ANNUAL REPORT 2018

NEXT

GETTING FLEET CONNECTED GOING AUTO-NOMOUS EXPANDING LEADERSHIP ELECTRIFYING TRAILERS AUGMENTING THE AFTER MARKET

SAF Holland Group

Media

Our annual report is also available on the Internet at
ar2018.corporate.safholland.com

KEY FIGURES

Results of operations

in EUR millions

	2018	2017	2016	2015	2014
Sales	1,300.6	1,138.9	1,042.0	1,060.7	959.7
Gross profit	199.3	205.1	206.5	202.9	174.6
Gross profit margin in %	15.3	18.0	19.8	19.1	18.2
EBIT	78.0	72.7	78.4	81.6	56.7
EBIT margin in %	6.0	6.4	7.5	7.7	5.9
Adjusted EBIT	89.6	91.2	90.4	94.0	70.7
Adjusted EBIT margin in %	6.9	8.0	8.7	8.9	7.4
Result for the period	48.1	41.0	43.5	51.7	32.7
Adjusted result for the period	55.5	52.7	53.7	62.2	43.7
Undiluted earnings per share	1.06	0.95	0.98	1.14	0.72
Adjusted undiluted earnings per share	1.22	1.16	1.18	1.37	0.96
Dividend per share	0.45[1]	0.45	0.44	0.40	0.32

Net assets

in EUR millions

	2018	2017	2016	2015	2014
Balance Sheet total	977.4	998.1	1,014.0	888.5	645.2
Equity	332.6	301.0	304.9	287.8	248.6
Equity ratio in %	34.0	30.2	30.1	32.4	38.5
Cash and cash equivalents	155.0	278.8	344.6	145.7	44.2
Net debt	213.4	105.5	97.1	122.4	137.1
Net working capital	172.5	120.6	110.3	116.6	102.7
Net working capital/sales in %	13.5	11.0	10.9	12.0	10.9

Financial position

in EUR millions

	2018	2017	2016	2015	2014
Cash flow from operating activities before income tax paid	66.5	74.1	106.4	79.5	48.8
Cash conversion rate[2] in %	74.2	81.3	117.7	84.6	69.0
Net cash flow from operating activities	40.8	56.8	92.7	63.1	36.0
Cash flow from investing activities	−39.6	−84.3	89.8	−139.1	−29.5
Purchase of property, plant and equipment and intangible assets	−40.8	−27.1	−25.0	−28.1	−30.1
Free cash flow[3]	0.0	29.7	67.7	35.0	11.3

Yield

in %

	2018	2017	2016	2015	2014
Dividend yield	4.0	2.5	3.2	3.2	2.9
Return on capital employed (ROCE)[4]	9.7	9.5	9.1	10.7	11.0

Employees

	2018	2017	2016	2015	2014
Employees (average)	4,293	3,565	3,259	3,325	3,346
Sales per employee (kEUR)	302.9	319.5	319.7	319.1	286.8

1 To be proposed at Annual General Meeting 2019
2 Cash flow from operating activities before income tax paid divided by adjusted EBIT
3 Net cash flow from operating activities less investments in property, plant and equipment and intangible assets
4 ROCE = EBIT/(total assets-current liabilities)

MAGAZINE 2018 SAF-HOLLAND

CONNECTING THE FUTURE

SAF Holland Group

“As a supplier, we can contribute to increasing a vehicle’s availability. If, for example, the components on the axle are equipped with sensors and networked with one another, we can determine the overall technical condition of a trailer and report it to the fleet operator.”

Alexander Geis, Chief Executive Officer (CEO)

EUR **1,300.6**

Million
With sales of EUR 1,300.6 million in 2018, we are one of the leading manufacturers of chassis-related modules and components for trailers, trucks, buses and recreational vehicles.

10,000

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

4,470

Employees
More than 4,400 employees make SAF-HOLLAND one of the largest suppliers to the commercial vehicle industry.

6

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

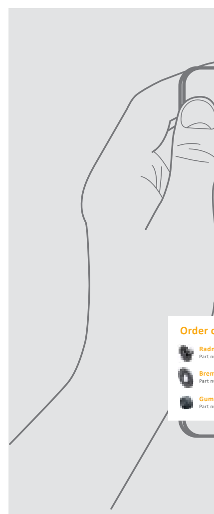
26

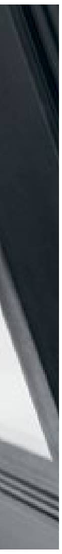
Production Sites
The majority of our production sites have traditionally been located in North America and Europe.

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.

Contents

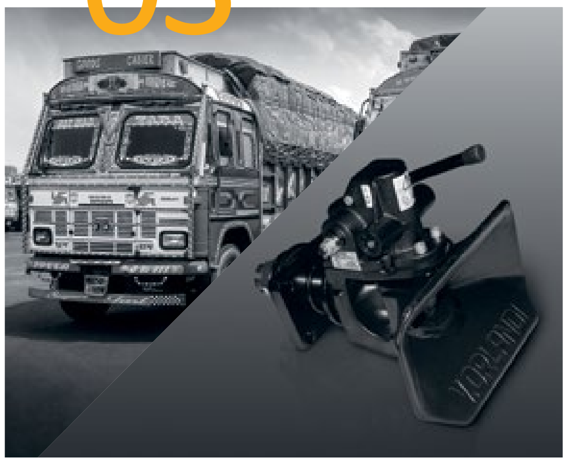
01





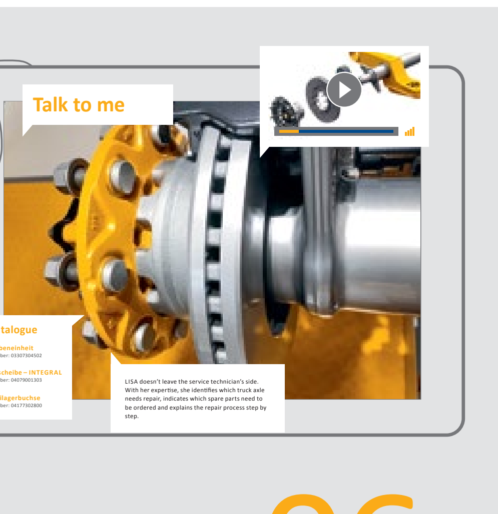
02

03



04

05


Talk to me
talogue
beneinheit
ber: 03307304502
scheibe – INTEGRAL
ber: 04079001303
ilagerbuchse
ber: 04177302800
LISA doesn't leave the service technician's side. With her expertise, she identifies which truck axle needs repair, indicates which spare parts need to be ordered and explains the repair process step by step.

06

3 Questions to Alexander Geis, CEO of SAF-HOLLAND

Trans-plosion

Alexander Geis,
CEO of SAF-HOLLAND

With transport volumes continuing to grow worldwide, online commerce has emerged as one of the key drivers. What should be done to master these growing volumes? How can commercial vehicle suppliers contribute to a solution? These three questions have been addressed to Alexander Geis, CEO of SAF-HOLLAND.

1

Are digital offers in online retailing still leading to growing transport volumes?

For several years now, we have been seeing tremendous demand for tractors and the corresponding trailers in the world's most important commercial vehicle markets – including those in Europe and North America. Online commerce, in particular, has been one of the driving forces behind this trend, not only in terms of freight transport over the last mile, but also in long-distance transport from one distribution center to another, or from a port terminal to a distribution center.

2

The growing demand for transport is being met with limited transport capacity. Do you see any solutions to this?

There are several factors to consider, starting with relatively simple things like avoiding empty runs. The proportion of empty runs overall is still very high. For example, in Germany, around 260 million fully loaded runs are countered by more than 150 million empty runs – meaning more than a third of all journeys are made empty. This makes neither ecological nor economic sense and places an unnecessary burden on the infrastructure. Digitization and networking using logistics platforms can help by, for example, identifying free loading space capacity and possible partial loads and connect them with optimal route guidance.

Thomas Horst,
Chief Sales Officer, Hermes

Conversation with Thomas Horst

Thomas Horst is the Chief Sales Officer at Hermes, a transport company that operates around 3,500 tractors and around 8,000 transfer platforms in Germany alone. Horst is also an active member of the Board of Directors of the German Federal Association of Parcel and Express Logistics.

In 2018, online commerce in Germany grew to EUR 63 billion. How do you see the development from here on out?

Horst: As a subsidiary of the Otto Group, Hermes has had a long tradition of delivering goods purchased through catalogs. Today, with online retailing, everything is much faster and more convenient, and customers have come to appreciate these benefits. Online commerce in Germany alone is projected to double over the next seven years.

And how does this look from a global perspective?

