerging countries, as well as the globalization of the economy, are leading to growing international trade. This makes a global transportation infrastructure a mandatory requirement. Urbanization is also attracting an increasing number of people to cities. Trucks and trailers are the most important means of transportation for supplying these mega cities.

Another factor is the sharp increase in the population of the middle class, 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.

SUSTAINABLE GROWTH IN MARKET FOR TRUCKS AND TRAILERS OFFERS GROWTH POTENTIAL

According to the market research institute LMC Automotive, the market for medium and heavy trucks is projected to grow on average by around 1% p.a. until 2032. All of the world's regions are expected to contribute to this growth, whereby the highest growth rates are expected in Latin America and Central and Eastern Europe.

The steady increase in the requirements for safety and compliance with environmental standards is causing disproportionately strong growth in demand for high-quality transportation equipment. For a technology leader like SAF-HOLLAND, this means that our addressable market offers tremendous growth potential in the years ahead.

Stricter regulatory requirements (see section "Opportunities from new regulatory requirements") are causing fleet operators to begin to rethink their strategies, which will noticeably boost the use of new material combinations and technological innovations, such as lightweight construction.

The steady expansion expected in truck fleets also implies 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 combined with special warranty packages. With a tailored brand that offers 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 ARISING FROM NEW REGULATORY REQUIREMENTS

The use of mega trailers in Europe could result in a boost in investment

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 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.

New commercial vehicle standards in China propel growth in the premium segment

The first phase of the GB 1589 standard came into effect in China in September 2016, revising the regulations for maximum weight and gross weight per axle for medium and heavy trucks. Under GB 1589, the maximum allowable weight of a truck and trailer combination has been reduced from 55 to 49 tons. The second phase of the standard, which will take effect in July 2018, also limits the length of a truck and trailer combination to a maximum of 18.1 meters. Stricter regulations will apply to the height and width of truck and trailer combinations. Until now, the length of these combinations on China's roads has been limited to 22 meters. Due to a lack of regulatory enforcement, however, there were some truck and trailer combinations on the road that measured up to 27 meters in length. Compliance with the new standard, however, is being closely monitored by the authorities whose aim is to increase safety standards and reduce wear on the roads caused by overly heavy trucks. At the same time, dimension limits and load regulations came into force for automotive transporters that lead to a significant reduction in the number of vehicles that can be transported per trailer.

January 1, 2018 is the date set for the introduction of the GB 7258 standard, which will further tighten safety regulations for truck and trailer combinations in China. After a one-year transitional period, starting on January 1, 2019, the GB 7258 standard will require the installation of disc brakes for the transport of dangerous goods. Trucks will have to equip their front axles with disc brakes and all of the trailer axles will need to feature disc brakes. As of January 1, 2020, the rear axles on trucks and all of the axles on trailers transporting dangerous goods will also need to be equipped with air suspension systems.

Although compliance with new standards is often handled differently in the respective Chinese provinces, and it is unclear as of when old vehicles that do not meet the specifications will no longer be allowed, the introduction of the first phase of the GB 1589 standards has still led to a significant increase in new registrations of trucks and trailers. With the implementation of the second phase of the GB 1589 in mid-2018 and the implementation of the GB 7258 standard at the beginning of 2019, the Chinese market is likely to experience a boom for the foreseeable future. Apart from the somewhat short-term effect on demand, it is expected that, over the medium term, tighter regulations will cause truck and trailer manufacturers to shift their focus to weight-reduced and technologically more sophisticated solutions. We will be able to accommodate this demand through our innovations, products and highly competitive solutions, placing us in a strong position to significantly increase our market share in China.

Stricter emission regulations in the United States drive demand for lightweight components

A new directive (Regulations for Greenhouse Gas Emissions from Commercial Trucks & Buses) in the United States regulating the CO_2 emissions of heavy commercial vehicles was published in 2016 by the US Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA). This is the second phase of legislation on fuel efficiency and CO_2 reduction that not only includes trucks but will also include trailers starting in 2018. Even stricter requirements are scheduled to be introduced in 2021, 2024 and 2027. According to EPA, the tightened regulations planned for 2018 will not only require better aerodynamics but also the use of tire pressure monitoring systems and lightweight components in order to meet the requirements for improved fuel efficiency. SAF-HOLLAND has extensive expertise in both of these product areas and is therefore expected to benefit from these stricter regulations.

INCREASING DEMAND FOR DISC BRAKE TECHNOLOGY IS HAVING A POSITIVE EFFECT

Whereas the overwhelming majority of trailers in Europe have been equipped with disc brakes for many years, disc brakes are still not broadly used in the US. Traditional drum brakes still dominate the US market despite being clearly inferior in terms of performance, weight and ease of maintenance. Disc brakes have clear advantages in terms of safety due to their better braking performance. A truck equipped with disc brakes, for example, needs 20% less braking distance (dropping from 129 meters to 104 meters at a speed of 75 mph) compared to drum brakes.

Meanwhile, the interest in disc brake technology is now also picking up in the United States. In 2016, SAF-HOLLAND received a milestone order from U.S. Xpress to equip 1,800 newly ordered trailers with the latest generation of disc brakes. The decision of U.S. Xpress to use disc brake technology over drum brakes was widely covered by the US trade media and could inspire other fleet operators to do the same. The proportion of disc brake technology in the US is expected to increase from today's 10% share over the medium term to 30to35%. SAF-HOLLAND has been playing a pioneering role in this segment of the European market for years and possesses extensive know-how. By employing disc brake technology in our axle systems, we can increase our added value per vehicle by 50% or more.

OPPORTUNITIES THROUGH ACQUISITIONS ARE A FUNDAMENTAL COMPONENT OF GROWTH STRATEGY 2020

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 attractive terms and conditions. In view of the challenges facing many of these sellers, we expect better opportunities going forward to expand and enhance our position in selective markets. A good example of this approach was our acquisition of KLL in the 2016 financial year. This acquisition was an anti-cyclical investment and allowed 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.

ACTIVE PURSUIT OF OPPORTUNITIES ARISING FROM PENETRATING NEW MARKETS

In the 2017 financial year, SAF-HOLLAND generated roughly 90% 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.

To achieve this objective, we commenced operation of a new plant in Düzce (Turkey) for the production of axle systems in 2017. The new 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. Industry experts expect a significant boom in the release of pent-up investments in infrastructure in these countries and the transportation sector in particular.

The acquisition of KLL in the 2016 financial year should also be seen in this context. Through KLL, we have gained wider access to the Brazilian market and now also have direct access to the country's truck and bus manufacturers.

REDEMPTION OF HIGH-YIELD CORPORATE BOND REDUCES INTEREST EXPENSE

In 2012, SAF-HOLLAND issued a corporate bond with a total nominal volume of EUR 75.0 million and maturing on April 26, 2018. With an interest coupon of 7.0%, the yield is relatively high from today's standpoint and no longer in line with the market. The current plan is to redeem the maturing bond using existing cash. Fully redeeming the bond using cash would have a positive effect on the net interest result of around EUR 5.0 million per full year. In 2018, the effect of the interest savings on a pro rata basis would cover approximately eight months.

TAX REFORM IN THE UNITED STATES MAY HAVE A POSITIVE IMPACT

The new US administration under President Trump voted in favor of a comprehensive tax reform package at the end of 2017. One of the key aspects of the reform package is a reduction in corporate taxes. Starting in 2018, the US federal corporate tax rate is scheduled to fall from 35% to 21%. In the 2017 financial year, SAF-HOLLAND's relevant US corporate tax rate was 37%, consisting of a federal tax rate of 35% and a state tax rate of around 2%. The Group expects its overall tax rate in the United States to decline to about 23% starting with the 2018 financial year as a result of the reduction of the federal corporate tax rate to 21%. Depending on the US subsidiary's earnings, there will be a corresponding reduction in the tax burden in the United States.

EVENTS AFTER THE BALANCE SHEET DATE

MAJOR ORDER FOR AXLE AND SUSPENSION SYSTEMS AND INVESTMENT IN NEW PRODUCTION CENTER IN CHINA

In early January 2018, SAF-HOLLAND announced a major order from the Chinese transportation vehicle and trailer manufacturer Changjiu Special Vehicle Group. Changjiu is one of the leading manufacturers of trailers for transporting vehicles and will equip its semi-trailers with axle and suspension systems from SAF-HOLLAND in the future. Special low loader axle systems equipped with the SAF MODUL air suspension system will be used. This system is unique in its versatility and number of combination options. The delivery agreement covers a period of five years. The delivery of the first systems has already begun. Sales of around EUR 15 million are expected from this order in 2018.

SAF-HOLLAND also announced that it would significantly expand its production capacity in this region. The Group is investing a high single-digit million euro amount in a new central production center with manufacturing space of roughly 46,000 m² on the Yangtze River Delta. Operation is scheduled to begin in the first half of 2019. Through this investment, SAF-HOLLAND is equipping itself in anticipation of a continued increase in demand for modern disc brake and air suspension technology in China in the future. This technology will be increasingly used by fleet operators in the wake of more restrictive legislation.

ACQUISITION OF MAJORITY STAKE IN COUPLING SYSTEM SPECIALIST V.ORLANDI S.P.A.

In the first quarter of 2018, SAF-HOLLAND signed a contract and acquired a majority stake in V.ORLANDI S.p.A., an Italian manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles. SAF-HOLLAND will initially acquire 70 % of the company's shares. The purchase price was around EUR 39 million. The parties agreed to grant SAF-HOLLAND a call option for the remaining 30 % interest in the company, which can be exercised at a later date. SAF-HOLLAND expects to close the transaction no later than the second quarter of 2018.

With V.ORLANDI, the Group is acquiring a supplier of trailer couplings for trucks as well as special fifth wheels and strengthening its position as number 2 in Europe. At the same time, SAF-HOLLAND is expanding its specialty business with couplings and drawbar eyes for trailers and specialized commercial vehicles, for example in the segments of industry, agriculture, forestry and mining. V.ORLANDI generates nearly a quarter of its sales with coupling systems for agricultural and forestry vehicles.

The company currently employs around 60 people and has two manufacturing locations in northern Italy near Brescia. The company's target sales markets aside from those in Western Europe include primarily Russia, Asia and Australia. For the 2017 financial year just completed, V.ORLANDI expects sales of approximately EUR 20 million and a low double-digit EBIT margin.

FIRE AT WAREHOUSE AT SAF-HOLLAND'S SUBSIDIARY IN RUSSIA – DAMAGE IS LIMITED

The SAF-HOLLAND subsidiary OOO SAF-HOLLAND Rus in Moscow suffered a fire at one of its rented warehouses in Moscow at the end of February 2018. No personal injuries occurred. The fire did, however, render finished goods and spare parts for the Aftermarket business unit unusable and a major portion is expected to be impaired. The precise amount of damage is currently being determined and expected to be in the low single-digit-million euro range. SAF-HOLLAND has sufficient insurance coverage and currently assumes it is fully covered against the loss, excluding a manageable deductible. The company expects limited operations at the Aftermarket business unit in Russia for three to four weeks, foregoing sales in the upper triple-digit euro thousands.

COO DEPARTS

Arne Jörn, Chief Operating Officer of SAF-HOLLAND since October 17, 2016, has left the company as of February 28, 2018 to pursue other interests outside of the SAF-HOLLAND Group.

The Management Board and the regional presidents have taken joint responsibility for his role for the time being. The Management Board and the Board of Directors have already started discussing the future allocation of responsibilities and succession in the operations area.

OUTLOOK

ECONOMIC AND SECTOR ENVIRONMENT

STRONG GROWTH PROJECTED FOR THE GLOBAL ECONOMY IN 2018

In the second half of 2017, economic sentiment, which has a direct impact on the transportation industry, had noticeably improved worldwide. In its latest assessment of the global economy, the International Monetary Fund (IMF) was more optimistic than it had been in the past several years. In its World Economic Outlook from January 2018, the IMF expects global gross domestic product (GDP) to increase by 3.9 % in 2018, marking the highest growth rate since 2011. The projected global upturn is expected to be broad-based and sustained by almost all major industrialized nations as well as a majority of the emerging markets.

The IMF is also confident about the outlook for the eurozone. With an expected GDP increase of 2.2 %, the eurozone is poised for a year of solid growth in 2018. The biggest risk factor remains the upcoming Brexit, which in the opinion of the IMF will primarily have a negative impact on the UK itself.

The IMF expects economic development in the United States to accelerate again in 2018 and is currently forecasting growth of +2.7 %. This forecast does not yet take into account the possible positive effects of the tax reform adopted at the end of 2017.

At the same time, the IMF believes that the most important emerging economies, especially China and India, will be able to achieve high growth rates ranging from 6.6 % to 7.4 %. The IMF is a little more reserved in its forecasts for Russia and Brazil. Although the economic recovery in those countries is expected to continue in 2018, the expected growth rates are only moderate in view of their low starting levels. Projected growth should provide a steady environment for the transportation industry in most economies in 2018.

Expected economic development in key markets in 2018

in %

	2016	2017	2018
Euro Area	1.8	2.4	2.2
Germany	1.9	2.5	2.3
United States	1.5	2.3	2.7
Brazil	–3.5	1.1	1.9
Russia	–0.2	1.8	1.7
China	6.7	6.8	6.6
India	7.1	6.7	7.4

Source: IMF (World Economic Outlook January 2018).

SECTOR OUTLOOK: BETTER OVERALL ENVIRONMENT DESPITE CONTINUED SHARP REGIONAL DIFFERENCES

In 2018, the market environment is projected to improve on a global scale. This is especially true in North America, where the recovery in Class 8 trucks is expected to continue to gain momentum in the course of the year.

In China, fleet operators are expected to continue their high level of investment in view of the tighter regulatory requirements for vehicle safety and load limits. This applies especially to niches in the special vehicle sector, for example, vehicle and dangerous goods transporters. SAF-HOLLAND believes it has a strong position in this premium segment.

The situation is different in Europe, one of SAF-HOLLAND's core markets, which accounted for 53.7 % of the Group's sales in 2017. After several years of growth, a slight decline in Western European production figures cannot be ruled out in 2018. Sales figures for trucks and trailers in Europe, however, should remain at a consistently high level.

SLIGHT DECLINE IN DEMAND FOR TRAILERS IN WESTERN EUROPE

After a period of growth from 2014 to 2016 and largely stable development in 2017, the market research institute CLEAR International Consulting (CLEAR) expects a high-level consolidation in the Western European trailer market in 2018. Trailer production is anticipated to decline by up to 5 %. The research institute justifies its cautious assessment with the fact that European trailer demand has been supported by catch-up effects after years of restrained investment and many European fleet operators have already modernized and expanded their vehicle fleets in recent years. The macroeconomic recovery in many European Union countries, in contrast, will continue to prompt a sustained increase in demand for transportation capacities. CLEAR revised its forecasts higher for Western Europe in the course of 2017 after its projection in the spring of 2017 for a 9% drop in trailer production in 2018.

In Eastern Europe, CLEAR currently expects a moderate increase in trailer production of around 1%. According to the forecast, a recovery in Turkey is expected to be offset by broadly stagnating markets in Poland and Russia. Pan-European trailer production is expected to see a drop in deliveries of almost 4% in 2018, coming from a high level.