Horst: Even on a global basis, we are expecting transport volumes to increase. In the large growth markets such as China and India, there is a growing middle class emerging that is increasingly ordering goods online.

What solutions do you see for more efficiency in online commerce?

Horst: We need even more accurate forecasting, for example through digital platforms, artificial intelligence and blockchain technologies. We need to go deeper and more precisely into the analysis. Actually, we need to know already in the winter what will be happening in the following summer.

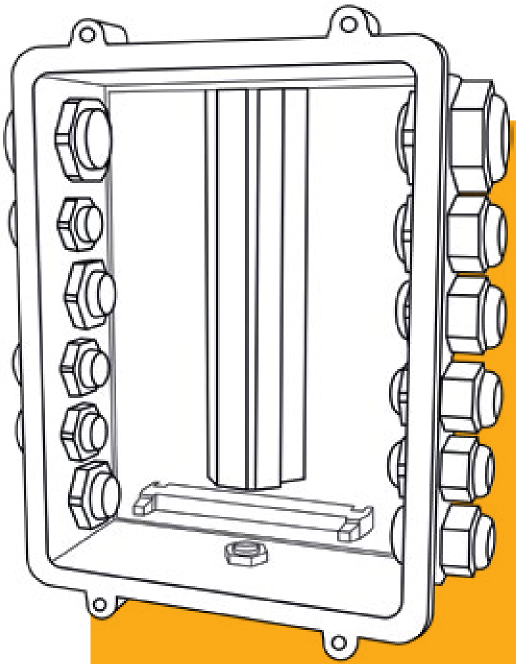
3

How can suppliers help increase the availability of transport capacity?

Relatively simple technical systems can already prevent these types of unscheduled downtimes for trailers. When the axles are equipped with sensors and networked with one another, then we can easily determine the overall technical condition of a trailer and report it to the fleet operator. Lastly, automation and assistance systems can reduce the pressure on the driver and increase availability. Automatic coupling systems, for example, are the solutions we are working on because the driver no longer has to maneuver between the cab and trailer in wind and bad weather in order to connect trucks and trailers. Instead, he can do it conveniently from the driver's seat. These types of convenient features also make the driving profession more attractive – and can help counteract the driver shortage.

Building connections

SAF-HOLLAND has enhanced its digital expertise with the purchase of a majority stake in British telematics specialist Axscend. Founder Tim Steer and his experts have developed a system that takes important trailer data from components such as the brakes, lights and tires, and sends this data to an app that gives fleet managers real-time information about the status of their fleet.

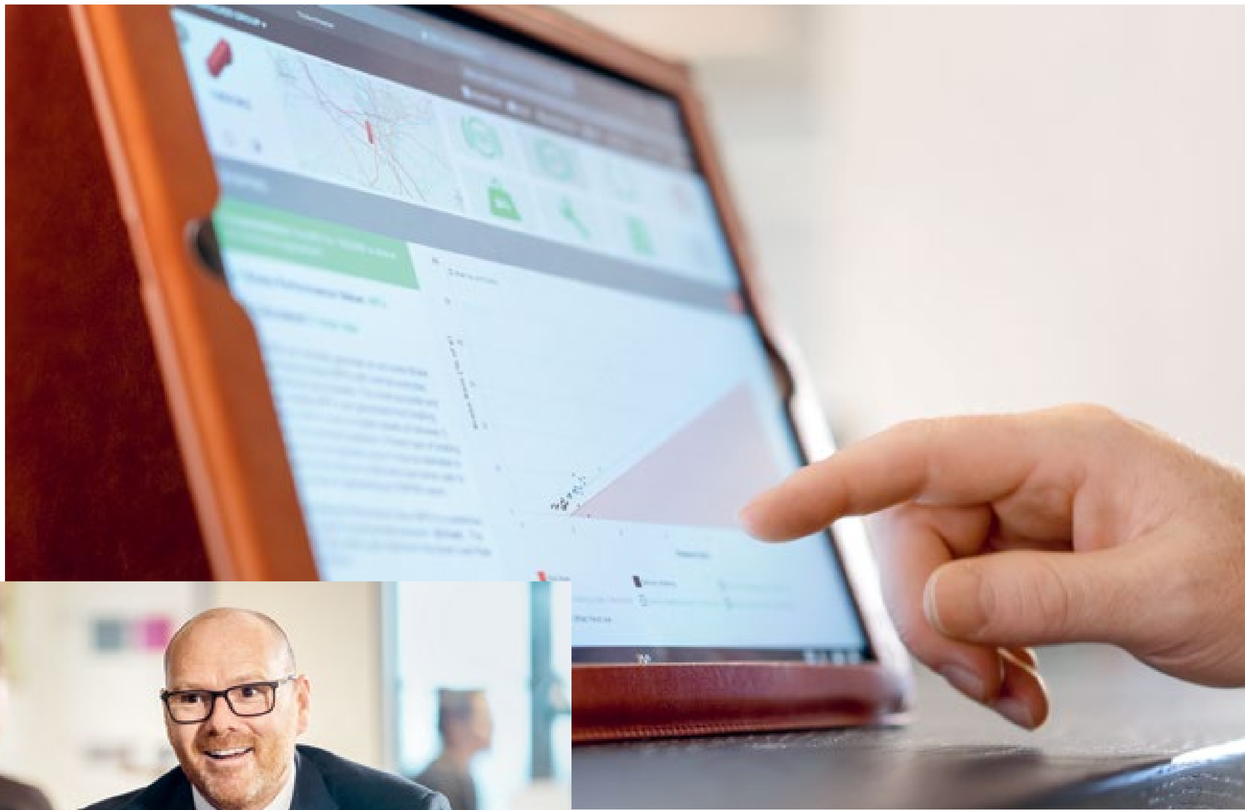


A small computer in a polycarbonate box is at the heart of Axscend's TrailerMaster system. The microprocessor is connected to the trailer via a CAN bus, giving it access to data from the electronic brake system. Other parameters, such as the inclination angle of the road, are captured using additional sensors. A GPS receiver provides the location of the trailer, while a GSM interface sends the data to Axscend's network infrastructure. The equipment also includes short-range radio technology such as (ISM) and Bluetooth.

Sometimes it's the drive to invent something new that leads to innovation and sometimes it's just coincidence. In other cases, it can come from just ordinary everyday events. When Tim Steer was fiddling with his invention in a small town called Folkestone in southeastern England in 2006, the transport industry in the UK was spending a lot of time and effort on monitoring their trailer brakes. "The regulations for monitoring the brake performance of trailers are very stringent in the UK," says Tim Steer, founder and CEO of the digital company Axscend. Fleet operators are required to schedule periodic inspections with the transport authorities depending on the age of their fleet, their particular driving habits and the operator's track record of complying with the rules. "This means that, on average, every trailer has to be tested on a chassis dynamometer at a repair shop every ten weeks to check the brake performance," estimates Steer. "Imagine a large fleet with several thousand trailers – that's a considerable amount of effort and cost."

Steer recognizes the potential for greater efficiency. His idea is to transfer the data from the trailer to an app, making visits to the test bench at the repair shop superfluous. "There were already a variety of electronic components collecting data, such as GPS trackers and tire pressure monitoring systems," says Steer. "We wanted to combine these various components into one system and add additional functions. We not only wanted to monitor brake performance but also, for example, to get a complete snapshot of the overall state of the brakes and lighting." Using digital methods to avoid visits to the repair shop and lowering fleet operators' costs – this idea also won over SAF-HOLLAND. In July 2018, the company acquired a majority stake in the digital trailer management specialist, which soon will relocate to Runcorn in Cheshire. SAF-HOLLAND will have the option to acquire the outstanding shares.

In order to evaluate a trailer's brake performance without the need to sit on a chassis dynamometer, a lot of data needs to be collected and evaluated in real time. The TrailerMaster system from Axscend first compares the deceleration brought on by the brake pedal to the air pressure at the actuators of the trailer's brakes. This data is evaluated in a small box attached to the chassis of the trailer or semi-trailer, which is connected to the electronic brake system via the CAN bus. The system calculates the actual deceleration based on the wheel speed before and after braking. It also receives up-to-date load data from the air springs. Also important for calculating the brake performance is a road's inclination angle, which is recorded using a patented sensor system.



The TrailerMaster system also evaluates the trailer's brake performance without having to go on the test bench or to the repair shop.

Tim Steer (on the right), Founder of Axscend, being interviewed.

"Fix trailer defects, long before they cause problems."

Tim Steer, CEO Axscend

Using all this data, an algorithm determines the deviation in the brake performance from the driver's request.

The results are then sent wirelessly and displayed on an app. "To give fleet operators and fleet managers the chance to get a quick overview at all times, we report the readings from the individual trailers using a traffic light system," explains Tim Steer. "If the brake performance falls below the regulatory prescribed value, the traffic light will turn red." The app also provides important information about the trailer fleet, such as the location of the trailers, the wear status of the brakes, the tire pressure, the condition of the lights and the next maintenance interval.

"In the future, we want to use SAF-HOLLAND's presence in the market to continue to develop our system for other requirements for customers in Europe, and in the next step globally," explains Steer. Digital systems like TrailerMaster not only help fleet operators to comply with statutory test regulations but also to avoid unexpected errors before they occur. This type of system would also be a prerequisite for an ever-growing level of autonomous driving in the future. After all, if there is no driver left to control the tire pressure on the trailer, then the newly networked systems must do so.

Interview with Tim Steer

How did you get the idea for the TrailerMaster system?

Tim Steer: Back then, trailers were already beginning to be equipped with several individual technologies. Electronic Braking Systems saw the introduction of a permanent power supply on trailers, which is the basic prerequisite for electronic equipment of this sort. Our idea was to bring the individual solutions together in a single system. After completing this, new functions could be added. We then just continued to develop the system based on new technologies and what was needed in the market.

Which individual technologies are you specifically referring to?

Tim Steer: Controlling the tire pressure and locating the trailers using GPS transmitters, for example. Also an assistance system for the loading ramp that works with ultrasonic sensors. This system can activate the brakes if the trailer is headed for a collision. The ability to calculate the brake performance was added later. It was important for us to be able to show the data directly on the trailer using small traffic lights and not only show it on the app. This gives the driver the ability to see whether or not the trailer's status is okay, at just a glance.

Why is trailer management such an important issue for transport companies?

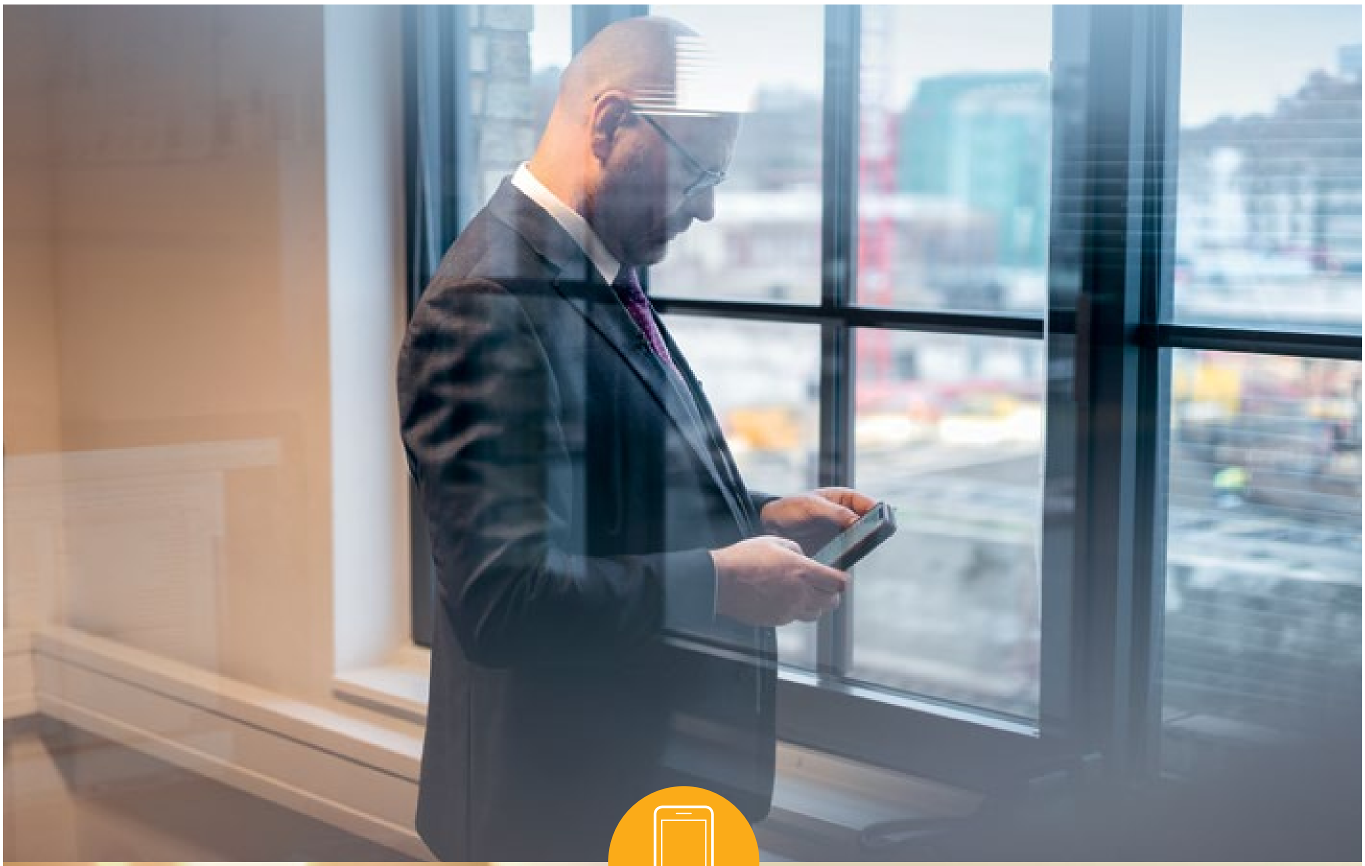
Tim Steer: Because networked telematics can contribute to greater efficiency. Transport companies are in a very competitive market and need to be able to manage large fleets. This is not only a logistical challenge but also a financial one. A perfect business model would always ensure that you have the right assets in the right place at the right time. But things can often look very different in the real world. Everyday problems can come up that disrupt processes such as damage to the trailer, an unavailable driver or merely a traffic jam. Added to all this are the regulatory requirements, such as periodic safety checks on the trailer. All of these factors can get in the way of a perfect business model, which is why trailer management is so important.

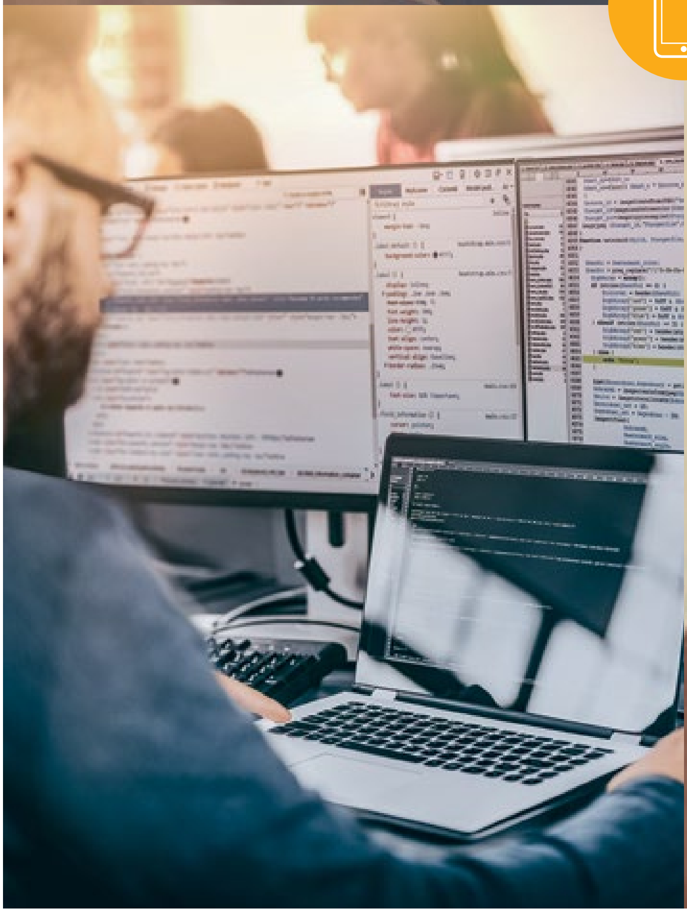
How can trailer management systems increase a fleet operator's efficiency?