WESTERN EUROPEAN TRUCK MARKET STILL ON A MODERATE GROWTH PATH

According to estimates by LMC Automotive, the Western European truck market is expected to continue its multi-year upward trend and record minor growth in 2018. In the heavy-duty segment (>15 tons), which is relevant for SAF-HOLLAND, LMC Automotive is projecting a growth rate of just under 2%.

In Eastern Europe, LMC Automotive expects a 16% increase in production, mainly driven by the continued market recovery in Russia and the early signs of a recovery in Turkey. After years of decline, demand is expected to revive somewhat, even in countries such as Belarus and the Ukraine.

NORTH AMERICAN TRUCK MARKET IS PICKING UP STRONGLY

Based on the clearly noticeable recovery in the North American market for heavy trucks (Class 8) in the second half of 2017, the year 2018 is also anticipated to see strong growth. Market research institutes such as ACT Research and FTR forecast that, in 2018, North American vehicle production should increase by around 20 to 25% year-over-year after the market's sharp decline in 2016. Around 315,000 Class 8 trucks are expected to roll off the production lines. This number would represent almost a complete recovery from the decline in 2016. Strong growth is expected above all in the US (+27%) and Canada (+39%), while the outlook for Mexico (+10%) is more subdued. In addition to the improved economic environment, high demand in the US market is also expected to be triggered by the regulations issued at the end of 2017 from the Federal Motor Carrier Safety Administration (FMCSA) introducing Electronic Logging Devices (ELDs), which are required to be implemented by April 1, 2018. The ELD regulation requires vehicle operators to take regular breaks that need to be documented. In practice, this is expected to lead to shorter operating times resulting in additional demand for transportation capacity. This development is forcing fleet operators to increase their capacities in the midst of an already strong economic environment and, at the same time, deal with a nationwide driver shortage, which represents a significant challenge.

NORTH AMERICAN TRAILER MARKET REMAINS SOLID

The outlook for the North American trailer market in 2018 is more subdued. Although market research institutes are predicting another strong year for trailers in the US the growth in the trailer market is still expected to be only moderate in 2018 compared to the dynamic increase anticipated in truck demand. The diverse trends in demand for trucks and trailers can be explained by the high order backlog of the trailer manufacturers going into 2016. Contrary to the significant slump in Class 8 truck production in 2016, trailer production remained strong, and demand for trailers continued to be solid in 2017.

BRAZIL ON A RECOVERY COURSE

In 2018, the recovery in demand in the Brazilian commercial vehicle market that started in 2017 is expected to continue. Even though heavy truck production increased nearly 50% in 2017, production figures were still approx. 60% below the 2013 pre-crisis level. Based on the outlook for a moderate economic recovery and political reforms, LMC Automotive anticipates a rise of 14% in the production of heavy trucks in Brazil in 2018. Although the demand for new trailers is comparatively more restrained, new orders in this vehicle segment are pointing to slight growth.

DEMAND IN CHINA DRIVEN BY REGULATORY REQUIREMENTS

The introduction of the second phase of the GB 1589 standard in July 2018 and the GB 7258 standard on January 1, 2018 will continue to define the demand for trucks and trailers in China in 2018 (see the Risk and Opportunities Report, page 68). The general loading limits and safety regulations introduced for dangerous goods transporters are forcing the freight forwarders to continue to invest in new vehicles. Most market participants expect a slight slowdown in demand together with a decline in production volumes of around 15% in trucks and trailers in 2018. The premium segment, however, is anticipated to have double-digit growth rates in not only 2018 but also in the years that follow. The segment for vehicle and dangerous goods transporters for fuels, gas and other chemical substances plays a major role in SAF-HOLLAND's business development in China. SAF-HOLLAND estimates that the trailer premium segment, which seeks out more demanding, weight-reduced applications using air suspension and disc brake technology, comprises roughly 15 to 20% of the market.

In Australia, which is an important regional market for SAF-HOLLAND, LMC Automotive expects a rise in the production of heavy and medium-duty trucks of around 9% in 2018. LMC believes most of the other truck and trailer markets in the emerging countries of the APAC/China region will also tend to see slight growth.

COMPANY OUTLOOK

At SAF-HOLLAND, medium to long-term corporate development is the key focus and is being pursued via the 2020 Growth Strategy already described. The Company intends to realize growth opportunities by rolling out its business to new regions outside of the existing core markets, expanding the product portfolio in a targeted manner, as well as by entering into new joint ventures and concluding acquisitions.

Based on the outlook for the Group's relevant sales markets described above, SAF-HOLLAND expects the market environment in 2018 to be comparable to the environment experienced in the 2017 financial year. Nevertheless, SAF-HOLLAND is anticipating that the industry's development in 2018 will provide some tailwind for the Group's business development despite the potential minor decline in the core European trailer market. The Group's regional diversified structure is expected to prove itself once again in 2018.

INVESTMENTS IN NEW PRODUCTION CENTER IN CHINA AND DIGITIZATION

SAF-HOLLAND's business model is centered on application technology featuring the production of numerous variants. The development-intensive original equipment business is combined with a long-term oriented spare parts business. SAF-HOLLAND's business model, however, requires a lower level of capital intensity (around 2.5 to 3.0% of sales) compared to other manufacturers. After investing EUR 27.1 million in property, plant and equipment and intangible assets in 2017, the plan is to raise the investment volume in 2018 to around EUR 38 to 40 million. This increase will cause a corresponding rise in the investment ratio to over 3%.

The higher investment budget is intended primarily for building a new production center at the Yangzhou site in the province of Yangtze, China. After the major orders received and the expected increase in demand for modern disc brake and air suspension technology in China in the coming years, SAF-HOLLAND has decided to significantly expand its production capacities in the region. The new plant will have a production area of around 46,000 m² and is scheduled to begin operations in the first half of 2019. The Group plans to invest a high single-digit million Euro amount for this production center in 2018. Additionally, the Group plans to increase its production capacity for axle and suspension systems in North America.

Investment in 2018 will also focus on digitization. One example of this is SAF-HOLLAND's introduction of the in-memory database technology SAP HANA. This technology can collect and process the multitude of information and data within the Group in a targeted manner and in real time and will generate significantly higher efficiency across all divisions. The plan is to invest a low-single-digit million amount in this project in 2018.

Following the temporary increase in the investment ratio in 2018, SAF-HOLLAND expects a decline again in the ratio in the years that follow to its long-term average of 2.5 to 3%.

SUSTAINABLE DIVIDEND POLICY: DIVIDEND TO RISE TO EUR 0.45 PER SHARE

SAF-HOLLAND pursues a long-term dividend policy aimed at giving shareholders an opportunity to participate appropriately in the Company's success. As a rule, SAF-HOLLAND plans to distribute between 40 and 50% of its net income as a dividend to shareholders.

At the Annual General Meeting to be held on April 26, 2018, the Management Board and the Board of Directors intend to propose an increase in the dividend to EUR 0.45 per share for the 2017 financial year (previous year: EUR 0.44). This corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.0 million) and a payout ratio of 49.9% (previous year: 45.9%) of the result for the period or 47.6% (previous year: 45.1%) of the result for the period attributable to the shareholders of the parent company. The higher payout ratio reflects the overall solid operating performance in the 2017 financial year and the temporary nature of the restructuring charges and additional expenses related to the US plant consolidation. Based on a year-end closing price for SAF-HOLLAND shares of EUR 17.94 in 2017, the dividend yield amounts to an attractive 2.5% (previous year: 3.2%).

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

SAF-HOLLAND's planning is based on expected global economic growth of just over 3.5 % in 2018, as well as the anticipation that the economic growth in the Group's current core markets of Europe and, North America, as well as China, will continue to develop positively overall. With the structural market growth in innovative solutions such as lightweight technology, disc brake technology and automated driving, the Company expects to be able to increase its sales per vehicle and gain additional market share.

SOLID ORGANIC SALES GROWTH AND HIGHER EARNINGS TARGETED FOR 2018

After the high level achieved in 2017, SAF-HOLLAND's organic Group sales are expected to increase again by 4.0 to 5.0 % in the 2018 financial year. This forecast is based on the assumption of an unchanged scope of consolidation and constant exchange rates.

With the closure of the plant in Holland, Michigan, in late September 2017 and the plant in Muskegon, Michigan, at the end of December 2017, the Group was able to complete its relocation activities related to the US plant consolidation by the end of 2017. The focus will now be on gradually reducing the start-up costs of the restructured plant network during the first few months of 2018 and optimally aligning the capacity planning and logistics processes with the production processes. In addition, the temporary increase in the number of employees and the higher express freight and logistics costs are expected to decline again to their normal levels. The dynamic demand from original equipment customers is continuing as the new plant network is put into operation but is expected to be increasingly easier to master as the year progresses. Therefore, the Company expects to still incur additional operating expenses until the reduction in the production start-up inefficiencies will have been completed. The majority of these expenses are to be recognized in the first quarter of 2018. In light of the successive realization of efficiency improvements from the US plant consolidation, SAF-HOLLAND expects the Americas region to see a successive improvement in its cost structure and profitability over the course of 2018.

Based also on the anticipation of continued solid earnings performance in the EMEA/I and APAC/China regions, from today's standpoint SAF-HOLLAND expects the Group's adjusted EBIT margin in full-year 2018 to range from 8 to 8.5 %. Due to the forecasted development in the Americas region, the Company expects profitability to increase but successively meaning that the adjusted EBIT margin in the first half of 2018 will tend to be lower than in the second half of the year.

At the same time, SAF-HOLLAND expects one-time restructuring and transaction costs to decline in 2018 and tend toward the mid-single-digit millions, after having reached a level of roughly EUR 13.2 million in the previous year because of the US plant consolidation. This should also result in a disproportionate improvement in EBIT.

This outlook is based on the scope of consolidation as of December 31, 2017 and does not include the sales and earnings contribution majority-acquired company V. Orlandi S.p.A. The closing of this transaction is expected to take place no later than the second quarter of 2018.

In view of the objectives of the 2020 Growth Strategy, there may be additional sales and earnings contributions still to come from collaborations, joint ventures or acquisitions concluded during the course of the year. In its search to expand, SAF-HOLLAND places a special focus on complementing its technology portfolio and combining mechanical components with sensors and electronics. This requires, however, that the appropriate opportunities with manageable risk profiles and reasonable purchase prices are available and can be realized.

POSITIVE EFFECTS ON THE RESULT FOR THE PERIOD EXPECTED IN 2018

In addition to the anticipated improvement in adjusted EBIT described above, SAF-HOLLAND expects further positive effects on the result for the period in 2018.

At the end of April 2018, the corporate bond that was issued in 2012 with a nominal volume of EUR 75.0 million and a coupon of 7.0 % will reach maturity. This bond is to be repaid out of existing cash. Taking into account full redemption from cash a positive effect of a little over EUR 3.5 million on the interest result will be realized over the remaining eight months of the 2018 financial year.

SAF-HOLLAND expects the Group's income tax rate in the 2018 financial year to drop below the rates in 2015 (33.4 %) and 2016 (33.0 %), mainly as a result of the tax reform in the United States, which was adopted at the end of 2017.

Prior to the tax reform, the SAF-HOLLAND's US corporate tax rate was approximately 37 %, consisting of a federal tax rate of around 35 % and a state tax rate of around 2 %. As of the 2018 financial year, SAF-HOLLAND expects its overall US income tax rate to fall to around 23 %. Depending on the US subsidiary's earnings, there will be a corresponding reduction in the tax burden in the United States.

Based on the above, SAF-HOLLAND expects the development in the result for the period and earnings per share to outpace that of the adjusted EBIT in 2018.

OPERATING FREE CASH FLOW EXPECTED TO IMPROVE DESPITE HIGHER INVESTMENTS

The financial strength of the SAF-HOLLAND Group is expected to remain very solid in 2018. Investments in property, plant and equipment and intangible assets are anticipated to increase to between EUR 38 million and EUR 40 million in 2018 (previous year: EUR 27.1 million) as a result of the additional investments planned for the construction of a plant in China and the purchase of further equipment for the production of axles in the US. A positive effect on cash flow is expected from, among others, the phasing-out of additional operating expenses and restructuring costs from the US plant consolidation. SAF-HOLLAND also anticipates a lower build-up of net working capital compared to the previous year leading to an expected increase in overall operating free cash flow in 2018 versus 2017.

ALTERNATIVE PERFORMANCE MEASURES

In addition to the key figures defined or specified in the applicable IFRS financial reporting framework, SAF-HOLLAND also reports key financial ratios derived from or based on the prepared financial statements. These are known as Alternative Performance Measures (APM).

SAF-HOLLAND considers these key financial ratios to be important supplemental information for investors and other readers of the financial reports and press releases. The key financial ratios should therefore be seen as an addition to rather than a replacement of the information prepared in accordance with IFRS.

In complying with the requirements of the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures (APM), you will find an overview of the Alternative Performance Measures used presented on page 154. The definition and compilation of the APMs can be found on the SAF-HOLLAND website at https://corporate.safholland.com/apm

SUSTAINABILITY

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

SUSTAINABILITY AT THE SAF-HOLLAND GROUP

At the SAF-HOLLAND Group, sustainable business practices and the assumption of social responsibility are firmly anchored in the Company's philosophy and strategy. SAF-HOLLAND sees a link between sustainable action and the Group's economic success. This is the reason that the SAF-HOLLAND Group firmly believes in identifying change, risks and opportunities at an early stage and managing them effectively. Sustainable action also strengthens future innovation and viability. The SAF-HOLLAND Group strives to be the most valued supplier of best-in-class components, systems and services that ensure the success of its worldwide fleet customers. The SAF-HOLLAND Group pursues this goal in accordance with its seven corporate values: innovation, cost awareness, reliability, respect, teamwork, communication and honesty.

SAF-HOLLAND not only promotes internal or company-related sustainability but also helps customers integrate sustainability into their own corporate strategies. A special example of this is SAF-HOLLAND's emphasis on weight reduction when designing new products. Lightweight and higher quality products help customers meet more stringent safety requirements based on legislative changes or individual requests from the customer. SAF-HOLLAND provides customers innovative solutions, helping them on their way to a more sustainable future.

CORPORATE SOCIAL RESPONSIBILITY COUNCIL PROMOTES SUSTAINABILITY ISSUES

The SAF-HOLLAND Group has established a Corporate Social Responsibility Council (CSR Council) to better manage the Group's sustainability activities. The members of the CSR Council include the Chief Executive Officer and the Chief Financial Officer, as well as representatives from the Human Resources, Health, Safety, Environment and Quality Management, Engineering, Logistics (shipping), Marketing, Facility Management, Aftermarket and Sourcing departments. The CSR Council meets regularly to address proposals and initiatives on selected topics such as improving energy efficiency, reducing waste, training staff and increasing the Group's social engagement. The CSR Council is also responsible for defining the strategic guidelines for sustainability management throughout the SAF-Holland Group.

CSR REPORTING WORKING GROUP ENSURES COMPREHENSIVE SUSTAINABILITY REPORTING

SAF-HOLLAND established the CSR Reporting Working Group in the 2017 reporting year, underscoring the importance of sustainability at the SAF-HOLLAND Group. Establishing this working group provided the foundation for comprehensive sustainability reporting. Members of this working group include the Chief Financial Officer and representatives from the Human Resources, Health, Safety, Environment and Quality Management, Sourcing, Legal and Compliance, Group Consolidation & Controlling and Investor Relations/Corporate Communications departments.