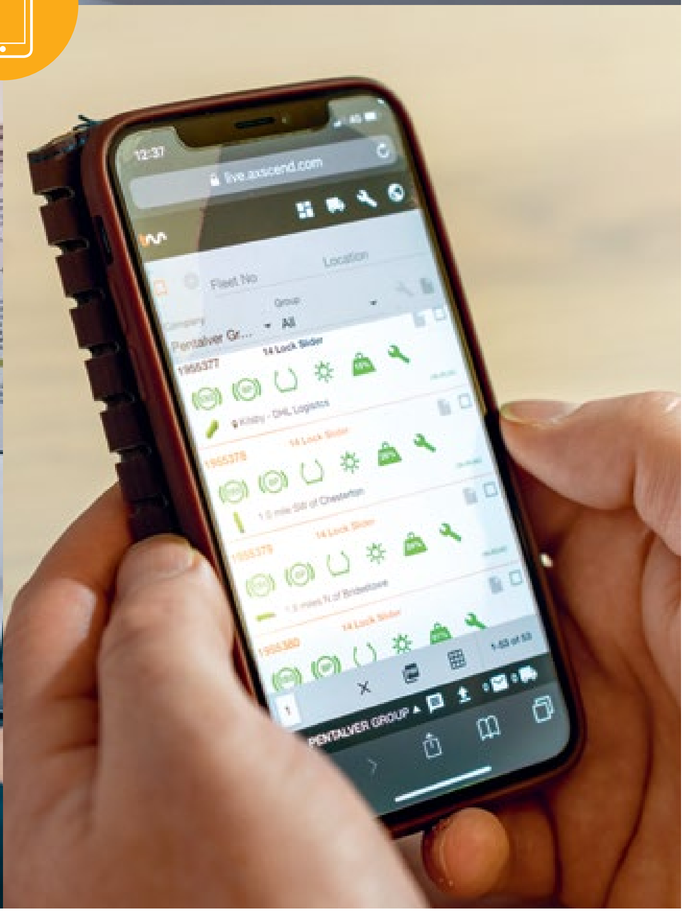
Tim Steer: These systems connect the fleet managers with their trailers in real time and convey valuable knowledge about the fleet's status. The information itself is already very valuable, but when it's available on a real-time basis, the fleet manager has every opportunity to unleash greater efficiency, however small. It is always better to have precise readings than to have to resort to empirical values. This way, even minor errors can be fixed long before they cause major problems, which can already start with an insufficiently filled tire. Companies are also investing in these types of systems to show the authorities that they take regulations seriously.

Taking a look at the future – how do you think the networked fleets of tomorrow will look?

Tim Steer: Today, many of the decisions at transport companies are made by people based on their education and experience. This usually leads to sound results, but the decision makers never really have the entire picture. A decision may increase efficiency in one area but lower it elsewhere, possibly due to secondary effects. In the future, these decisions will probably be made, or at least supported, by Artificial Intelligence. This would take all of the data into account to lead to the optimal decision. The data required for this will be provided by systems such as TrailerMaster.






12:37
live.axscend.com
Fleet No
Location
Group
All
Pentalver Gr...
14 Lock Slider
PENTALVER GROUP

The family grows

With new acquisitions, SAF-HOLLAND is not only expanding its product portfolio, but also its global footprint. The acquisition of the York Group, a manufacturer of trailer axles and suspension systems, opens up access to the Indian subcontinent and Asian-Pacific market. The Italian coupling specialist V.ORLANDI enhances the Group's range with new components. Dr. Matthias Heiden, CFO of SAF-HOLLAND, explains the strategic importance of the new family members.


GOODS CARRIER
V.ORLANDI


Interview with CFO Dr. Matthias Heiden

"We focus on the fastest integration possible to avoid losing any of the initial momentum."

Dr. Matthias Heiden, CFO SAF-HOLLAND

In 2018, SAF-HOLLAND successfully completed a number of acquisitions. How do these acquisitions fit into your overall acquisition strategy?

Dr. Matthias Heiden: As far as acquisitions are concerned, our strategy focuses on three areas: our product portfolio, our global presence and our technology. Our new acquisitions fit precisely into this framework. V.ORLANDI is a medium-sized company that first and foremost enriches our product portfolio. In addition to classic fifth wheel couplings, V.ORLANDI also offers products that were not yet a part of our portfolio such as coupling systems for agricultural vehicles and mining vehicles. In fifth wheel couplings, V.ORLANDI is currently the number three in Europe. Now, following the acquisition, it is strengthening our number two position in this segment even further.

Expanding our global footprint is also firmly anchored in our 2020 strategy. SAF-HOLLAND has a strong position in Europe and North America for historical reasons. With the acquisition of York, we are now expanding our business in India – one of the fastest growing trailer markets in the world. But that's not all: York also serves many of the neighboring markets in the Asian-Pacific region, such as Thailand, Indonesia, Vietnam and Australia, from India. We will now be better able to approach the fleet customers in these markets who are interested in trailer axles and suspension systems than we were before.

What advantages do you gain in terms of customer access in India through your acquisition of York?

Dr. Matthias Heiden: In India alone, we now have around 200 service outlets from the York acquisition that we can rely on. This expands our worldwide service and spare parts network to more than 10,000 outlets. It is important to understand that the road infrastructure on the Indian subcontinent is different than in Europe or the United States. Above all else, this requires tailor-made products that meet the actual needs of our customers. It also means that the trailer axles and suspension systems need to be as cost-effective as possible while, at the same time, offering the quality required. That is why service and application-related development play a particularly important role in these markets.

Technologically, SAF-HOLLAND has placed the digitalization of the trailer at the forefront of its "SMART STEEL" campaign.

Dr. Matthias Heiden: That's absolutely correct. This was the rationale for the acquisition of the British technology company Axscend. Our colleagues there are working on digital trailer management, both in terms of hardware components and in the development of software. This acquisition also opened the door to new business models, for example, based on the analysis of other important trailer data that Axscend already records today, beyond the condition of the brakes.

What approach will you take to further integrate York and V.ORLANDI?

Dr. Matthias Heiden: The first step is to take a clean inventory. With this information, we already developed an integration concept during the two due diligence periods. Now we can focus on integrating these companies as swiftly as possible – for example, through the quick integration of the sales activities – so that we don't lose any of the initial momentum. We are also looking for synergies in processes and administration, such as in the areas of finance or IT. And thirdly, we are analyzing synergies in purchasing. But, above all, it is important to get people on board – and this is where a coherent integration strategy can help. In the end, however, it is also important that local management be easily approachable.

Dr. Heiden, thank you very much for the interview.


York Transport Equipment, India

York Transport Equipment (Asia) Pte. Ltd. is headquartered in Singapore and operates trailer axle and mechanical suspension system manufacturing facilities in Pune, India, and Qingdao, China. York serves the majority of the truck and trailer manufacturers in the Asia-Pacific region and is represented not only in India, but also in other fast-growing markets such as Thailand, Indonesia, Vietnam and Australia. York has a strong market position, especially in the heavy-duty segment with a gross vehicle weight of nine tons or more. In addition, the York Group is one of the major suppliers of parts and accessories for trailers and semi-trailers on the Indian subcontinent with a network that includes more than 200 service points and dealers.


V.ORLANDI S.p.A., Italy

V.ORLANDI S.p.A. is a manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles based in Flero near Brescia (Italy). Before being acquired by SAF-HOLLAND, V.ORLANDI was the third largest manufacturer of fifth-wheel couplers in Europe and is now strengthening SAF-HOLLAND's position as the number two in Europe. At the same time, SAF-HOLLAND is expanding its specialty business with couplings and drawbar eyes for trailers and vocational trucks. V.ORLANDI currently generates around 20 percent of its sales from the industrial, agricultural, forestry and mining segments. The company manufactures at two locations in northern Italy near Brescia. In addition to Western Europe, the company's products are mainly sold in Russia, Asia and Australia.

The Automators

Anyone seriously considering autonomous freight transport, should also be thinking about automatic coupling and uncoupling for tractors and trailers. An international team of SAF-HOLLAND engineers from Germany, the US and China has developed an automatic coupling system and already presented their first prototype at the IAA Commercial Vehicles 2018 in Hannover. Now, this system is being further developed for series production.

However, there are still several unanswered questions before the first driverless trucks take to the streets. How would autonomous systems deal with complex inner-city traffic situations, for example, when traffic consists of both networked and conventional road users? There is not yet a clear regulatory framework in place to govern the autonomous transportation of goods on the road. There is one aspect that people usually fail to consider, and that is if there is no driver on board, how should a tractor change a trailer?

“Anyone seriously considering autonomous driving for commercial vehicles should also be thinking about automating the coupling and uncoupling processes.”

Alan Feltham, Director R&D Fifth Wheel, Kingpin & Coupler EMEA

Until now, this has been done manually, with the coupling and uncoupling of tractors and trailers representing an everyday event in logistics operations. “Anyone seriously considering autonomous driving for commercial vehicles should also be thinking about automating the coupling and uncoupling processes,” points out Alan Feltham, who works at SAF-HOLLAND on the development of coupling systems in Europe, the Middle East and Africa (the EMEA region). This issue is what prompted a global team of SAF-HOLLAND engineers to launch the “Automatic Coupling System” project in April 2017. The first prototype of the system was presented at the 2018 IAA Commercial Vehicles trade show.

Coupling a trailer to the tractor is still a manual process that has a certain number of possible errors built in and takes a skilled driver about five minutes to complete. The driver first sets the tractor back with the fifth wheel open until the coupling under the trailer is slightly ahead of the kingpin. Then the rear axle of the tractor is raised with the help of air springs to allow the coupling plate to rest directly on the trailer’s skid plate. The fifth wheel must be in direct contact with the skid plate, otherwise there is a risk of so-called “high coupling,” where the kingpin does not enter and lock into the fifth wheel lock but rather on the coupling plate or the lock. Another possible error can occur during the manual connection of the electrical and pneumatic supply lines. To avoid this, the driver climbs into the space between the cab and trailer and puts the connections together by hand. EBS and pneumatic control lines are particularly crucial for the semitrailer’s braking system. Any faults can lead to a failure in the brake’s function.

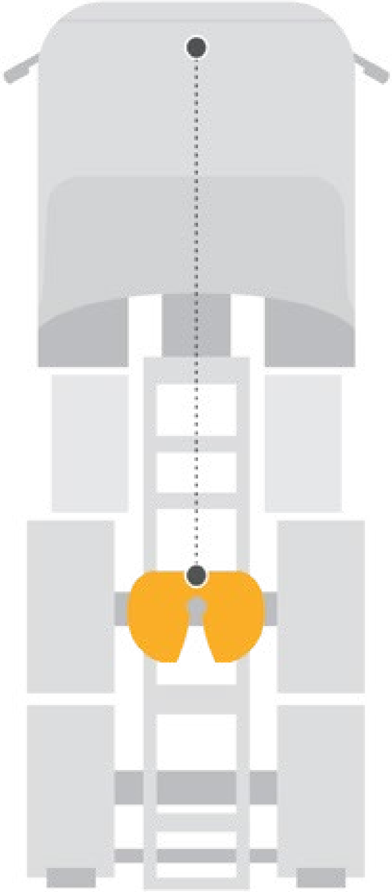
IAA prototype to be further developed for series production

“When automating the coupling process, we analyzed previous solutions but ultimately decided to take a different approach,” explains Sebastian Köster, head of the Automatic Coupling System Project at SAF-HOLLAND. “Right now, we are looking into a variety of possible solutions using pneumatic and electric drives to automatically open the fifth wheel.” Engineers are relying on inductive proximity sensors to monitor the distance between the fifth wheel and the skid plate, as well as the mechanical connection of the kingpin and fifth wheel. They pay close attention to the connection between the supply lines. A turntable is mounted to the kingpin of the trailer to which a boom is attached with a plug-in element. Now, when the fifth wheel with a connector approaches the kingpin, the turntable automatically aligns with the fifth wheel, and the connectors connect positively. This also enables the tractor and trailer to be coupled at an angle to each other. Another important point is the electrical retraction and extension of the landing gear, which supports the trailer when it is parked. Initially, the project team accomplished this with an electric drive that can be operated directly from the driver’s cab. “For highly automated coupling, this function can also be performed automatically in the future using the tractor control,” Köster explains.

Teamwork: Sebastian Köster, Alan Feltham and Randy Kübler (from left to right) automate the coupling process.

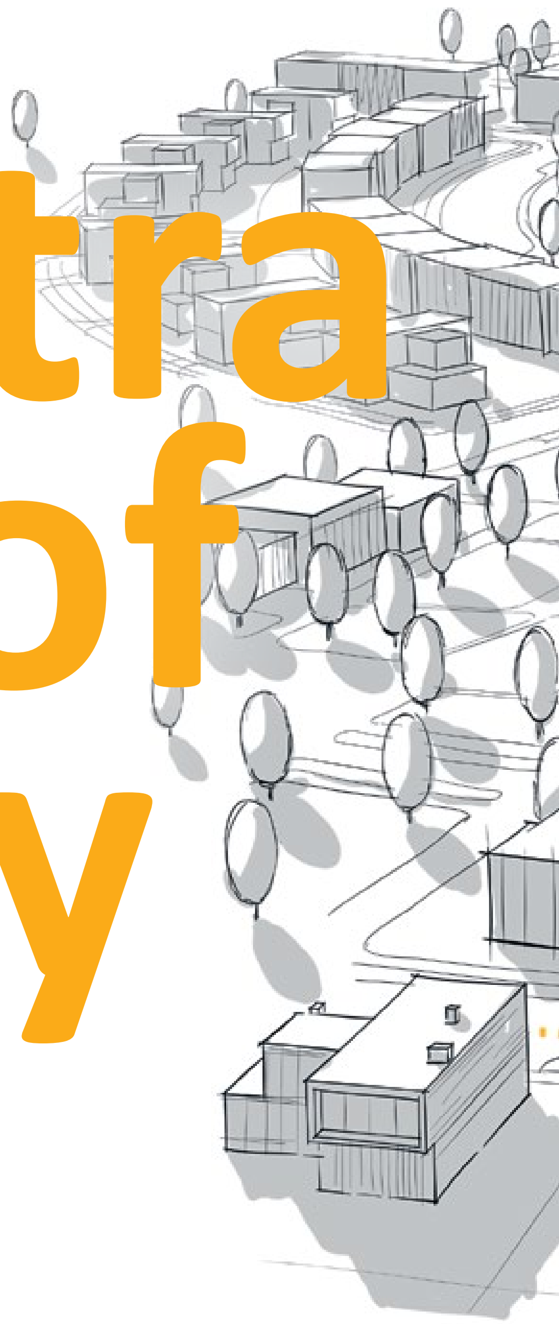
The development of the prototype shown at the 2018 IAA Commercial Vehicles trade show will continue until it is ready for series production. The focus now is on reliability and durability when coming up against mechanical strain. "The system also needs to operate safely under the prevailing environmental conditions, such as high and low temperatures, moisture and dirt," adds Köster. SAF-HOLLAND has the best prerequisite to succeed: the expertise of the global project team, which includes not only SAF-HOLLAND's German locations in Singen and Bessenbach, but also co-workers in the US at the Muskegon and Holland (Michigan) sites. There is also a colleague contributing the know-how of the Chinese site in Xiamen, where parts of the automated landing gear were developed and manufactured. By cooperating internationally, the various requirements in the individual world markets can be best taken into account.

Ready for coupling



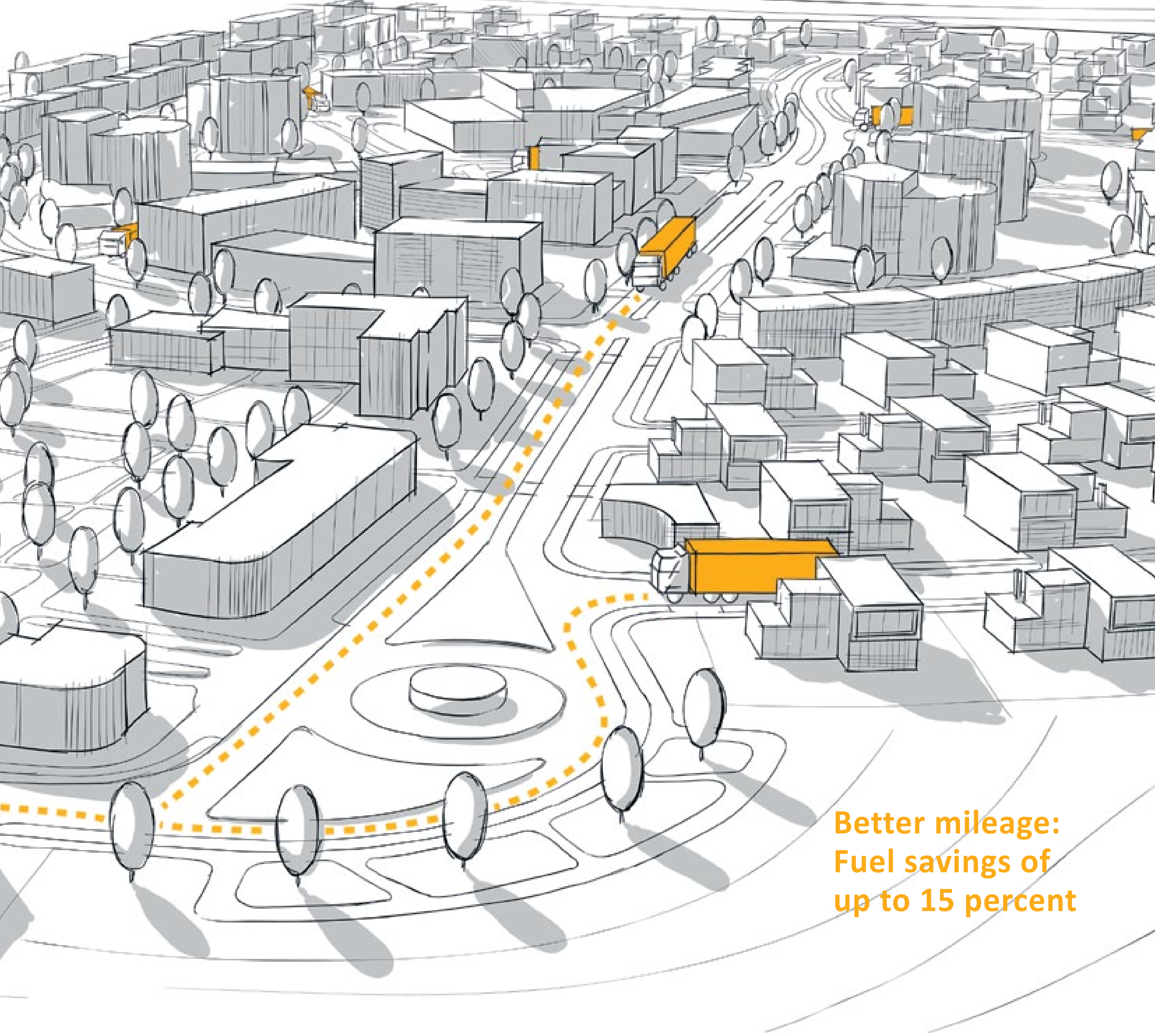
The fifth wheel needs to be operated and monitored from the driver's cab to make automatic coupling and uncoupling possible. The developers are also working on several pneumatic and electrical solutions. Inductive proximity sensors then monitor the distance between the fifth wheel and the skid plate and check the mechanical connection between the kingpin and the fifth wheel.