The CSR Reporting Working Group shares its results with the CSR Council, discusses the fulfillment of external reporting obligations and defines the strategic guidelines for sustainability reporting, which includes linking financial and non-financial information.

PUBLICATION OF THE NON-FINANCIAL STATEMENT

Non-financial reporting is a high priority at the SAF-HOLLAND Group. As part of Corporate Social Responsibility (CSR) and CSR reporting, the SAF-HOLLAND Group also addresses its non-financial responsibilities. The SAF-HOLLAND Group's non-financial statement will be submitted with the publication of its first sustainability report.

The SAF-Holland Group's first sustainability report will be published on April 30, 2018. This report will give a detailed description of the SAF-HOLLAND Group's responsibilities and the potential effects of its activities on society as a whole. Key topics will include the Group's employees, social and environmental concerns, respect for human rights and the fight against corruption. The SAF-HOLLAND Group reports on its social, environmental and socially responsible activities and key indicators in the 2017 financial year, as well as on its sustainability goals and strategies for the years ahead.

The CSR Reporting Working Group conducted a comprehensive materiality analysis during the 2017 financial year identifying the fundamental sustainability issues for the SAF-HOLLAND Group. Particular emphasis was placed on the areas of environment, employees, products, legal and compliance and human rights. The 13 most important individual topics, from an initial total of more than 100, were determined in the course of several workshops. These 13 topics included innovative and sustainable products, safe products, customer satisfaction and customer focus, employer attractiveness and employer branding, compliance and corporate governance, human rights, employee development and training, health and occupational safety, privacy and IT security, sustainable supplier management, energy and emissions, waste and wastewater, as well as social commitment.

The topic discovery process also involved external members from various stakeholder groups. Their assessments – which were derived from a large-scale, international stakeholder survey that included all stakeholder groups, as well as representatives from the capital market, employees, customers, suppliers, academia, media, politics and society – were considered in defining the most important topics.

Materiality matrix for SAF-HOLLAND S.A.

The results of the stakeholder survey and an internal company assessment are presented in the materiality matrix above. Although each of these topics is considered very important, their importance is further categorized into more specific levels of importance.

The creation of the materiality matrix represents only the first step in comprehensive sustainability reporting. An extensive system of key indicators was also developed in order to track future progress. The key indicators reflect the outcome of the SAF-HOLLAND Group's sustainability activities in the 2017 reporting year. These indicators are able to demonstrate the Group's development over a period of several years.

RECOGNIZED FOR SUSTAINABILITY

SAF-HOLLAND received the Gold Award for the SAF Adaptive Air Damping System at the 2017 Solutions Innovation Awards ceremony on November 24, 2017 in Lyon, France.

SAF-HOLLAND also received the 2018 European Transport Award for Sustainability in the Entrepreneurial Overall Concept category for its sustainability program "Think Ahead" on November 30, 2017 in Munich. The journal "Transport" granted the award for the fourth time to honor outstanding sustainable achievements within the commercial vehicle industry. The winners were selected by a renowned independent jury of experts from business, academia, media and organizations.

The "Think Ahead" initiative, which was launched in 2015, is now an integral part of the Group-wide sustainability concept and comprises the three pillars – "People," "Energy" and "Environment." SAF-HOLLAND, in cooperation with the well-known environmental organization Plant for the Planet, trains children and young people in workshops to become climate ambassadors and carry out tree planting campaigns. Other Think Ahead measures promote employee health and support local community projects at the Group's international locations.

Further information about the different initiatives can be found at http://we-think-ahead.de/

EMPLOYEES

LONG LENGTH OF SERVICE OF EMPLOYEES REFLECTS EMPLOYEE IDENTIFICATION WITH THE COMPANY

Employees are the SAF-HOLLAND Group's most valuable asset, which makes them the focus of the Group's corporate culture. The Group strives to provide employees with an attractive work environment. Employees identify strongly with the Company, as can be seen by the long average length of service of 6.5 years at the Group level. The average length of service in Germany is even closer to 14 years. Consequently, 87 of the Group's employees celebrated milestone work anniversaries in the 2017 financial year: 15 celebrated 20-year anniversaries, 16 each celebrated 25th and 40th anniversaries, 28 celebrated 30th anniversaries, 10 celebrated 35th anniversaries, and two employees even celebrated 45-year anniversaries.

Demand in the United States for SAF-HOLLAND's products increased in the 2017 financial year. Managing the high production volumes at a time when the Company was consolidating its US plant operations temporarily required a significantly higher number of employees than planned. This also resulted in a higher rate of employee turnover during the challenging search for suitable employees. Once the US plant consolidation is completed, the SAF-HOLLAND Group expects the North American fluctuation rate to normalize and approach the Group's long-term average of under 10% (previous year: 8.6%).

EMPLOYEE DEVELOPMENT AT SAF-HOLLAND

As an engineering group, SAF-HOLLAND is dependent on its employees' commitment and expertise. This is why the HR department emphasizes employee development through targeted continuing education programs. These programs traditionally focus on technical vocations, particularly engineering and mechanical engineering.

SAF-HOLLAND offers employees a wide range of qualification and continuing education opportunities, which supports employees' ongoing further development. Next to a variety of vocational training courses, SAF-HOLLAND also offers employees the opportunity to take part in dual study programs.

The Company holds regular training programs specifically for executives in an effort to expand their knowledge of leadership and motivation.

In addition, SAF-HOLLAND guarantees the highest standards of occupational safety.

SAF-HOLLAND deals in-depth with the topic of diversity and searches particularly for solutions that increase the consideration of women when filling executive positions. SAF-HOLLAND also works to reduce the pay gap between men and women. Further details on this topic are presented in the Corporate Governance section under the heading entitled "Diversity at SAF-HOLLAND."

SAF-HOLLAND key personnel figures in 2017

as of December 31, 2017

	2017	2016
Key figures for locations (at Group level)		
Average number of employees (excluding temporary workers)	3,320	3,081
Staff turnover rate	26.5 %	8.6 %
Share of part-time workers (as of reporting date)	1.4 %	2.4 %
Employees with severe disabilities (as of reporting date)	80	63
Employees in management positions (as of reporting date)	108	106
– thereof women	5	5
Occupational fatalities	0	0
Average age of employees (in years, as of reporting date)	38.2	40.3
Average length of service (in years, as of reporting date)	6.5	8.1
Key indicators for locations in Germany		
Average no. of employees (excluding temporary workers)	1,073	1,035
Average sick leave per employee per year	14.1	14.5
Average length of service (as of reporting date)	13.6	14.0
Employees in maternity and parental leave	9	7
Percentage of trainees (as of reporting date)	4.7 %	4.5 %
Interns and undergraduate students (as of reporting date)	10	8
Total number of submitted improvement proposals (year)	276	76
Number of improvement proposals already successfully implemented (year)	47	7
Number of rejected improvement proposals (year)	160	34

HIGHER CAPACITY UTILIZATION ALLOWS FOR WORKFORCE EXPANSION

The strong competitiveness and success of SAF-HOLLAND are supported by qualified and motivated employees. This is why SAF-HOLLAND relies on a very high proportion of permanent employees. Flexible working hours ensure the required flexibility.

From a risk perspective and in order to be able to compensate for cyclical fluctuations in demand, SAF-HOLLAND relies in part on interim employment, part-time work, and temporary staff. In many cases, these positions could be transformed into permanent positions.

The Group was able to offer additional jobs to support its strong organic growth and ensure that it has the employee resources required for the 2020 growth strategy. The SAF-HOLLAND Group employed 3,565 people on average including temporary workers in 2017 (previous year: 3,259).

As of December 31, 2017, SAF-HOLLAND had 3,566 employees worldwide, including temporary staff (previous year: 3,426). This represents an increase of 4.1 % over the prior year.

Regional development in number of employees

	12/31/2017	12/31/2016
EMEA/I	1,404	1,343
Americas	1,606	1,546
APAC/China	556	537
Total	**3,566**	**3,426**

ENVIRONMENT

SIGNIFICANT REDUCTION IN RELATIVE CO_2 EMISSIONS

The SAF-HOLLAND Group is constantly improving its production processes in order to keep energy and material consumption as low as possible. The Group measures the progress made in reducing energy consumption based on relative CO_2 emissions by taking the total CO_2 emissions of the German plants and comparing it to the number of axles produced in Germany, which is the main product manufactured at these locations. It should be noted that the German production plants are responsible for a majority of the manufacturing volumes in the EMEA/I region. Over the past five years, relative CO_2 emissions have nearly halved as a result of active energy management.

In an effort to improve energy efficiency, SAF-HOLLAND makes it a priority to invest in very energy efficient production machinery and equipment. Energy consumption is monitored continuously thereby increasing employee awareness. Energy-related refurbishment of existing buildings and a focus on high energy efficiency in the new buildings of the Group, such as the new administration building in Bessenbach currently under construction, help contribute to significant energy savings.

SAF-HOLLAND joined the voluntary initiative of the German Federal Government and German industry to increase energy efficiency. As a result, the company has decided to implement a rolling 2-year target system for reducing overall energy consumption. The target set in 2014 to reduce total energy consumption by 3.9 % per axle system manufactured at the German production plants over a two-year period, compared to the base year 2015, has been achieved. In the period from 2014 to 2017, the SAF-HOLLAND Group even managed to reduce its total energy consumption at its German plants by 13.9 %. During this same time, CO_2 emissions per axle system manufactured decreased 16.1 %, representing an annual improvement of nearly 5 %.

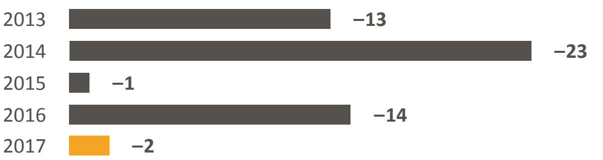
The target set for the year 2018 is to reduce total energy consumption per unit produced by 5.25 % over a two-year period, using 2016 as the reference year.

SAF-HOLLAND CO_2 emissions per axle

in kg; 2012 = 100 %

SAF-HOLLAND CO_2 emissions per axle

Year-over-year change in %



SAF-HOLLAND environmental indicators for 2017

		2017	2016
Emissions			
Total direct and indirect CO_2 emissions (without the district heating of the Singen location)	in t	5,740	5,660
of which CO_2 emissions from electricity	in t	3,387	3,239
Total direct CO_2 emissions	in t	1,983	2,040
of which direct CO_2 emissions (fleet, excluding private use + company's own gas stations)	in t	187	209
Total indirect CO_2 emissions	in t	372	382
		2017	**2016**
Energy consumption			
Absolute energy consumption (electricity, gas and other energy sources)	in MWh	26,058	26,339
		2017	**2016**
Waste			
Total amount of waste	in t	4,621.1	4,482.0
of which metal waste	in t	3,478.3	3,190.9
of which wood waste	in t	547.7	683.8
Oils and emulsions	in t	61.4	62.8
Waste water	in m^3	18,476	16,966
		2017	**2016**
Water			
Water consumption	in m^3	18,476	16,966

All information relates to the German locations Bessenbach, Frauengrund and Singen. Deviations from the previous year's figures are based on a change in the calculation method.

CLIMATE PROTECTION FROM WEIGHT REDUCTION

The SAF-HOLLAND Group is committed to environmental protection and takes this into account in both manufacturing and product development. By continually reducing the weight of its products and components, the SAF-HOLLAND Group contributes to the more cost-effective use of these products and components by its customers, reduces fuel consumption and thereby brings down the emission of CO_2 and pollutants. The SAF-HOLLAND Group focuses on providing products with long service lives and the utmost in safety.

For better comparability, the 2016 figures were adjusted to reflect a change in the calculation method made in the 2017 financial year.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1–Q4/2017	Q1–Q4/2016
Sales	(4)	1,138,933	1,041,995
Cost of sales	(5.1)	–933,876	–835,496
Gross profit		**205,057**	**206,499**
Other income	(5.2.1)	1,614	1,159
Selling expenses	(5.2.2)	–62,079	–60,729
Administrative expenses	(5.2.3)	–53,542	–50,927
Research and development costs	(5.2.4)	–20,411	–19,689
Operating result	(4)	**70,639**	**76,313**
Share of net profit of investments accounted for using the equity method	(6.3)	2,086	2,136
Earnings before interest and taxes		**72,725**	**78,449**
Finance income	(5.2.5)	1,247	8,359
Finance expenses	(5.2.5)	–17,760	–21,853
Finance result	(5.2.5)	**–16,513**	**–13,494**
Result before tax		**56,212**	**64,955**
Income tax	(5.3)	–15,252	–21,494
Result for the period		**40,960**	**43,461**
Attributable to:			
Equity holders of the parent		42,887	44,234
Non-controlling interests		–1,927	–773
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	(6.10)	2,443	1,303
Income tax effects on items recognized in other comprehensive income	(6.10)	–3,111	–698
Items that may be reclassifed subsequently to profit or loss			
Exchange differences on translation of foreign operations	(6.10)	–24,651	5,277
Changes in fair values of derivatives designated as hedges, recognized in equity	(6.10)/(7.1)	–	–274
Income tax effects on items recognized directly in other comprehensive income	(6.10)	–	76
Other comprehensive income		**–25,319**	**5,684**
Comprehensive income for the period		**15,641**	**49,145**
Attributable to			
Equity holders of the parent		18,002	49,814
Non-controlling interests		–2,361	–669
Basic earnings per share in EUR	(7.2)	**0.95**	**0.98**
Diluted earnings per share in EUR	(7.2)	**0.82**	**0.85**

CONSOLIDATED BALANCE SHEET

kEUR

	Notes	12/31/2017	12/31/2016[1]
Assets			
Non-current assets		**377,849**	**407,194**
Goodwill	(6.1)	54,134	56,985
Other intangible assets	(6.1)	140,336	149,520
Property, plant and equipment	(6.2)	137,766	144,263
Investments accounted for using the equity method	(6.3)	16,234	15,425
Financial assets	(7.1)	858	1,243
Other non-current assets	(6.4)	3,180	3,528
Deferred tax assets	(5.3)	25,341	36,230
Current assets		**620,259**	**606,818**
Inventories	(6.5)	133,745	129,378
Trade receivables	(6.6)	135,662	116,666
Income tax assets		1,865	1,808
Other current assets	(6.7)	11,824	13,423
Financial assets	(7.1)	82	975
Other short-term investments	(6.8)	58,306	–
Cash and cash equivalents	(6.9)	278,775	344,568
Balance sheet total		**998,108**	**1,014,012**
Equity and liabilities			
Total equity	(6.10)	**300,975**	**304,893**
Equity attributable to equity holders of the parent		**298,842**	**300,399**
Subscribed share capital		454	454
Share premium		269,044	268,644
Legal reserve		45	45
Other reserve		720	720
Retained earnings		67,983	45,055
Accumulated other comprehensive income		−39,404	−14,519
Shares of non-controlling interests		**2,133**	**4,494**
Non-current liabilities		**461,880**	**555,436**
Pensions and other similar benefits	(6.11)	34,134	38,393
Other provisions	(6.12)	9,333	6,872
Interest bearing loans and bonds	(6.13)	361,284	435,599
Finance lease liabilities	(7.1)	23	–
Other financial liabilities	(6.15)	15,910	18,238
Other liabilities	(6.16)	595	615
Deferred tax liabilities	(5.3)	40,601	55,719
Current liabilities		**235,253**	**153,683**
Other provisions	(6.12)	8,205	9,918
Interest bearing loans and bonds	(6.13)	81,321	6,067
Finance lease liabilities	(7.1)	32	1,587
Trade payables	(6.14)	114,219	106,714
Income tax liabilities		8,966	5,660
Other financial liabilities	(6.15)	655	972
Other liabilities	(6.16)	21,855	22,765
Balance sheet total		**998,108**	**1,014,012**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR

	Q1–Q4/2017								
	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[1]	Total equity (Note 6.10)
As of 01/01/2017 (as before reported)	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**5,178**	**305,577**
Effect of the retroactive correction due to IAS 8.42	–	–	–	–	–	–	–	–684	**–684**
As of 01/01/2017	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**4,494**	**304,893**
Result for the period	–	–	–	–	42,887	–	**42,887**	–1,927	**40,960**
Other comprehensive income	–	–	–	–	–	–24,885	**–24,885**	–434	**–25,319**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**42,887**	**–24,885**	**18,002**	**–2,361**	**15,641**
Dividend	–	–	–	–	–19,959	–	**–19,959**	–	**–19,959**
Conversion convertible bond	–	400	–	–	–	–	**400**	–	**400**
As of 12/31/2017	**454**	**269,044**	**45**	**720**	**67,983**	**–39,404**	**298,842**	**2,133**	**300,975**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

	Q1–Q4/2016								
	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[1]	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 intersts	–	–	–	–	–	–	**–**	**3,181**	**3,181**
As of 12/31/2016	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**4,494**	**304,893**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR		Notes	Q1–Q4/2017	Q1–Q4/2016
Cash flow from operating activities				
Result before tax			**56,212**	**64,955**
–	Finance income	(5.2.5)	–1,247	–8,359
+	Finance expenses	(5.2.5)	17,760	21,853
+/–	Share of net profit of investments accounted for using the equity method	(6.3)	–2,086	–2,136
+	Amortization/depreciation of intangible assets and property, plant and equipment	(5.2.7)	24,630	22,609
+	Allowance of current assets	(6.5)/(6.6)	2,853	4,458
+/–	Loss/Gain on disposal of property, plant and equipment		187	125
+	Dividends from investments accounted for using the equity method		1,178	943
Cash flow before change of net working capital			**99,487**	**104,448**
+/–	Change in other provisions		1,484	1,506
+/–	Change in inventories		–13,805	–8,205
+/–	Change in trade receivables and other assets		–27,018[1]	–4,100
+/–	Change in trade payables and other liabilities		13,927	12,748
Change of net working capital			**–25,412**	**1,949**
Cash flow from operating activities before income tax paid			**74,075**	**106,397**
–	Income tax paid	(5.3)	–17,328	–13,729
Net cash flow from operating activities			**56,747**	**92,668**
Cash flow from investing activities				
–	Purchase of other short term investments	(6.8)	–58,083	–
+	Proceeds from sale of other short tem investments		–	115,000
–	Purchase of property, plant and equipment	(6.2)	–21,761	–19,311
–	Purchase of intangible assets	(6.1)	–5,361	–5,695
+	Proceeds from sales of property, plant and equipment		490	944
+	Proceeds from sales of other financial assets	(5.2.5)	–	5,730
–	Payments for acquisition of subsidiaries net of cash	(3)	–	–7,513
+	Interest received		367	670
Net cash flow from investing activities			**–84,348**	**89,825**
Cash flow from financing activities				
–	Dividend payments to shareholders of SAF-HOLLAND S.A.	(6.10)	–19,959	–18,144
+	Proceeds from borrowing of non-current other loans	(6.13)	–	50,000
–	Paid transaction costs relating to the finance agreement		–	–514
–	Proceeds from foreign currency derivatives		–	–5,232
–	Payments for finance lease		–1,477	–532
–	Interest paid		–13,683	–11,938
+/–	Change in drawings on the credit line and other financing activities	(6.13)	1,428	1,622
Net cash flow from financing activities			**–33,691**	**15,262**
Net increase / decrease in cash and cash equivalents			**–61,292**	**197,755**
+/–	Effect of changes in exchange rates on cash and cash equivalents		–4,501	1,065
Cash and cash equivalents at the beginning of the period		(6.9)	**344,568**	**145,748**
Cash and cash equivalents at the end of the period		(6.9)	**278,775**	**344,568**

[1] As of December 31, 2017, trade receivables in the amount of EUR 27.0 million (previous year: EUR 26.4 million) were sold in the context of a 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, 2017 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, 2017 were authorized for publication by the resolution of the Board of Directors on March 15, 2018. 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, 2017 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, 2017, the carrying amount of goodwill totaled EUR 54.1 million (previous year: EUR 57.0 million), and that of intangible assets with indefinite useful lives amounted to EUR 33.0 million (previous year: EUR 34.9 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, 2017, the carrying amounts of property, plant and equipment totaled EUR 137.8 million (previous year: EUR 144.3 million), and those of intangible assets with finite useful lives amounted to EUR 107.3 million (previous year: EUR 114.6 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, 2017, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 0.8 million (previous year: EUR 3.7 million). Unrecognized tax loss carryforwards amounted to EUR 54.9 million (previous year: EUR 41.1 million). In addition, as of December 31, 2017, the carrying amount of capitalized deferred tax assets for interest carryforwards was EUR 10.7 million (previous year: EUR 18.2 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, 2017, the carrying amount of pensions and other similar obligations was EUR 34.1 million (previous year: EUR 38.4 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, 2017, other provisions amounted to EUR 17.5 million (previous year: EUR 16.8 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 period of volatility is based on the remaining period of the performance share unit program. In 2017, the carrying amount of obligations was EUR 4.5 million (previous year: EUR 5.0 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 for 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, 2017, the fair value of derivative financial instruments was EUR –0.7 million (previous year: EUR –0.6 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 transferred 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 is 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 the parent company's share of other comprehensive income components to profit and loss or retained earnings, 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 in which the parties have joint control over the arrangement and 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.

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 = 1.19786 (previous year: 1.05356) and EUR/CAD = 1.50340 (previous year: 1.41884). The weighted average exchange rates for these two currencies were EUR/USD = 1.12679 (previous year: 1.10635) and EUR/CAD = 1.46254 (previous year: 1.46572).

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 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 are 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 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 have 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 IAS 39.19 (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 costs 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 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 includes actuarial gains and losses, returns on plan assets (provided they are not included in net interest expense) as well as effects from the upper limitation of asset values (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 when 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 equity are recognized in other comprehensive income rather than in profit and loss.

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 AMENDMENTS TO ACCOUNTING AND MEASUREMENT STANDARDS

The accounting and measurement methods applied are essentially unchanged compared to those applied in the prior year, with the following exceptions:

Amendments to IAS 7 Statement of Cash Flows

The amendments provide for the disclosure of information about cash-effective and non-cash-effective changes in liabilities arising from financing activities. The Group has made the required disclosures for the current and the comparative periods in Note 7.

Amendments to IAS 12 Income Taxes: "Recognition of deferred taxes for unrealized losses"

The amendment clarifies that in terms of the deductibility of a future reversing deductible difference resulting from unrealized losses, an entity must consider whether tax laws limit the source of future taxable income from which that deductible temporary difference could be deducted. Furthermore, the amendment contains guidelines on how an entity should determine future taxable income and to what extent the realization of assets above their present value can be taken into account.

The amendment has no impact on the Group's net assets, financial position and results of operations because it has no deductible temporary differences or tax claims that fall within the scope of the amendment.

Other amendments were also made to the accounting and measurement standards, but these did not have an effect on the Group's net assets, financial position and results of operations.

Correction according to IAS 8.42

The Group has made a retrospective correction as defined by IAS 8.42 with respect to the presentation of the business combination of the previous year. The correction is based on the recognition of inventory. As part of the correction, inventories had to be reduced retroactively by kEUR 1,610 as of the acquisition date. Goodwill and shares of non-controlling interests were adjusted accordingly by kEUR 926 and kEUR –684, respectively. No further adjustments were required.

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 combines the three project phases for the accounting of financial instruments: "Classification and Measurement," "Impairment", and "Hedge Accounting."

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

The Group is applying IFRS 9 for the first time in the 2018 financial year; the adjustment of prior-year figures was waived in accordance with the transitional provisions of IFRS 9. In fiscal 2017, the Group performed a detailed assessment of the impact of all three aspects of IFRS 9. This assessment is based on currently available information and may change as a result of other reasonable and reliable information that the Group will become aware of in 2018 when first applying IFRS 9. Overall, the Group expects no significant impact on its balance sheet and equity.

(a) Classification and Measurement

The Group does not expect any significant impact on its balance sheet or equity when applying the classification and measurement requirements of IFRS 9. It assumes that all financial assets held at fair value will continue to be measured at fair value.

(b) Impairment

Under IFRS 9, expected credit losses (ECL) expected by the Group for all its debt securities, loans and trade receivables are to be based on either the 12-month ECL or the ECL over total term. The Group will apply the simplified approach and recognize the total term ECL from all trade receivables. By applying the new impairment regulations, the Group expects risk provisions to increase by EUR 0.5 million and defer deferred tax liabilities to decline accordingly by EUR 0.1 million.

(c) Hedge Accounting

The Group currently has no hedges that fall within the scope of hedge accounting in accordance with IAS 39 or IFRS 9.

Loans and trade receivables are held to collect the contractual cash flows that are solely repayments of the outstanding principal. The Group has reviewed the characteristics of the contractual cash flows agreed for these instruments and determined that they meet the criteria for measurement at amortized cost in accordance with IFRS 9. As a result, no reclassification of these instruments is required.

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 SAF-HOLLAND, no impact is seen on the consolidated financial statements as a result of the application of IFRS 15.

IFRS 16 “Leases”
IFRS 16 replaces IAS 17 and the related interpretations. IFRS 16 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 expects to apply the regulations under the modified retrospective approach for the first time on January 1, 2019 (i.e., it will refrain from adjusting the previous year’s figures). The Company has already analyzed the effects of IFRS 16 during the past 2017 financial year (“impact analysis”) as part of a Group-wide implementation project to introduce IFRS 16. This analysis showed that the new IFRS 16 leasing standard will not have a material effect on the presentation of the Company’s net assets, financial position and results of operations.

Other amendments were also made to the accounting and measurement standards, but these did not have an effect on the Group’s net assets, financial position and results of operations.

3. SCOPE OF CONSOLIDATION

ACQUISITIONS

No acquisitions took place in the reporting year.

In the prior year, 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 contract parties received a call/put option for the purchase/sales of the remaining 42.5 % interest, which can be exercised four years after the acquisition. The other financial liability that resulted from the put/call options was recognized in accordance with IAS 39. Because SAF-HOLLAND do Brasil Ltda. held the majority of voting rights, it obtained control over KLL Equipamentos para Transporte Ltda. on the acquisition date.

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

The preliminary purchase price allocation as of December 31, 2016 for KLL Equipamentos para Transporte Ltda. was finalized in the 2017 financial year. The following information shows the final purchase price allocation and the amounts of the main categories 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	1,087
Property, plant and equipment	12,588
Inventories	2,386
Trade receivables	1,985
Other assets	926
Cash and cash equivalents	552
	20,619
Deferred tax liabilities	2,252
Interest bearing loans and borrowings	8,577
Trade payables	925
Other liabilities	1,380
	13,134
Total of identified net assets	**7,485**
Shares with non-controlling interests	–3,181
Goodwill from the acquisition	3,761
Consideration transferred	**8,065**

The correction of an error pursuant to IAS 8.42 in connection with the purchase price allocation caused a retrospective change in the amounts on the consolidated balance sheet as of December 31, 2016, leading to the following adjustments:

kEUR	12/31/2016[1]		
	Before Adjustment	KLL Equipamentos para Transporte Ltda.	After Adjustment
Non-current assets	**406,268**	**926**	**407,194**
thereof:			
Goodwill	56,059	926	56,985
Current assets	**608,428**	**–1,610**	**606,818**
thereof:			
Inventory	130,988	–1,610	129,378
Total assets	**1,014,696**	**–684**	**1,014,012**
Equity	**305,577**	**–684**	**304,893**
thereof:			
Shares of non-controlling interests	5,178	–684	4,494
Non-current Liabilities	**555,436**	**–**	**555,436**
Current liabilities	**153,683**	**–**	**153,683**
Total equity and liabilities	**1,014,696**	**–684**	**1,014,012**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

Goodwill in the amount of kEUR 3,761 includes non-separable intangible assets such as employee expertise and expected synergies. The tax deductibility of the goodwill assumes the acquisition of all remaining outstanding shares in KLL and a future reorganization of the Group’s activities in Brazil.

The value of the put option for the remaining 42.5 % interest in KLL Equipamentos para Transporte Ltda. amounted to kEUR 15,910 as of December 31, 2017 (previous year: kEUR 18,238) and is dependent on the level of future results.

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

Deconsolidations
No companies were deconsolidated during the reporting year.

Other changes
No other changes were made to the scope of consolidation in the reporting year.

4. SEGMENT INFORMATION

For corporate management and reporting purposes, the Group is organized by region and divided into 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	Q1–Q4/2017	Q1–Q4/2016
Operating result	70,639	76,313
Share of net profit of investments accounted for using the equity method	2,086	2,136
EBIT	**72,725**	**78,449**
Additional depreciation and amortization from PPA	5,309	5,353
Restructuring and transaction costs	13,175	6,612
Adjusted EBIT	**91,209**	**90,414**

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

kEUR				Q1–Q4/2017
				Regions
	Americas [1]	EMEAI [2]	APAC/China [3]	Consolidated
Sales	429,409	611,814	97,710	**1,138,933**
Cost of sales	–371,944	–483,966	–77,966	**–933,876**
Gross profit	**57,465**	**127,848**	**19,744**	**205,057**
Gross margin	13.4 %	20.9 %	20.2 %	**18.0 %**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method	–56,154	–62,862	–13,316	**–132,332**
Adjustements [4]	14,768	2,754	962	**18,484**
Adjusted EBIT	**16,079**	**67,740**	**7,390**	**91,209**
Adjusted EBIT margin	3.7 %	11.1 %	7.6 %	**8.0 %**
Depreciation	–12,178	–10,901	–1,551	**–24,630**

[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 PPA in the amount of kEUR 5,309 as well as restructuring and transaction costs in the amount of kEUR 13,175.

kEUR

				Q1–Q4/2016
				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, and reversal of impairment	–49,754	–66,327	–11,969	**–128,050**
Adjustements[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 PPA in the amount of kEUR 5,353 as well as restructuring and transaction costs in the amount of kEUR 6,612.

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 North 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

	Q1–Q4/2017	Q1–Q4/2016
OEM	861,310	772,219
Aftermarket	277,623	269,776
Total	**1,138,933**	**1,041,995**

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 the reporting year and the previous year, no one customer reached a share of 10 % of the Group's total sales.

The following table shows information by geographic region.

kEUR

	12/31/2017	12/31/2016[1]
Non-current assets		
Americas	167,392	183,107
EMEAI	166,382	167,671
APAC/ China	17,876	18,943
Total	**351,650**	**369,721**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

Non-current assets include goodwill, other 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	Q1–Q4/2017	Q1–Q4/2016
Cost of materials	747,946	674,293
Personnel expenses	122,070	118,224
Depreciation and amortization of property, plant, and equipment and intangible assets	13,763	12,207
Repair and maintenance expenses	10,648	9,420
legal and consulting expenses	1,966	459
Travel expenses	1,224	450
Warranty expenses	7,099	6,805
Temporary employees expenses	8,845	4,455
FX-Valuation expenses	2,797	2,014
Restructuring and transaction costs	11,066	1,145
Other	6,452	6,024
Total	**933,876**	**835,496**

In the 2017 financial year, cost of sales included inventory usage of kEUR 903,272 (previous year: kEUR 818,599).

5.2 OTHER INCOME AND EXPENSES

5.2.1 Other operating income

Other operating income consists of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Gain from disposal of property, plant and equipment	41	68
Claim for damages	500	–
Other	1,073	1,091
Total	**1,614**	**1,159**

5.2.2 Selling expenses

The following overview shows the composition of selling expenses:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	31,989	30,909
Expenses for advertising and sales promotion	8,944	9,994
Depreciation and amortization of property, plant and equipment and intangible assets	4,496	4,166
Expenses for distribution	3,714	4,206
Trade receivable allowance and write-off	2,181	2,946
Commissions	308	714
Restructuring and transaction costs	299	613
FX-Valuation	423	–970
Other	9,725	8,151
Total	**62,079**	**60,729**

5.2.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	28,722	25,167
Expenses for office and operating supplies	4,968	4,186
Depreciation and amortization of property, plant and equipment and intangible assets	4,126	4,216
Legal and consulting expenses	4,208	3,568
Travel costs	2,026	1,835
Restructuring and transaction costs	1,402	4,854
Other	8,090	7,101
Total	**53,542**	**50,927**

5.2.4 Research and development costs

Research and development costs consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	11,199	10,994
Depreciation and amortization of property, plant and equipment and intangible assets	2,245	2,020
Testing Cost	2,184	2,099
Restructuring and transaction costs	408	–
Other	4,375	4,576
Total	**20,411**	**19,689**

Development costs of kEUR 4,221 (previous year: kEUR 3,697) were capitalized in the financial year. No performance-based grants paid by the Bavarian Ministry of Economic Affairs in the reporting year (previous year: kEUR 102) were offset against research and development costs.

5.2.5 Finance result

Finance income consists of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Finance income from the sale of other financial instruments	–	5,730
Unrealized foreign exchange gains on foreign currency loans and dividends	29	579
Realized foreign exchange gains on foreign currency loans and dividends	178	805
Finance income due to derivatives	376	488
Finance income due to pensions and other similar benefits	–	23
Interest income	367	670
Other	297	64
Total	**1,247**	**8,359**

In the previous year, finance income from the sale of other financial instruments was derived mainly from the sale of Haldex shares. The Group had acquired around 3.6% of Haldex shares before the takeover bid was submitted. During the fourth quarter of 2016, all of these shares were sold on the stock exchange, as this position was no longer considered of strategic importance.

Finance expenses consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Interest expenses due to interest bearing loans and bonds	–13,715[1]	–12,399[1]
Amortization of transaction costs	–775	–920
Finance expenses due to pensions and other similar benefits	–1,121	–1,239
Finance expenses due to derivatives	–828	–6,157
Unrealized foreign exchange losses on foreign currency loans and dividends	–30	–
Other	–1,291	–1,138
Total	**–17,760**	**–21,853**

[1] Includes the non-cash interest expense of kEUR 647 (previous year: kEUR 644) for the convertible bond.

The increase in interest expenses due to interest-bearing loans and bonds mainly resulted from the addition of a new loan with a volume of EUR 50 million in June 2016, the full-year effect of which was borne for the first time in the 2017 financial year. The bank liabilities assumed as part of the acquisition of KLL Equipamentos para Transporte Ltda. also led to an increase in interest expenses.

The amortization of transaction costs of kEUR –775 (previous year: kEUR –920) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

Finance expenses related to derivative financial instruments in the past financial year mainly include the effect from the measurement of interest rate swaps at fair value at the end of the year.

Finance expenses related to derivatives in the previous year resulted from the redemption of foreign currency derivatives of kEUR 5,131. These were originally used to secure the payment of the purchase price in SEK in the event the acquisition of Haldex was successful. Finance expenses related to derivatives also resulted from a change in accounting in previous year 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 2015, 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, in the prior year, 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 were therefore recycled to profit and loss in the prior year.

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	Q1–Q4/2017	Q1–Q4/2016
Wages and salaries	–167,408	–159,773
Social insurance contributions	–23,977	–22,784
Pension expenses	–1,173	–1,355
Termination benefits	–1,422	–1,382
Total	**–193,980**	**–185,294**

Social insurance contributions include expenses from defined contribution plans in the amount of von kEUR 8,051 (previous year: kEUR 6,970).

5.2.7 Depreciation and amortization

Depreciation and amortization expenses according to functional area are as follows:

kEUR	Depreciation of property, plant and equipment		Amortization of intangible assets		Total	
	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Cost of sales	–12,877	–11,424	–886	–783	–13,763	–12,207
Selling expenses	–1,084	–1,143	–3,412	–3,023	–4,496	–4,166
Administrative expenses	–1,546	–1,441	–2,580	–2,775	–4,126	–4,216
Research and development costs	–981	–902	–1,264	–1,118	–2,245	–2,020
Total	**–16,488**	**–14,910**	**–8,142**	**–7,699**	**–24,630**	**–22,609**

Depreciation and amortization of property, plant and equipment and intangible assets arising from purchase price allocation amounted to kEUR 5,309 (previous year: kEUR 5,343).

5.3 INCOME TAXES

Income taxes primarily consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Current income taxes	–20,987	–18,041
Deferred income taxes	5,735	–3,453
Income tax reported in the result for the period	**–15,252**	**–21,494**

The effective income tax rate for the Group for the year ended December 31, 2017 is 27.13 % (previous year: 33.09 %). The following table reconciles the actual versus the expected income taxes for the Group using the Group's corporate income tax rate of 29.40 % (previous year: 30.20 %). 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 11.39 %, 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 29.40 % deviate from the reported income tax expenses as follows:

kEUR	12/31/2017	12/31/2016
Result before income tax	**56,212**	**64,955**
Income tax based on Group's income tax rate of 29,40 % (previous year: 30.20 %)	–16,526	–19,616
Unused tax loss carry-forwards	–6,527	–2,561
Use of previously not recognized tax loss carry-forwards	103	806
Non-deductible operating expenses	–1,521	–982
Tax-Exempt income	4,289	907
Differences in tax rates	2,171	–77
Income taxes resulting from previous year	–1,852	–38
Other	63	67
US Tax effects incl. Effects from the US Tax reform	4,548	–
Income tax based on effective income tax rate of 27.13 % (previous year: 33.09 %)	**–15,252**	**–21,494**

The development of the deferred income taxes are impacted directly and indirectly from the U.S. tax reform and consist of the following:

kEUR	12/31/2017	12/31/2016
Inventories	1,683	2,637
Pensions and other similar benefits	7,742	12,978
Other financial liabilities	156	261
Other provisions	1,815	2,629
Tax loss carry-forwards	802	3,710
Interest carry-forwards	10,684	18,231
Other	4,823	5,274
Deferred income tax assets	**27,705**	**45,720**
Intangible assets	–29,181	–39,745
Property, plant and equipment	–9,099	–11,789
Investments accounted for using the equity method	–299	–5,736
Other assets	–301	–423
Interest bearing loans and borrowings	–2,123	–859
Other	–1,962	–6,657
Deferred income tax liabilities	**–42,965**	**–65,209**

As of the balance sheet date, deferred tax assets and liabilities of kEUR 2,364 (previous year: kEUR 9,490) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 25,341 (previous year: kEUR 36,230) and deferred tax liabilities of kEUR 40,601 (previous year: kEUR 55,719).

The Group has tax loss carryforwards of kEUR 58,196 (previous year: kEUR 55,284) 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 54,934 (previous year: kEUR 41,144) 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	12/31/2017	12/31/2016
Expiry date		
Infinite	46,835	37,731
Within 5 years	7,469	3,413
Within 10 years	630	–
Total	**54,934**	**41,144**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 47,292 (previous year: kEUR 70,253), 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 2017 deferred income taxes amounting to kEUR –3,111 (previous year: kEUR –622) 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 –1,1 million (previous year: EUR 11.1 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[1]
Historical costs								
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	3,761
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	660
As of 12/31/2016	**113,762**	**22,209**	**15,181**	**35,699**	**3,495**	**35,755**	**226,101**	**87,672**
Additions	–	–	4,221	–	–	1,140	5,361	–
Disposals	–	54	85	–	–	370	509	–
Transfers	–	−13	−180	69	−1	2,617	2,492	–
Foreign currency translation	−5,713	−789	−832	−1,758	–	−1,492	−10,584	−4,015
As of 12/31/2017	**108,049**	**21,353**	**18,305**	**34,010**	**3,494**	**37,650**	**222,861**	**83,657**
Accumulated amortization								
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	421
As of 12/31/2016	**34,151**	**19,112**	**2,424**	**780**	**1,880**	**18,234**	**76,581**	**30,687**
Additions	3,252	511	1,067	210	175	2,927	8,142	–
Disposals	–	54	85	–	–	370	509	–
Transfers	46	−15	–	40	2	919	992	–
Foreign currency translation	−1,727	−480	−185	−37	−4	−248	−2,681	−1,164
As of 12/31/2017	**35,722**	**19,074**	**3,221**	**993**	**2,053**	**21,462**	**82,525**	**29,523**
Carrying amount 12/31/2016	**79,611**	**3,097**	**12,757**	**34,919**	**1,615**	**17,521**	**149,520**	**56,985**
Carrying amount 12/31/2017	**72,327**	**2,279**	**15,084**	**33,017**	**1,441**	**16,188**	**140,336**	**54,134**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

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

kEUR	2017		2016	
	Netbook value	Remaining useful life in years	Netbook value	Remaining useful life in years
Customer relationship “OEM”	27,416	29	28,387	30
Customer relationship “5th-Wheel”	11,632	21	12,192	22
SAP-Software	10,043	5.5	10,710	6.5

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 2022 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	
	2017	2016
Americas	14.91	12.46
EMAI	11.69	9.18
APAC/China	18.20	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 based on the use of future synergies from past company acquisitions. 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	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Goodwill	24,519	27,370	23,442	23,442	6,173	6,173	54,134	56,985
Brand	12,372	14,187	20,644	20,617	1	115	33,017	34,919

In addition to the "SAF" and "HOLLAND" brands, the Group owns other brands that are being amortized over their intended useful lives on the basis of the brand strategy pursued.

Within the scope of a sensitivity analysis either an increase in the average cost of capital (after taxes) of 100 basis points, a decline of future cash flows (after taxes) of 10 % or a one-percent reduction in the long-term growth rate was assumed for the cash-generating units to which material goodwill and intangible assets with indefinite useful lives were allocated. 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 12/31/2015	**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**
Additions	1,218	4,714	1,260	14,569	**21,761**
Disposals	–	5,032	364	60	**5,456**
Transfers	2,720	8,016	786	–12,963	**–1,441**
Foreign currency translation	–5,013	–11,760	–1,124	–472	**–18,369**
As of 12/31/2017	**88,844**	**151,107**	**26,637**	**7,267**	**273,855**
Accumulated depreciation					
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**
Additions	3,200	10,971	2,317	–	**16,488**
Disposals	76	4,466	236	–	**4,778**
Transfers	476	–454	37	–	**59**
Foreign currency translation	–1,524	–6,439	–814	–	**–8,777**
As of 12/31/2017	**25,801**	**90,619**	**19,669**	**–**	**136,089**
Carrying amount 12/31/2016	**66,194**	**64,162**	**7,714**	**6,193**	**144,263**
Carrying amount 12/31/2017	**63,043**	**60,488**	**6,968**	**7,267**	**137,766**

The carrying amount of technical and operating and office equipment held under finance leases as of December 31, 2017 is kEUR 96 (previous year: kEUR 2,754). There were no additions to technical equipment held under finance leases in the reporting year (previous year: kEUR 0). Depreciation during the financial year amounted to kEUR 21 (previous year: kEUR 117). The present value of minimum lease payments amounted to kEUR 55 (previous year: kEUR 1,587). Undiscounted minimum lease payments amounted to kEUR 76 (previous year: kEUR 1,605).

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 table below summarizes the financial information for Castmetal FWI S.A. This 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.	
	12/31/2017	12/31/2016
Current assets	54,569	46,713
Non-current assets	8,842	9,261
Current liabilities	–12,185	–10,292
Non-current liabilities	–9,071	–5,821
Sales	39,058	34,022
Net profit of the financial year from continuing operations	6,011	6,169
Other comprehensive income		–11
Total comprehensive income	**6,011**	**6,158**
Group's share in total comprehensive income	2,049	2,099
Other equity holders	3,962	4,059

The following is 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	12/31/2017	12/31/2016
Net assets of the associate	42,149	39,861
Equity interest of the Group	34.09 %	34.09 %
Other adjustments	715	744
Carrying amount of the investment in Castmetal FWI S.A.	15,154	14,333

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

A dividend of kEUR 1,178 (previous year: kEUR 943) was distributed by Castmetal FWI S.A. in the past financial year.

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

kEUR	12/31/2017	12/31/2016
Group's share in profit or loss	37	37
Group's share in total comprehensive income	37	37
Aggregate carrying amount of Group's share in these companies	1,080	1,092

6.4 OTHER NON-CURRENT ASSETS

kEUR	12/31/2017	12/31/2016
VAT reimbursement claims	1,126	1,201
Receivables from finance lease	–	886
Claims from reinsurance	733	670
Defined benefit assets	–	68
Insurance premiums	155	96
Other	1,166	607
Total	**3,180**	**3,528**

6.5 INVENTORIES

kEUR	12/31/2017	12/31/2016[1]
Raw materials	52,868	45,626
Work in progress	36,895	33,993
Finished and trading goods	36,083	40,819
Goods in transit	7,899	8,940
Total	**133,745**	**129,378**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

Cost of sales includes allowances for inventories of kEUR 1,147 (previous year: kEUR 2,416). The inventory allowance is recorded in a separate allowance account and netted against the gross amount of inventory.

kEUR	Allowance account
As of 12/31/2015	**6,210**
Charge for the year	2,416
Utilized	1,023
Foreign currency translation	–
As of 12/31/2016	316
Charge for the year	**7,919**
Utilized	1,235
Released	1,022
Foreign currency translateion	88
As of 12/31/2017	–576
Stand 31.12.2017	**7,468**

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 12/31/2017	135,662	100,860	1,837	19,708	4,370	1,141	326	4,622	2,798
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

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 12/31/2015	**4,203**
Charge for the year	2,088
Utilized	1,106
Released	46
Foreign currency translation	102
As of 12/31/2016	**5,241**
Charge for the year	2,699
Utilized	307
Released	993
Foreign currency translation	–436
As of 12/31/2017	**6,204**

Trade receivables that are not impaired and past due show 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 26,950 as of the balance sheet date (previous year: kEUR 26,359) 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

	12/31/2017	12/31/2016
VAT receivables	2,778	3,928
Prepaid expenses	3,376	1,636
Insurance premiums	322	313
Creditors with a debit balance	125	1,488
Deposit within the framework of factoring	519	1,409
Other	4,704	4,649
Total	**11,824**	**13,423**

6.8 OTHER SHORT-TERM INVESTMENTS

Other short-term investments resulted from a short-term deposit of liquid funds in the amount of EUR 58.3 million (previous year: EUR 0 million).