An extra dose of energy



Less consumption – less noise: Electric drives offer considerable advantages, not only for the truck but also for the trailer. With the development of a family of electric axles, SAF-HOLLAND is preparing for the paradigm shift in transportation.

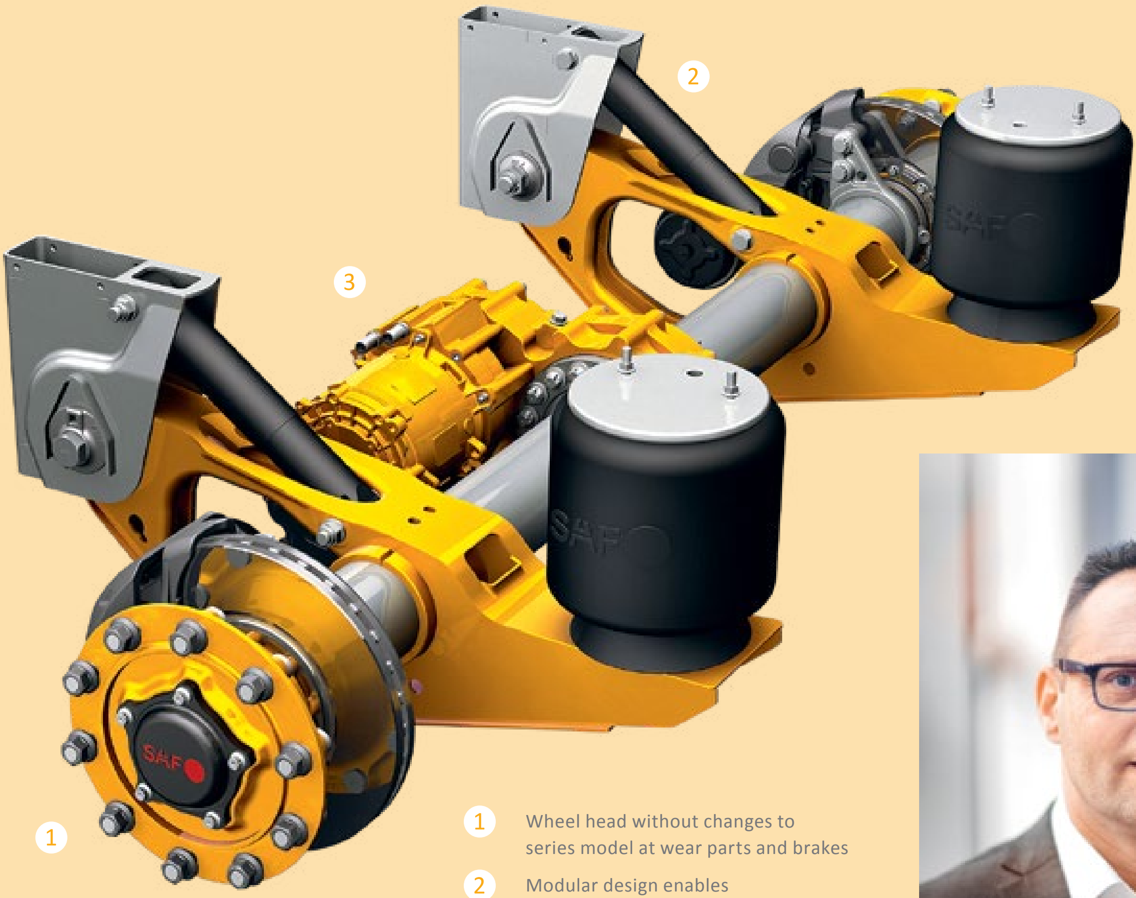
Every liter of diesel saved counts. For freight forwarders, fuel represents the second largest cost after the driver's salary. It's no wonder that truck manufacturers today are all trying to determine whether electrified tractors have a positive cost-benefit ratio. So far, there has been little attention on the trailer, which still usually lacks its own drive. However, with the development of two electrified trailer axles, SAF-HOLLAND is now demonstrating that electric drives can also be worthwhile in a trailer. The commercial vehicle supplier has developed two concepts. The first is the SAF TRAKr, which has a capacity of 30 kWh and briefly up to 50 kWh and works as a generator during braking. The electricity obtained can be



Better mileage: Fuel savings of up to 15 percent

used to power electrical equipment in the trailer, such as a refrigeration unit. This differs from the second concept – the SAF TRAKe – which temporarily relieves the tractor and has a maximum capacity of 120 kWh.

Even the small e-machine in the SAF TRAKr can achieve considerable savings. Until now, diesel generators have been used for refrigerated trailers, which must also run while stationary, so that temperature-sensitive cargo does not spoil. If these generators were temporarily replaced with battery-powered electric machines, not only would the forwarder benefit, but also the environment. Battery-powered electric machines emit no exhaust fumes and significantly lower noise. This is not a niche application either: every fifth newly registered trailer in Europe today is equipped with a cooling unit. The amount of fuel saved when using the TRAKr depends on the respective application. “There are several factors involved,” explains Olaf Drewes, who is responsible for Advanced Research & Technology at SAF-HOLLAND. “The cooling capacity required can differ considerably, depending on the region and the season.” The more powerful SAF TRAKe is always the option used when a particularly powerful drive is required, for example when a truck is driving uphill and has to accelerate. The electric motor provides up to 4,100 Nm additional torque to the wheels at lightning speed. The additional support is also welcome when a truck and trailer combination is in the inner city and needs to operate purely electrically to protect residents from the noise of delivery trucks. SAF Holland sees some interesting applications not only for food but also for automotive transporters. In the latter, the electric drive in the trailer could also quietly power the hydraulics for the lift pump.



1 Wheel head without changes to series model at wear parts and brakes

2 Modular design enables high flexibility

3 Engine-transmission unit with 50 kilowatts of maximum power

Olaf Drewes, Director Advanced Research & Technology

The SAF TRAKr supplies energy to the refrigeration unit, for example

This is an advantage when loading and unloading the transporter in the city because deliveries can then take place at night. LOHR Industrie is working together with SAF-HOLLAND and the SAF TRAKe to make these types of applications a reality.

A modular family of axles

SAF-HOLLAND's electrified axles form a family of axles whose basic construction is identical. For example, the engine-transmission unit is located in the middle of the axles and is connected to the wheels via the axle shaft. "This gives us a high degree of flexibility in matching various customer needs," says Drewes. The transmission housing is even part of the load-bearing axle housing, which saves weight and also makes it possible to keep the same bolting points as with conventional axles.

In the future, SAF-HOLLAND would like to be able to calculate which axle represents the right solution for which customer by using a simulation program. This program is currently under development in cooperation with the Technical University of Braunschweig. The software takes into account the typical routes, including any slopes that occur and calculates the ultimate fuel savings expected for a specific battery size. "Our goal is to advise the customer on the optimal configuration," says Drewes. "An average savings of 15 percent is quite realistic." The additional weight of the trailer is expected to range between 500 kg and 1,000 kg, depending on the version of the axle and battery size. There are however efforts to expand the current regulations to take into account the use of electrical systems in the trailer. Trucks and tractors may be allowed to weigh up to 1,000 kg more due to the electrical components that do not reduce the permissible payload.