6.9 CASH AND CASH EQUIVALENTS

kEUR

	12/31/2017	12/31/2016
Cash on hand, cash at banks and checks	278,737	344,154
Short-term deposits	38	414
Total	**278,775**	**344,568**

6.10 EQUITY

Subscribed share capital

The Company's subscribed share capital increased by EUR 331.90 due to the partial conversion of convertible bonds and amounted to EUR 453,943.02 as of the balance sheet date (previous year: EUR 453,611.12). Subscribed share capital is fully paid-in and consists of 45,394,302 (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, existing 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 5.3.3 ICW Article 5.3.4	June 4, 2012/valid until April 27, 2022	EUR 74,227.41 = 7,422,741 shares	Contribution in cash and/or in kind	
Article 5.3.4 ICW Article 5.3.6	June 4, 2012/valid until April 27, 2022	EUR 45,361.11 = 4,536,111 shares		Capital increase can be executed under the exclusion of subscription rights
Article 5.3.3 ICW Article 5.3.5	June 4, 2012/valid until April 11, 2021	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 exercise their conversion rights

Share premium

As of December 31, 2017, the share premium increased by kEUR 400 to EUR 269,044 (previous year: EUR 268,644) as a result of the partial conversion of convertible bonds in the past financial year.

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. As of December 31, 2017, other reserves totaled kEUR 720 (previous year: kEUR 720).

Retained earnings

Retained earnings include the result for the period attributable to shareholders of SAF-HOLLAND S.A. of kEUR 42,887 (previous year: kEUR 44,234).

A dividend of EUR 0.45 per share will be proposed for the 2017 financial year, corresponding to a total dividend distribution of kEUR 20,427 based on 45,394,302 shares. This amounts to a payout ratio of the net earnings of 47.6 % attributable to the parent company shareholders and as such is essentially within the targeted range. A dividend of EUR 0.44 per share was paid in the previous year, and the total dividend distribution amounted to kEUR 19,959.

Accumulated other comprehensive income

kEUR	Before tax amount		Tax income		Net of tax amount	
	Q1–Q4/2017	**Q1–Q4/2016**	**Q1–Q4/2017**	**Q1–Q4/2016**	**Q1–Q4/2017**	**Q1–Q4/2016**
Exchange differences on translation of foreign operations	–24,651	5,277	–	–	–24,651	5,277
Changes in fair values of derivatives designated as hedges, recognized in equity	–	–274	–	76	–	–198
Revaluation defined benefit plans	2,443	1,303	–3,111	–698	–668	605
Total	**–22,208**	**6,306**	**–3,111**	**–622**	**–25,319**	**5,684**

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR –20,685 (previous year: kEUR 3,966).

The total amount of the remeasurement of defined benefit plans included in accumulated other comprehensive income after taxes is kEUR –18,617 (previous year: kEUR –17,949).

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 pension liability insurance of kEUR 733 (previous year: kEUR 670) is recognized under other non-current assets in accordance with IAS 19.

The asset value of the pension liability insurance developed as follows:

kEUR	**2017**
Claims arising from the pension liability insurance at the beginning of the period	**670**
Allocation to pension liability insurance	70
Premiums received	–14
Interest income	7
Claims arising from the pension liability insurance at the end of the period	**733**

There are no legal or regulatory minimum funding requirements in Germany.

SAF-HOLLAND Inc. maintains three pension plans that are closed to new entrants. The benefits paid under the defined benefit pension plans depend on the length of service or, in some cases, the participant's individual income. The investment oversight of the plan assets was delegated to an investment committee. The plan assets are managed by a trustee. The trustee responsible for the management of the assets acts under the instruction of the investment committee. The pension plans comply with the funding requirements of the US Employee Retirement Income Security Act of 1974, as amended. Minimum funding requirements for defined benefit plans are 80 % to avoid any performance restrictions.

SAF-Holland Canada Ltd. operates a pension plan in Canada that is still open to new entrants. Two pension plans were dissolved during the past financial year, resulting in a one-time expense of kEUR 356.

Under the terms of Canada's Ontario Pension Benefits Act and the Canadian Revenue Agency, pension plans that are not fully funded and will not be fully funded in the foreseeable future have a minimum funding requirement.

The development of the defined benefit pension plans as of December 31, 2017 is as follows:

kEUR	Defined benefit obligation (DBO) (I)		Fair value of plan assets (II)		Effects of asset ceiling (III)		Net defined benefit balance (I−II+III)	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance as of the beginning of the period	**108,447**	**103,606**	**70,122**	**66,694**	**–**	**145**	**38,325**	**37,057**
Current service cost	1,000	1,076	–	–	–	–	**1,000**	**1,076**
Past service cost	–183	279	–	–	–	–	**–183**	**279**
Settlement	356	–	–	–	–	–	**356**	**–**
Interest expenses	3,551	3,858	–	–	–	6	**3,551**	**3,864**
Interest income	–	–	2,430	2,648	–	–	**–2,430**	**–2,648**
Components of defined benefit costs recognized in the Consolidated Statements of income	**4,724**	**5,213**	**2,430**	**2,648**	**–**	**6**	**2,294**	**2,571**
Actuarial gains/losses	3,674	581	6,216	1,722	–	–	**–2,542**	**–1,141**
Effects of asset ceiling	–	–	–	–	99	–162	**99**	**–162**
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**3,674**	**581**	**6,216**	**1,722**	**99**	**–162**	**–2,443**	**–1,303**
Employer Contributions	–	–	998	489	–	–	**–998**	**–489**
Benefits paid	–8,055	–4,600	–7,653	–4,203	–	–	**–402**	**–397**
Foreign currency translation effects	–10,180	3,647	–7,538	2,772	–	11	**–2,642**	**886**
Other reconciling items	**–18,235**	**–953**	**–14,193**	**–942**	**–**	**11**	**–4,042**	**–**
Balance as of the end of the period	**98,610**	**108,447**	**64,575**	**70,122**	**99**	**–**	**34,134**	**38,325**
thereof:								
Germany	14,974	14,827	11	11	–	–	**14,963**	**14,816**
USA	60,765	66,464	50,573	53,012	–	–	**10,192**	**13,452**
Canada	13,916	17,031	13,991	17,099	99	–	**24**	**–68**
Post-employment medical	8,955	10,125	–	–	–	–	**8,955**	**10,125**
Actual return on plan assets	**–**	**–**	**8,646**	**4,371**	**–**	**–**	**–**	**–**

The net balance from defined benefit plans in the amount of kEUR 34,134 (previous year: kEUR 38,325) consists of a net liability of kEUR 34,134 (previous year: kEUR 38,393) and net plan assets of kEUR 0 (previous year: kEUR 68). The net interest expense was kEUR 1,121 (previous year: kEUR 1,216).

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

	12/31/2017		12/31/2016	
	%	kEUR	%	kEUR
Equities	63.00	40,682	57.29	40,173
Bonds	31.00	20,018	30.35	21,284
Cash and money market	1.00	646	6.69	4,689
Real estate	3.00	1,937	2.61	1,830
Insurance	2.00	1,292	3.06	2,146
Total	**100.00**	**64,575**	**100,00**	**70,122**

Pension fund investments are managed through a diversified portfolio of highly liquid institutional investment funds, as governed by the US Investment Advisors Act of 1940. The portfolio is invested in various asset classes. Investments include US equities, global equities, US and global fixed income and real estate.

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

kEUR	12/31/2017	12/31/2016
Defined benefit obligation	**98,610**	**108,447**
Fair value of plan assets	–64,575	–70,122
Benefit liabilities	**34,035**	**38,325**
Experience losses (+)/gains (–) related to defined benefit obligation	–6,216	–1,034
Experience losses (+)/gains (–) related to plan assets	–123	–1,723
Actuarial losses (+)/gains (–) due to changes in demographic assumptions	–703	–1,382
Actuarial losses (+)/gains (–) due to changes in financial assumptions	4,599	2,836

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

%	Pension Plan							
	German plan		US plan		Canadian plan		Post employment medical	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Discount rate	1.90	1.90	3.49	3.94	3.45	3.85	3.35	3.76
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 trend for the pension obligations 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 following mortality tables were applied:

Germany	Heubeck Richttafeln 2005G
USA	RP-2014 mortality table with MP-2016 generational projection
Canada	RP-2014Priv mortality table with CPM-8 generational projection

Healthcare cost inflation:

%	12/31/2017	12/31/2016
Initial rate (health care cost trend rate assumed for next year)	6.75	7.00
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	31.12.2017		12/31/2016	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	86	–73	94	–80
Effect on the defined benefit obligation	857	–746	950	–829

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	12/31/2017			
	Germany	USA	Canada	Total
Increase of discount rate +0.75 %	–1,874	–5,611	–1,442	**–8,927**
Reduction of discount rate –0.75 %	2,177	6,489	1,608	**10,274**

kEUR	12/31/2016			
	Germany	USA	Canada	Total
Increase of discount rate +0.75 %	–1,756	–5,396	–2,006	**–9,157**
Reduction of discount rate –0.75 %	2,160	6,267	2,260	**10,687**

Future payments of defined benefit obligations are summarized in the following table:

kEUR	12/31/2017				
	2018	2019 – 2022	2023 – 2027	2028 ff.	Total
Germany	481	2,043	2,773	16,022	**21,319**
USA	3,890	16,123	20,720	68,772	**109,505**
Canada	452	2,211	3,850	27,836	**34,349**
Total	**4,823**	**20,377**	**27,343**	**112,630**	**165,173**

kEUR	12/31/2016				
	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**

The weighted average duration of pension plans is described below:

in years	Germany	USA	Canada
Weighted average duration as at 12/31/2017	18	12	11
Weighted average duration as at 12/31/2016	18	12	17

The employer contributions to defined benefit plans expected for the 2018 financial year amount to kEUR 962.

6.12 OTHER PROVISIONS

The main components of other provisions and their development are shown in the following table:

kEUR	Product warranty	Partial retirement	Environmental issues	Workers' compensation and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
As of 01/01/2017	**7,956**	**554**	**217**	**1,921**	**225**	**5,016**	**901**	**16,790**
Additions	7,200	6	3	–	362	2,332	898	**10,801**
Utilized	4,982	246	–	3	213	2,639	452	**8,535**
Release	–	–	58	61	–	–	516	**635**
Interest effect from measurement	–	–	–	–	–	58	–	**58**
Foreign currency translation	−347	–	−11	−228	−29	−251	−75	**−941**
As of 12/31/2017	**9,827**	**314**	**151**	**1,629**	**345**	**4,516**	**756**	**17,538**
Thereof in 2017								
Current	6,170	147	39	436	345	789	279	**8,205**
Non-current	3,657	167	112	1,193	–	3,727	477	**9,333**
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**

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 460,927 and consists of the following:

kEUR

	Performance Share Unit Plan				
	2013–2016	2014–2017	2015–2018	2016–2019	2017–2020
Share Units outstanding at the beginning of the period	229,167	131,438	129,062	121,249	–
Share Units granted during the period	–	–	–	–	128,748
Share Units forfeited during the period	–	–	–	–	–
Share Units exercised during the period	229,167	–	–	–	–
Share Units expired during the period	–	10,768	11,363	12,450	14,989
Share Units outstanding at the end of the period	**–**	**120,670**	**117,699**	**108,799**	**113,759**
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			
	2014–2017	2015–2018	2016–2019	2017–2020
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	17.93	17.93	17.93	17.93
Expected volatility	n/a	20.70 %	26.69 %	29.04 %
Risk free interest rate	–0.72 %	–0.72 %	–0.63 %	–0.49 %
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, 2017, provisions for these performance plans amounted to EUR 4.5 million (previous year: EUR 5.0 million). Expenses for the period in the amount of EUR 2.1 million (previous year: EUR 1.5 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	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Interest bearing bank loans	12,369	10,639	–	–	**12,369**	**10,639**
Convertible bond	97,990	97,743	–	–	**97,990**	**97,743**
Bond	–	75,000	75,000	–	**75,000**	**75,000**
Promissory note loan	200,000	200,000	–	–	**200,000**	**200,000**
Financing costs	–1,138	–1,668	–498	–722	**–1,636**	**–2,390**
Accrued interests	–	–	4,268	4,217	**4,268**	**4,217**
Other loans	52,063	53,885	2,551	2,572	**54,614**	**56,457**
Total	**361,284**	**435,599**	**81,321**	**6,067**	**442,605**	**441,666**

Loans with a volume of EUR 50 million, a 10-year maturity and a coupon of 2.75 % were assumed in the previous year.

The following table shows the total liquidity calculated as the sum of freely available credit lines valued at the rate as of the reporting date including available cash and cash equivalents and short-term freely available financial assets:

kEUR

	12/31/2017				
	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	5,380	120,000	–	–	114,620
Facility B	–	29,219	–	–	29,219
Other Facilities	6,989	7,053[1]	278,775	58,306	337,145
Total	**12,369**	**156,272**	**278,775**	**58,306**	**480,984**

[1] Includes the bilateral credit line for the activities of the Group in China.

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.

The total liquidity included other current investments. Other current investments are highly liquid and are to be viewed as cash equivalents in economic terms. In accordance with accounting policies, these current investments are still presented separately from cash and cash equivalents.

6.14 TRADE PAYABLES

Trade payables in the amount of kEUR 114,219 (previous year: kEUR 106,714) 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 15,910 (previous year: kEUR 18,238) reflect primarily the value of the put option for the outstanding shares of KLL Equipamentos para Transporte Ltda.

6.16 OTHER LIABILITIES

kEUR

	Current		Non-current	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Liabilities for salaries and social security contributions	12,235	12,368	–	–
Other taxes	4,795	4,655	–	–
Anniversary obligations	265	277	575	573
Other	4,560	5,465	20	42
Total	**21,855**	**22,765**	**595**	**615**

7. OTHER DISCLOSURES

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Carrying amounts, amounts recognized and fair values by measurement category are as follows:

kEUR

							12/31/2017
			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	278,775	278,775	–	–	–	278,775
Trade receivables	LaR	135,662	135,662	–	–	–	135,662
Other financial assets							
Derivates without a hedging relationship	FAHfT	–	–	–	–	–	–
Other financial assets	LaR	940	940	–	–	–	940
Other short-term investments	LaR	58,306	58,306				58,306
Liabilities							
Trade payables	FLAC	114,219	114,219	–	–	–	114,219
Interest bearing loans and borrowings	FLAC	442,605	442,605	–	–	–	487,118
Finance lease liabilities	n.a.	55	–	–	–	55	55
Other financial liabilities							
Other financial liablities	FLtPL	15,910	–	–	15,910	–	15,910
Derivates without a hedging relationship	FLHfT	655	–	–	655	–	655
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	473,683	473,683	–	–	–	473,683
Financial liabilities measured at amortized cost	FLAC	556,824	556,824	–	–	–	601,337
Financial assets held for trading	FAHfT	–	–	–	–	–	–
Financial liabilities held for trading	FLHfT	655	–	–	655	–	655
Financial liabilities at fair value through profit and loss	FLtPL	15,910	–	–	15,910	–	15,910

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 borrowings	FLAC	441,666	441,666	–	–	–	475,336
Finance lease liabilities	n.a.	1,587	–	–	–	1,587	1,587
Other financial liabilities							
Other financial liablities	FLtPL		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	548,380	548,380	–	–	–	582,050
Financial assets held for trading	FAHfT	368	–	–	368	–	368
Financial liabilities held for trading	FLHfT	972	-	-	972	-	972
Financial liabilities at fair value through profit an loss	FLtPL	18,238	–	–	18,238	–	18,238

The following table shows the allocation to the three hierarchy levels of fair values for financial assets and liabilities measured at fair value:

kEUR				12/31/2017
	Level 1	Level 2	Level 3	Total
Bonds	76,272	–	–	**76,272**
Convertible bond	–	138,925	–	**138,925**
Promissory note loan	–	199,748	–	**199,748**
Interest bearing loans and borrowings	–	72,173	–	**72,173**
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	15,910	**15,910**
Derivative financial liabilities	–	655	–	**655**

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**

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, and the convertible bonds 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 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. On the balance sheet as of December 31, 2017, only derivatives of kEUR 655 (previous year: kEUR 604) and other financial liabilities from the valuation of the put-option to acquire the remaining 42.5 % of the shares in KLL Equipamentos para Transporte Ltda. in the amount of kEUR 15,910 (previous year: kEUR 18,238) were measured at fair value. The fair value of the other liability from the valuation of the put-option to acquire the remaining shares in KLL Equipamentos para Transporte Ltda. is determined on the basis of forecasted earnings. Since this information is not based on observable market data, the put-option has been assigned to level three of the measurement hierarchy. The significant unobservable inputs used in the fair value measurements of the put-option, together with a quantative sensitivity analysis as at 31 December 2017 and 2016 are as shown below:

	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Put-Option for the remaining shares in KLL Equipamentos para Transporte Ltda.	Discounted Cashflow-Methode	future earnings figures	5 % (previous year: 5 %) increase (decrease) in the growth rate would result in an increase (decrease) in fair value by EUR 0.8 million (previous year: EUR 0.9 million)
		Discount rate	1 % (previous year: 1 %) increase (decrease) of the discount rate would result in a decrease (increase) in fair value by EUR 0.5 million (previous year: EUR 0.7 million).
		Long-term development of FX-rate BRL/EUR	5 % (previous year: 5 %) increase (decrease) in the the FX rate would result in an increase (decrease) by EUR 0.8 million (previous year: EUR 0.9 million).

The fair value of liabilities from interest-bearing loans, the promissory note loan and derivative financial assets and liabilities, excluding bonds, was measured based on directly (e.g., prices) and 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. Due to the absence of an active market as defined by IFRS 7, the convertible bonds were also allocated to Level 2. 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 according to valuation category is as follows:

kEUR						12/31/2017
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	451	–	–	–	–1,706	**–1,255**
Financial assets held for trading	–	–	–828	–	–	**–828**
Financial liabilities measured at amortized cost	–14,490	–	–	–59	–	**–14,549**
Financial liabilities held for trading	–	–	376	–	–	**376**
Total	**–14,039**	–	**–452**	**–59**	**–1,706**	**–16,256**

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**

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 and the amortization 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	12/31/2017			
	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	**442,605**	81,321	268,888	92,396
Finance lease liabilities	**55**	32	23	–
Trade payables	**114,219**	114,219	–	–
Other financial liabilities				
Other financial liabilities	**15,910**	–	15,910	–
Derivates without a hedging relationship	**655**	655	–	–
Financial liabilities	**573,444**	**196,227**	**284,821**	**92,396**

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**

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									12/31/2017
	Cashflows 2018			Cashflows 2019			Cashflows 2020–2027		
	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	–4,806	–2,526	–77,551	–2,965	–2,526	–	–10,721	–8,452	–319,323
Finance lease liabilities	**–7**	**–**	**–32**	**–14**	**–**	**–23**	**–**	**–**	**–**

kEUR									12/31/2016
	Cashflows 2017			Cashflows 2018			Cashflows 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	–	–	–	–	–	–	–	–

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 are 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.

The following table shows the change in financial liabilities:

kEUR	01/01/2017	Cash flows	Foreign exchange movement	Interest effect	Conversion	Additions due to M&A	12/31/2017
Interest bearing bank loans	10,639	2,453	–723	–	–	–	12,369
Bond	75,000	–	–	–	–	–	75,000
Convertible Bond	97,743	–	–	647	–400	–	97,990
Promissory note loan	200,000	–	–	–	–	–	200,000
Other Loans	56,457	–1,025	–817	–	–	–	54,615
Leasing	1,587	–1,477	–55	–	–	–	55

kEUR	01/01/2016	Cash flows	Foreign exchange movement	Interest effect	Conversion	Additions due to M&A	12/31/2016
Interest bearing bank loans	9,305	1,590	–256	–	–	–	10,639
Bond	75,000	–	–	–	–	–	75,000
Convertible Bond	97,069	–	–	674	–	–	97,743
Promissory note loan	200,000	–	–	–	–	–	200,000
Other Loans	440	50,032	–81	–	–	6,066	56,457
Leasing	1,974	–532	145	–	–	–	1,587

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 and in line with the Group risk strategy, interest rate hedges with a nominal volume of EUR 72.0 million were put in place to hedge the variable interest portion of the promissory note.

According to IFRS 7, the Group must show relevant interest rate risks using sensitivity analyses. These analyses demonstrate the effects of changes in market interest rates on interest payments, interest income and interest expenses.

If market interest rates on December 31, 2017 had been 100 base points lower (higher), the result would have been kEUR 419 (previous year: kEUR 401) 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 losses as of the balance sheet date amounted to kEUR –13,069 (previous year: kEUR 1,571). These were reclassified to other comprehensive income (OCI) as translation effects from the valuation of intercompany foreign currency loans, which are considered part of a net investment in a foreign operation and are therefore recognized directly in equity.

The table below 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.

kEUR	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2017	5%	3,760	4,223
	–5%	–3,760	–4,223
2016	5%	2,840	3,488
	–5%	–2,840	–3,488

7.2 EARNINGS PER SHARE

		Q1–Q4/2017	Q1–Q4/2016
Result for the period	**kEUR**	**42,887**	**44,234**
Weighted average number of shares outstanding	thousands	45,361	45,361
Basic earnings per share	**Euro**	**0.95**	**0.98**
Diluted earnings per share	**Euro**	**0.82**	**0.85**

Basic earnings per share are 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 are 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 per share (previous year: EUR 0.13).

Diluted earnings per share are derived from basic earnings per share as follows:

kEUR	Overall potentially dilutive financial instruments 2017	Dilutive financial instruments used for the calculation 2017
Result for the period		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	42,887	42,887
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,183	1,183
Numerator for diluted earnings	**44,070**	**44,070**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,268	8,268
Denominator for potentially diluted earnings per share	**53,629**	
thereof to be included for dilution (adjusted weighted average)		**53,629**
Basic earnings per share (EUR)		**0.95**
Diluted earnings per share (EUR)		**0.82**

kEUR	Overall potentially dilutive financial instruments 2016	Dilutive financial instruments used for the calculation 2016
Result for the period		
Numerator for undiluted 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**

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
01/01/2017–04/27/2017	0.01	8,208,631	118	968,618,411
04/28/2017–12/28/2017	0.01	8,297,585	239	1,983,122,719
12/29/2017–12/31/2017	0.01	8,264,395	3	24,793,184
Total			**360**	**2,976,534,314**
Average		**8,268,151**		

	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**		

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	12/31/2017	12/31/2016
Remaining term of up to 1 year	5,509	4,175
Remaining term of more than 1 year and up to 5 years	7,477	7,989
Remaining term of more than 5 years	2,313	2,907
Total	**15,299**	**15,071**
Operate lease payments for the reporting period	8,670	8,315

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	12/31/2017		12/31/2016	
	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	39	32	1,605	1,587
Remaining term of more than 1 year and up to 5 years	37	23	–	–
Remaining term of more than 5 years	–	–	–	–
Total	**76**	**55**	**1,605**	**1,587**

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 (Pty) Ltd.	South Africa	100.0
SAF (Xiamen) 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 Mexico S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND International Services Mexico 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
Dr. Matthias Heiden	Chief Financial Officer (CFO) (since 03/01/2017)
Arne Jörn	Chief Operating Officer (COO) (until 02/28/2018)
Steffen Schewerda	President Region Americas
Alexander Geis	President Region EMEA/India
Guoxin Mao	President China

Board of Directors

Martina Merz	Chairman of the Board of Directors (since 04/27/2017)
Dr. Martin Kleinschmitt	Deputy Chairman of the Board of Directors (since 04/27/2017)
Detlef Borghardt	Member of the Board of Directors
Jack Gisinger	Member of the Board of Directors (since 04/27/2017)
Anja Kleyboldt	Member of the Board of Directors
Carsten Reinhardt	Member of the Board of Directors (since 04/27/2017)

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.

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, 2017, members of the Management Board directly or indirectly held ordinary shares amounting to kEUR 5 (previous year: kEUR 5) while members of the Board of Directors directly or indirectly held ordinary shares of kEUR 0.1 (previous year: kEUR 1).

As of the balance sheet date, appreciation rights in the amount of kEUR 3,019 have been accrued for members of the Management Board (previous year: kEUR 2,827); thereof kEUR 1,182 (previous year: kEUR 772) were recognized in profit and loss in 2017. Of the total accrual, an amount of kEUR 1,125 (previous year: 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 2,573 (previous year: kEUR 2,944). Remuneration from the performance share unit plans, in contrast, is not included in the total remuneration presented.

Total remuneration for the Board of Directors was kEUR 287 (previous year: kEUR 280) and was recognized in profit or loss.

For further information about the remuneration of the Management Board and the Board of Directors, please refer to the Remuneration Report in the group management report.

The following shows the transactions with associates/joint ventures:

kEUR	Sales to related parties		Purchases from related parties	
	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Joint Ventures	721	1,389	–	–
Associates	–	–	29,211	27,135
Total	**721**	**1,389**	**29,211**	**27,135**

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Joint Ventures	426	237	1	207
Associates		–	1,278	1,303
Total	**426**	**237**	**1,279**	**1,510**

Outstanding balances as of December 31, 2017 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, 2017 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	12/31/2017	12/31/2016
Interest bearing loans and bonds	442,605	441,666
Other short-term investments	–58,306	–
Cash and cash equivalents	–278,775	–344,568
Net debt	**105,524**	**97,098**
Equity attributable to equity holders of the parent	**298,842**	**300,399**
Equity and net debt	**404,366**	**397,497**

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 backup 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 2017 financial year for services provided by the auditors and their related companies:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Auditing of financial statements	537	491
Tax accountancy services	3	–
Other services	45	11
Total	**585**	**502**

7.9 EVENTS AFTER THE BALANCE SHEET DATE

Major order for axle and suspension systems and investment in new production center in China

In early January 2018, SAF-HOLLAND announced a major order from the Chinese transportation vehicle and trailer manufacturer Changjiu Special Vehicle Group. Changjiu is one of the leading manufacturers of trailers for transporting vehicles and will equip its semi-trailers with axle and suspension systems from SAF-HOLLAND in the future. The delivery agreement covers a period of five years. The delivery of the first systems has already begun. Sales of around EUR 15 million are expected from this order in 2018.

SAF-HOLLAND also announced that it would significantly expand its production capacity in this region. The Group is investing a high single-digit million euro amount in a new central production center with manufacturing space of roughly 46,000 m² on the Yangtze River Delta. Operation is scheduled to begin in the first half of 2019. Through this investment, SAF-HOLLAND is equipping itself in anticipation of a continued increase in demand for modern disc brake and air suspension technology in China in the future. This technology will be increasingly used by fleet operators in the wake of more restrictive legislation.

Acquisition of V.ORLANDI S.p.A.

In the first quarter SAF-HOLLAND GmbH signed an agreement to acquire 70% of the shares in the Italian company V.ORLANDI S.p.A. headquartered in Flero, Italy, which is a manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles. As part of the acquisition, the parties are granted a call/put option for the purchase/sale of the remaining 30% of the shares. The put option is exercisable from January 1, 2019 through January 31, 2026. The exercise period of the call option starts after the end of the exercise period of the put option and is six months. The other liability resulting from the put option is accounted for in accordance with IAS 39. Because of the voting rights majority, SAF-HOLLAND GmbH will also obtain control of V.ORLANDI S.p.A. as of the acquisition date. The transaction is expected to be completed within the second quarter at the latest.

The first-time consolidation of V.ORLANDI S.p.A. will be carried out in accordance with IFRS 3 using the purchase method.

The preliminary purchase price of EUR 39.0 million is to be paid in cash.

Warehouse fire at SAF-HOLLAND's subsidiary in Russia – Limited damage

SAF-HOLLAND subsidiary OOO SAF-HOLLAND Rus in Moscow suffered a fire at its rented warehouse in Moscow at the end of February 2018. No personal injuries occurred. The fire did, however, render finished goods and spare parts for the Aftermarket business unit unusable and a major portion is expected to be largely impaired. The precise amount of damage is currently being determined and is expected to be in the low single-digit-million euro range.

SAF-HOLLAND has sufficient insurance coverage and currently assumes it is fully covered against the loss, excluding a manageable deductible.

The company expects strained operations at the Aftermarket business unit in Russia for three to four weeks, foregoing sales in the high triple-digit euro thousands during this period.

COO departs

Arne Jörn, Chief Operating Officer of SAF-HOLLAND since October 17, 2016, has left the company as of February 28, 2018 to pursue other interests outside of the SAF-HOLLAND Group.

The Management Board and the regional presidents have taken joint responsibility for his role for the time being. The Management Board and the Board of Directors have already started discussing the future allocation of responsibilities and succession in the operations area.

No other material events have occurred after the reporting date.

Luxembourg, March 15, 2018

Martina Merz	**Detlef Borghardt**
Chair of the Board of Directors	Chief Executive Officer of SAF-HOLLAND GmbH

SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

INCOME STATEMENT OF SAF-HOLLAND S.A.[1]

kEUR	Q1–Q4/2017	Q1–Q4/2016
Income from financial fixed assets	27,578	29,278
Income from financial current assets	565	741
Total income	**28,143**	**30,019**
Other external charges	–1,921	–2,959
Staff costs	–44	–36
Other operating charges	–557	–656
Interest and other financial charges	–6,252	–6,254
Other taxes	–8	–148
Result before tax	**19,361**	**19,966**
Income tax	–	–7
Result for the period	**19,361**	**19,959**

[1] Figures according to Luxembourg GAAP.

BALANCE SHEET OF SAF-HOLLAND S.A.[1]

kEUR	12/31/2017	12/31/2016
Assets		
Non-current assets	**455,393**	**452,766**
Shares in affiliated undertakings	313,238	313,238
Amounts owed by affiliated undertakings	142,151	139,525
Other long-term assets	4	3
Current assets	**32,114**	**35,820**
Amounts owed by affiliated undertakings	31,355	34,480
Cash at bank, cash in postal cheque account, cheques and cash on hand	175	202
Prepayments	**584**	**1,138**
Total assets	**487,507**	**488,586**
Equity and liabilities		
Equity attributable to equity holders of the parent	**308,135**	**308,334**
Subscribed share capital	454	454
Share premium	276,855	276,455
Legal reserve	45	45
Other reserve	720	720
Profit brought forward	10,700	10,701
Profit for the financial year	19,361	19,959
Non-current liabilities	**99,800**	**175,200**
Bonds	99,800	175,200
Current liabilities	**79,572**	**5,052**
Bonds	78,903	3,903
Trade payables	452	180
Tax and social security debts	217	689
Other creditors	–	280
Total equity and liabilities	**487,507**	**488,586**

[1] Figures according to Luxembourg GAAP.