The first hardware tests are also currently underway. There is one thing SAF-HOLLAND is sure of and that is it will be a system provider for electrified axles in the future, which include the parts for the battery, thermal management and electronic control system. "All components are coordinated," assures Drewes. "That's why we're constantly expanding our team and our know-how." When the time comes to IAA 2020, this work will have paid off: SAF-HOLLAND's e-axles should be ready to start production.

Three questions for Marie-José Navarre, LOHR Industrie S.A.

What is LOHR Industrie's motivation for the application of e-axles to its trailers?

LOHR Industrie: Axeal (AXle Electric Assist Lohr) is totally independent from the tractor, providing power assist during acceleration and regenerative braking. It improves driving comfort and increases performance by reducing fuel consumption.

The central mechanical system includes a differential, a reduction gear and a power take-off which can be coupled when halted to drive a peripheral (e. g. hydraulic pump). When halted, the electric motor can be disconnected from the transmission to drive a peripheral (e. g. a hydraulic pump) required to operate the trailer for example.

What does LOHR Industrie's roadmap for the introduction of this technology look like?

LOHR Industrie: We will equip 3 car-trailers in the first quarter of 2019 and gradually our new range of car-carriers in the middle of this year. They will be delivered for three operators, one in South Africa, one in the United States and one in Europe. Three different uses in terms of loading's performance and complex urban environments in order to get a lot of experience feedback.

Why did you choose SAF-HOLLAND as a partner for the realization of your vision?

LOHR Industrie: SAF Holland has been working with LOHR Industrie for over 20 years. Its international alignment and its commitment to develop different e-mobility solutions naturally made us choose SAF-HOLLAND as a partner for Axeal development.

Marie-José Navarre is Deputy Managing Director of LOHR Industrie S.A.

LOHR Industrie has been active in the design, production and sale of freight transportation systems for more than 50 years. The LOHR Group, headquartered in Alsace, has around 2,000 employees worldwide.
LOHR Industrie works together with SAF-HOLLAND in the development of electric trailer axles.

Talk to me

LISA doesn't leave the service technician's side. With her expertise, she identifies which trailer axle needs repair, indicates which spare parts need to be ordered and explains the repair process step by step. LISA is not a human being, but rather the project name for an app developed by SAF-HOLLAND whose full name is "Learning Intelligent Service Assistant." SAF-HOLLAND is currently in the process of getting this service app and its augmented reality functions ready for series production.

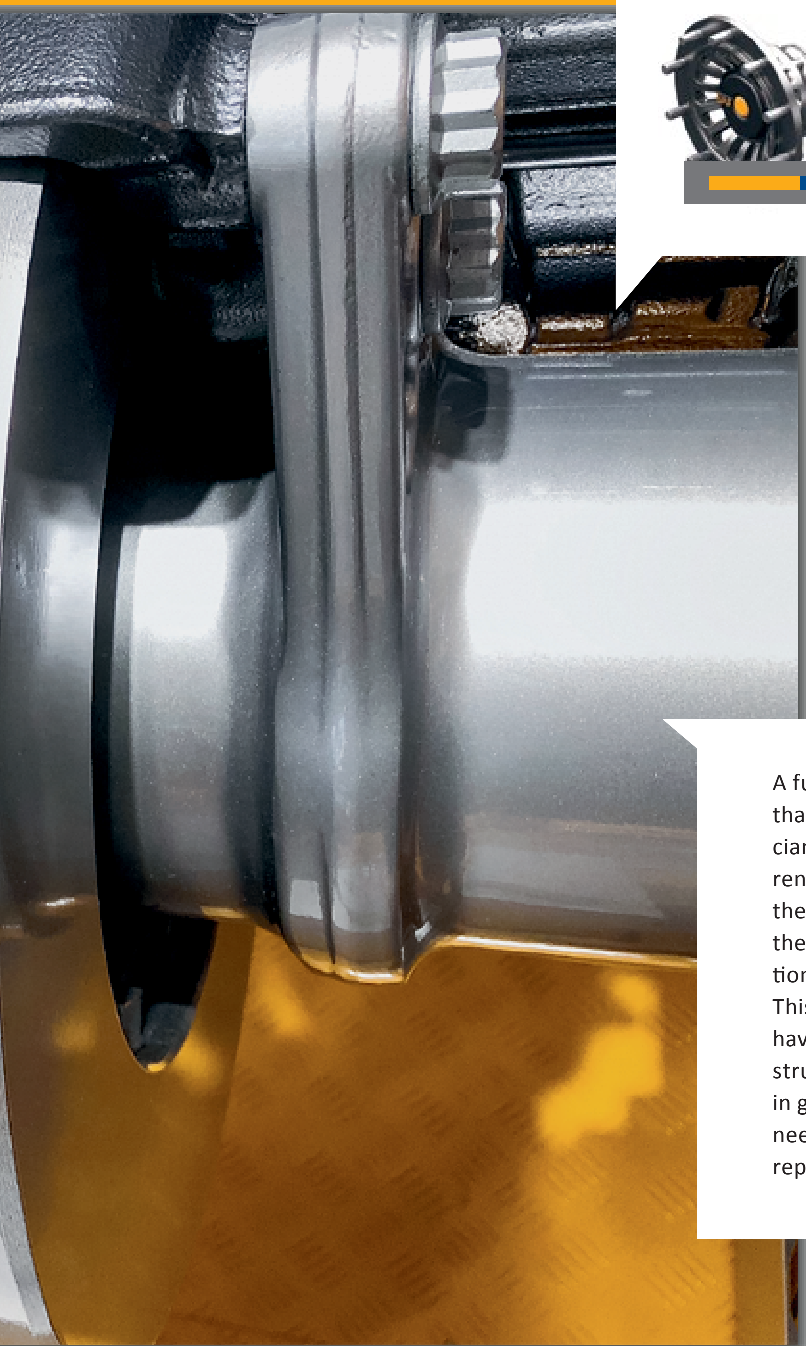
Order catalogue

Hub unit
Part number: 03307304502

Disc break – INTEGRAL
Part number: 04079001303

Rubber bearing bush
Part number: 04177302800

SAF-HOLLAND is developing a future service app using augmented reality technology for the first time. This app will enable service technicians to use the camera function of an end device to identify axles by their applied codes. Technicians are then able to see a virtual model of the axle on a display and examine it from all sides, as if it were physically there. The technician can see an animated video demo of a component, such as a brake caliper, by tapping the axle's image on the screen. Technicians can also retrieve additional information about individual components via a direct link to SAF-HOLLAND's spare parts shop, where they can order new parts such as brake pads. Short video tutorials are also available for more complex repairs, such as brake caliper repairs.



A future edition of the service app is planned that will enable the app to speak to the technician. The idea comes from an everyday occurrence in the repair shops, where employees get their hands dirty. Instead of typing or wiping the screen, the technician can ask the app questions, which the app then answers out loud. This ability is still in the making. Users currently have to pay closer attention to their sentence structure and grammar when the area they are in gets louder. Therefore, more development is needed before this technology can be used in repair shops in all settings.

SAF-HOLLAND already presented the first prototype of the new app at two trade shows last year. “The response has been thoroughly positive, from both trailer manufacturers and repair shop owners,” says Alexandre Charpiot, Vice President Sales Original Equipment and Aftermarket Europe at SAF-HOLLAND. Research is still needed, however, before the technology is ready for everyday use in the repair shop. The real challenge is what is called “tracking.” Tracking ensures that the virtual model of the product in question is placed over the actual object. Reference points cannot be used to determine the spatial location in a repair shop, and dirty or damaged components make tracking much more difficult.

SAF-HOLLAND intends to have all of the remaining technical issues solved over the next two to three years. Even so, the company is already thinking about the apps next phase of expansion where LISA will also be able to have actual conversations with service technicians.

At the end of 2018, SAF-HOLLAND introduced a new content management system for technical documentation so that the company can one day feed digital assistants with the right content. The goal is to migrate 80 percent of all of the relevant documentation to the new system. The rest will be reconstructed based on the new requirements. SAF-HOLLAND already offers digital capabilities to 10,000 service contract partners worldwide – and the plan is to significantly expand this. Today, the company’s partners already have the possibility to order spare parts from any smartphone using the “SH Connect” catalog app via an online portal. SAF-HOLLAND has been right in line with the trend with this app: direct customers, mainly wholesalers and intermediaries, are reporting a steady rise in the number of online orders from repair shops.

Interview with Alexandre Charpiot

Mr. Charpiot, what are SAF-HOLLAND’s strategic goals in the aftermarket?