MANDATES OF THE BOARD OF DIRECTORS/ MANAGEMENT BOARDS

Martina Merz
- Member of the Board of Directors (Chairwomen), SAF-HOLLAND S.A. (first appointed on April 24, 2014 until April 2019, Chairwomen since April 27, 2017)
- Member of the Supervisory Board, Deutsche Lufthansa AG, Cologne, Germany
- Member of the Board of Directors, NV Bekaert SA, Kortrijk, Belgium
- Member of the Board of Directors, AB Volvo, Gothenburg, Sweden
- Member of the Board of Directors, Imerys SA, Paris, France

Bernhard Schneider
- Member of the Board of Directors (Chairman), SAF-HOLLAND S.A. (first appointed on June 18, 2007, Chairman since March 27, 2009 until April 27, 2017)
- Managing Director, KRONE-Verlag Gesellschaft m.b.H
- Managing Director, KRONE Media Aktiv Gesellschaft m.b.H.

Dr Martin Kleinschmitt
- Vice Chair and Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 25, 2013, Vice Chair since April 27, 2017, extended until April 2019)
- Chairman of the Supervisory Board, SAF-HOLLAND GmbH
- Interim Chief Financial Officer (CFO) SAF-HOLLAND GmbH (between January 1, 2017 and February 28, 2017)
- Member of the Management Board, Noerr Consulting AG
- Member of the Executive Board of Schaltbau Holding AG, Munich, Germany (since August 2017)
- Chairman of the Supervisory Board of G&H Bankensoftware AG, Berlin, Germany (since March 2017)

Detlef Borghardt
- Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on October 1, 2011, extended until April 2020)
- Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO), President Region APAC/China
- Managing Director, debo invest GmbH

Jack Gisinger
- Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 27, 2017, extended until April 2020)

Anja Kleyboldt
- Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 26, 2012, extended until April 2019)
- Member of the Supervisory Board, SAF-HOLLAND GmbH
- Head of Projects, Arnold AG, Friedrichsdorf, Germany

Sam Martin
- Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 28, 2011, until April 27, 2017)
- Member of the Board, Metal Flow Corporation, Holland, Michigan, USA

Carsten Reinhardt
- Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 27, 2017, extended until April 2020)
- Beiratsvorsitzender, Tegimus Holding GmbH, Mannheim, Germany (since December 2017)
- Member of the Board, Grundfos Holding A/S, Bjerringbro, Denmark (since October 2016)
- Member of the Board, Rosti AB, Malmö, Sweden (since November 2016)
- Member of the Board of Directors, Rosti Automotive plc., Leamington Spa, U.K. (since February 2017)
- Mitglied des Beirats, WEZAG GmbH, Stadtallendorf, Germany (since October 2016)
- Operating Partner, Michigan Capital Advisors, Bloomfield Hills, Michigan, USA, since January 2017
- Member of the Strategic Advisory Board, Braemar Energy Ventures, New York, NY, USA (since August 2017)

Dr Matthias Heiden

— Managing Director, Chief Financial Officer (CFO), SAF-HOLLAND GmbH (since March 1, 2017)

Arne Jörn

— Managing Director, Chief Operating Officer, SAF-HOLLAND GmbH (between October 2016 and February 28, 2017)
— Director of category B, CASTMETAL FWI S.A., Luxembourg

Alexander Geis

— Managing Director, SAF-HOLLAND GmbH, President Region EMEA/I

Steffen Schewerda

— Managing Director, SAF-HOLLAND GmbH, President Region Americas

Guoxin Mao

— President Region China, SAF-HOLLAND (Xiamen) Co. Ltd./ Corpco Beijing Technology and Development Co. Ltd. (since July 2016)

AUDIT REPORT

To the Shareholders of
SAF-Holland S.A.
68-70, Boulevard de La Petrusse
L-2320 Luxembourg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of SAF-Holland S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRSs) as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, for the year then ended, are disclosed in Note 7.8 to the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Goodwill impairment In the consolidated accounts, goodwill is recorded under the “Goodwill” balance-sheet item as a total amount of 54.1 million EUR (5.4 % of the balance-sheet total or 18.0 % of equity). The Company’s data pertaining to the “Goodwill” item and explanations regarding the impairment test can be found in point 6.1 under “Notes to the consolidated balance sheet” in the notes to the consolidated financial statements. In order to determine whether any impairment is required, the Company tests goodwill for impairment once a year or as required. The impairment test is carried out at the level of the cash-generating units to which the respective goodwill is allocated. As part of the impairment test, the book value of the respective cash-generating units, including goodwill, is compared with the corresponding recoverable amount. As a rule, the recoverable amount is determined based on the value in use. Thus, the regular basis for valuation is the present value of future payment flows of the respective cash-generating units. The present values are determined using discounted cash-flow models. The starting point is the Group’s approved medium-term plan, which is updated with assumptions about long-term growth rates and takes into account expectations of future market developments and assumptions about how macroeconomic influencing factors will develop. The discounting is done on the basis of the weighted average capital costs for the respective group of cash-generating units. The results of the impairment test performed by those charged with governance indicated that no impairment was required. The result of this assessment is heavily depending on the assumptions of those charged with governance about the future payment inflows of the respective group of cash-generating units, the discounting rate applied, the growth rate and other assumptions, and is therefore subject to considerable uncertainty. Against this backdrop and due to the complexity of the assessment, this fact was of particular importance during our audit.	During our audit, we took into account, among other things, the methodical approach to carrying out the impairment test applied by the Company. After reconciling the future payment inflows used in the calculation with the Group’s approved medium-term plan, we assessed the appropriateness of the calculation, in particular by aligning it with general and sector-specific market expectations. We also assessed whether the costs of Group functions were being considered appropriately. Knowing that even relatively small changes in the discounting interest rate applied can have a significant effect on the firm value determined by this means, we paid attention to the parameters used to determine the discounting interest rate applied and took the calculation method into account. To take forecasting uncertainties and the effects of changes in the discounting interest rate into account, we considered the sensitivity analyses produced by the Company and performed our own sensitivity analyses for all groups of cash-generating units.

Key audit matter	How our audit addressed the Key audit matter
Effect of SAF-Holland USA Inc.'s plant consolidation on the adjusted EBIT In the 2017 financial year, the Group incurred a total of 13.2 million EUR in one-off restructuring and transaction costs, of which 10.9 million EUR related to the plant consolidation and restructuring of the North American plant network. The Company's data pertaining to the adjusted EBIT can be found in the "Sales and earnings performance" section of the consolidated management report and in Section 4 (Segment information) of the notes to the consolidated financial statements. In January 2017, the SAF-HOLLAND Group announced that it was taken consolidation measures and restructuring its North American plant network. The most significant measure was the amalgamation of production, reducing the number of assembly plants in the US from seven to five. In the 2017 financial year, the SAF-HOLLAND Group spent 10.9 million EUR in restructuring and transaction costs in relation to its plant consolidation measures in North America. This primarily comprised relocation costs, value adjustments to tools and facilities, and severance payments. Most of these costs were recorded as cost of sales, and are therefore included under EBIT. The SAF-HOLLAND Group added one-off restructuring and transaction costs to the adjusted EBIT, which it uses for controlling and analytical purposes. The EBIT adjustment in the form of the one-off restructuring and transaction costs was of particular importance during our audit, as it poses a risk in terms of those charged with governance unilaterally exercising discretionary powers. Furthermore, the adjusted EBIT is communicated to the capital market as a significant indicator of operating profit.	We took into account the determination of the one-off restructuring and transaction costs as part of the US plant consolidation. Furthermore, we critically analysed SAF-HOLLAND's adjustment of these costs. Consequently, using the knowledge gained during our audit and the information provided to us by the SAF-HOLLAND Group, we examined whether this adjustment was appropriate.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report, the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon, which we obtained prior to the date of this auditor's report, and the Corporate Social Responsibility Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Corporate Social Responsibility Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements
The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
— obtain an understanding of internal control relevant to the audit 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 Group's internal control;
— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
— conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
— obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the consolidated Management report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Statement, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the General Meeting of the Shareholders on 27 April 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

Other matter

The Corporate Governance Statement includes the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative,
Luxembourg, 15 March 2018
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 15, 2018
SAF-HOLLAND S.A.

Martina Merz
Chair of the Board of Directors

ADDITIONAL INFORMATION

GLOSSARY OF KEY FINANCIAL FIGURES AND ALTERNATIVE PERFORMANCE MEASURES

A

Adjusted earnings per share
Earnings per share adjusted for depreciation and amortization from purchase price allocation, impairment of goodwill and intangible assets, reversal of impairment losses on intangible assets, as well as restructuring and transaction costs.

Adjusted EBIT
Earnings before interest and taxes (EBIT) adjusted for special items such as depreciation and amortization from purchase price allocations, impairment of goodwill and intangible assets, reversal of impairment losses on intangible assets, as well as restructuring and transaction costs.

Adjusted EBIT margin
Adjusted EBIT/sales x 100

Adjusted EBITDA
Earnings before interest, taxes, depreciation and amortization adjusted for special items such as restructuring and transaction costs.

C

Cash conversion rate
Cash flow from operating activities before income taxes paid/adjusted EBIT x 100

Currency-adjusted sales growth
To determine currency-adjusted sales, sales are adjusted for exchange rate effects, indicating the amount of sales had the exchange rates remained unchanged compared to the previous year.

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 Euro.

D

Days inventory outstanding
Inventory/cost of sales per day (cost of sales in the quarter/90 days).

Days payable outstanding
Trade payables/cost of sales per day (cost of sales in the quarter/90 days).

Days sales outstanding (DSO)
Trade receivables/sales per day (sales in the quarter/ 90 days).

Dividend payout ratio
The total dividend paid as a percentage of the result for the period or the result for the period attributable to the parent company shareholders.

Dividend yield
Dividend per share/share price x 100

E

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation and amortization

Equity ratio
Equity as a percentage of total capital (=total assets)

F

FLAC
Financial liabilities at amortized costs

FLtPL
Financial liabilities at fair value through profit and loss

FLHfT
Financial liabilities held for trading

Free cash flow
Net cash flow from operating activities less investments in property, plant and equipment and intangible assets.

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 trusts.

G

Gross margin
Gross profit/sales x 100.

I

Investment volume
Investments in property, plant and equipment and intangible assets

Investment ratio
Investments in property, plant and equipment and intangible assets/sales x 100.

L

LaR
Loans and receivables

Leverage ratio
Net debt/EBITDA

Liquidity
The sum of cash and cash equivalents and other short-term investments available lines of credit.

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, current non-interest bearing liabilities and current and non-current provisions.

Net working capital ratio
The ratio of net working capital to fourth quarter sales extrapolated to the full year.

O

OCI
Other comprehensive income.

Organic sales
Organic sales refer 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 (excluding restructuring and transaction costs)/average number of employees (excluding temporary employees).

Prime Standard
A market segment of the official market of Deutsche Börse for companies which comply with special 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).

R&D ratio
R&D costs plus capitalized development costs/sales x 100

ROCE (Return on Capital Employed)
The ratio of operating income and financial income to the average capital employed.

ROI (Return on Investment)
The return on an investment.

S

Sales per employee
Sales/average number of employees (including temporary workers).

T

Tax rate
Income taxes/result before tax x 100

Total liquidity
The sum of cash and cash equivalents and other short-term investments including arranged lines of credit.

W

WACC (Weighted Average Cost of Capital)
The weighted average cost of capital.

LIST OF ABBREVIATIONS

A

ACEA	European Automobile Manufacturers Association
APAC	Asia Pacific: Consists of the regions Asia, Australia and Oceania, which are located in the West Pacific or nearby.
APM	Alternative Performance Measures
ASEAN	Association of Southeast Asian Nations
AR	Arkansas, USA

B

BRIC	Brazil, Russia, India and China
B.S.	Bachelor of Science

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

EDP	Electronic Data Processing
e.g.	for example
ELD	Electronic Logging Device
EMEA/I	Consists of the regions Europe, Middle East, Africa and India.
EU	European Union
EURIBOR	European Interbank Offered Rate

G

GDP	Gross domestic product

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 (Institute for the World Economy)
IMF	International Monetary Fund
IR	Investor relations
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
IT	Information technology

K

kEUR	Thousands of euros

L

LIBOR	London Interbank Offered Rate

M

MAR	Market Abuse Regulation
MBA	Master of Business Administration
MDAX	Mid-cap German stock index
Mercosur	Common market in South America (member states: Argentina, Brazil, Paraguay, Uruguay and Venezuela)
MI	Michigan, USA
Mn	Million
MO	Missouri, USA
M.S.	Master of Science

N

n. a. —— Not applicable

O

OEM —— Original Equipment Manufacturer
OES —— Original Equipment Service
OH —— Ohio, USA

P

PPA —— Purchase Price Allocation
p. a. —— per annum

R

R&D —— Research & Development

S

SDAX —— Small-Cap German stock index
STAN-countries —— Afghanistan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan and Uzbekistan

T

TX —— Texas, USA

U

UAE —— United Arab Emirates
US —— United States of America
USA —— United States of America
USD —— US dollar

V

VDA —— Verband der Automobilindustrie (German Association of the Automotive Industry)

W

WKN —— Wertpapierkennnummer (Security identification number)
WpHG —— Wertpapierhandelsgesetz (German Securities Trading Act)

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

April 26, 2017
Annual General Meeting 2018

May 9, 2017
Report on Q1 2018 results

August 9, 2017
Report on Half-year 2018 results

November 8, 2017
Report on Q3 2018 results

CONTACT INFORMATION

SAF-HOLLAND GmbH
Hauptstraße 26
63856 Bessenbach
Germany

www.safholland.com

Stephan Haas
stephan.haas@safholland.de
Phone: +49 (0) 6095 301-617
Fax: +49 (0) 6095 301-102

Alexander Pöschl
alexander.poeschl@safholland.de
Phone: +49 (0) 6095 301-117
Fax: +49 (0) 6095 301-102

IMPRINT

Publisher:
SAF-HOLLAND S.A.
68–70, Boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg

Editorial deadline: March 15, 2018
Date of publication: March 16, 2018
Editorial office: Stephan Haas, SAF-HOLLAND GmbH, Bessenbach; Klusmann Communications, Niedernhausen; Redaktionsbüro delta eta – Paschek & Winterhagen GbR
Design and realization: 3st kommunikation GmbH
Translated by: Klusmann Communications, Niedernhausen
Photography: Matthias Haslauer, Hamburg
Printed by: Braun & Sohn Druckerei GmbH & Co. KG

This report is also available in German.

Legal Disclaimer
This report contains certain statements that are neither reported financial results nor other historical information. This report contains forward-looking statements, which as such are based on certain assumptions and expectations made at the time of publication of the report. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the achievement of anticipated synergies, and the actions of government regulators. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this publication. SAF-HOLLAND S.A. does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of publication of these materials.


www.safholland.com