Alexandre Charpiot: As our original equipment business grows, so does the worldwide installed base of trailers equipped with our axles. As a result, we have been able to record a significant increase every year in Europe for the past several years. It will take some time for this to carry over to the aftermarket business. The first brake pad change is usually not required until after the first two years, and the replacement of the brake disc is generally only necessary after at least three years. Our most important goal in the aftermarket business is that customers use the original spare parts we manufacture for their maintenance. We have to gain the confidence of dealers and service outlets. Digital offerings such as our service app have proven to be a good way to generate customer loyalty.

The commercial vehicle manufacturers have already recognized this as well ...

Alexandre Charpiot: Yes, it’s true that all commercial vehicle manufacturers are working to make the most of their service network, and this includes digital offers. Incidentally, they are also taking over an increasing share of the trailers’ maintenance as the service intervals for tractors continue to grow longer. This is the reason why we work together with a number of manufacturers in the aftermarket.

“We want to create a positive customer experience.”

Alexandre Charpiot

Alexandre Charpiot, Vice President Sales OEM & Aftermarket Europe

How do digital tools such as service apps benefit repair shops?

Alexandre Charpiot: The shortage of skilled workers in the service area is already very evident today and is expected to intensify even more in the years ahead. Digitally guided repairs are therefore gaining in importance. And although I don’t believe digital tools can be used to replace all training, I do believe these apps will make it easier to keep repair staff up to date on topics that go beyond what is taught in classroom training. In fact, we use some of the same digital content for our service app that we use in our training courses. We are also working on a pure online training offer via our recently introduced e-learning portal. This type of offer can also serve as a boost to our original equipment business. We won a large OEM order in the US simply because we had promised the manufacturer that he could train his sales team with our portal.

What is your general approach to developing digital offers?

Alexandre Charpiot: Our goals for digitalization are completely separate from our goals in the aftermarket. Our aim in the aftermarket is to ensure that customers are satisfied with their SAF-HOLLAND products over the entire life of their vehicle. In the digital world, this means creating a positive customer experience. This is the reason we do not develop our digital services in a vacuum but instead bring our own service technicians on board for the service app.

Imprint

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

Editorial office
Michael Schickling, SAF-HOLLAND Group
Alexander Pöschl, SAF-HOLLAND Group

Concept and Design
3st kommunikation GmbH

Digital
3st digital GmbH

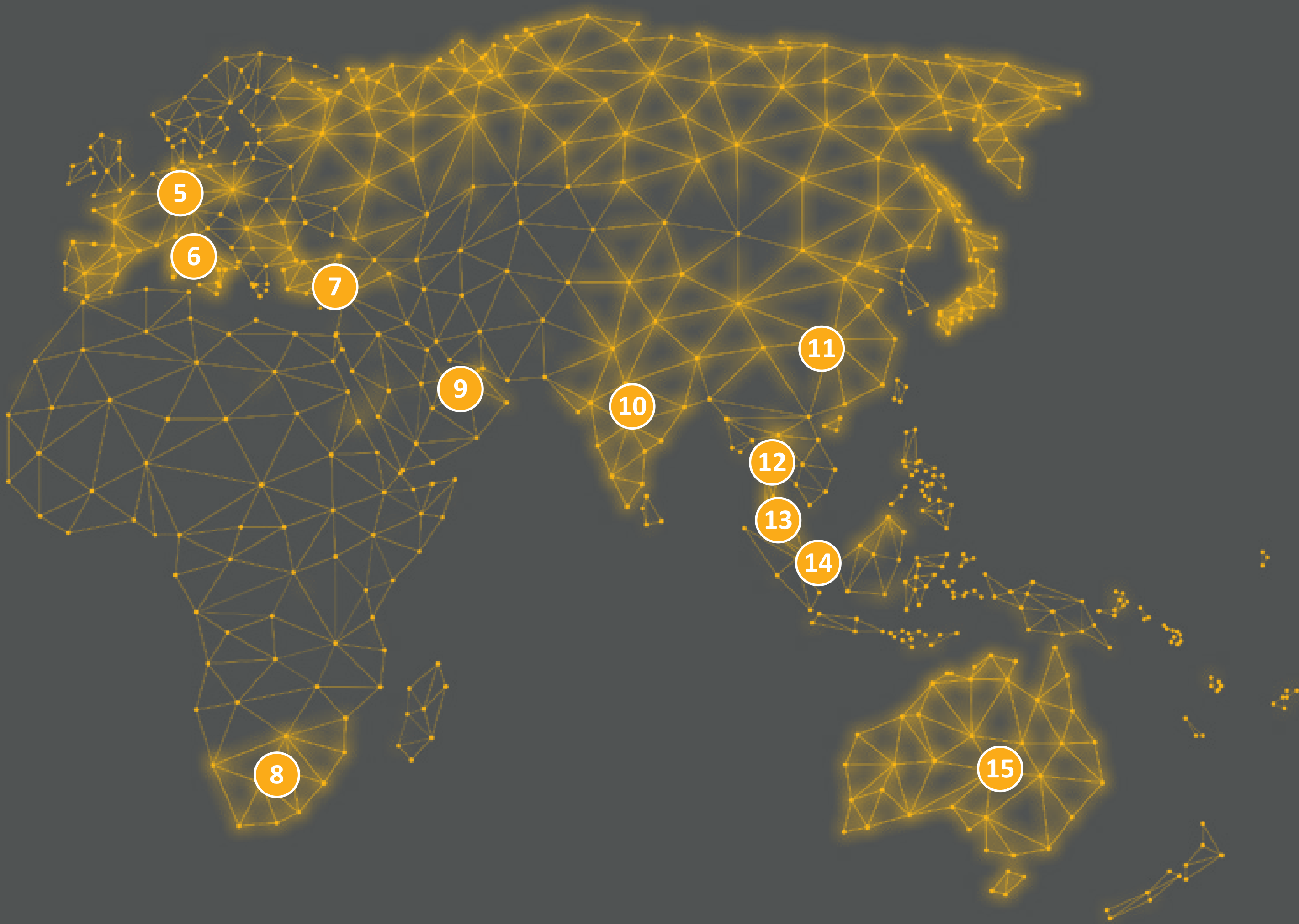
Video / Digital
Content4Marketing

Images
Matthias Haslauer

Translation
Klusmann Communications

This report is available in German and English. Both versions are also available on the Internet at gb2018.corporate.safholland.com (German) and ar2018.corporate.safholland.com (English).

SAF-HOLLAND Production Sites



SAF-HOLLAND Production Sites

1 **CANADA**
Woodstock

2 **USA**
Cincinnati, OH
Dumas South, AR
Dumas North, AR
Nashville, TN
(as of Jan. 2019)
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **MEXICO**
Querétaro City

4 **BRAZIL**
Alvorada

5 **GERMANY**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

6 **ITALY**
Flero (Brescia)
Nave

7 **TURKEY**
Düzce

8 **SOUTH AFRICA**
Johannesburg

9 **UNITED ARAB EMIRATES**
Dubai

10 **INDIA**
Pune

11 **CHINA**
Baotou
(until Dec. 31, 2018)
Beijing
(as of Jan. 2019)
Xiamen
Qingdao
Yangzhou
(as of second half of 2019)

12 **THAILAND**
Bangkok

13 **MALAYSIA**
Kuala Lumpur

14 **SINGAPORE**

15 **AUSTRALIA**
Melton

This annual report is also available with interactive media and additional footage on the Internet at **ar2018.corporate.safholland.com.**

www.safholland.com

ANNUAL REPORT

The Business Year 2018

CONTENTS

04
TO OUR SHAREHOLDERS

17
MANAGEMENT REPORT

79
SUSTAINABILITY

Our annual report is also available on the Internet at ar2018.corporate.safholland.com

83

CONSOLIDATED FINANCIAL STATEMENTS

159

ADDITIONAL INFORMATION

LETTER FROM THE CEO

Alexander Geis, Chief Executive Officer (CEO)

Ladies and Gentlemen,
Dear Shareholders and Investors,

2018 was in many ways an eventful year for SAF-HOLLAND. Group sales exceeded the EUR 1.3 billion threshold for the first time. Two factors were major contributors to this performance. For one, our organic sales grew a remarkable 12 percent, outpacing the market growth in virtually all regions, which enabled us to continue to consolidate our market position. This positive performance was in response to the successful market launch of new products and, particularly, the innovative and pioneering solutions in the areas of disc brake technology and lightweight construction.

In addition, our sales development was positively influenced by the acquisitions of V.ORLANDI and the York Group. Both companies have fully met our expectations. What is even more significant than the volume of business gained is the strategic importance these companies have for SAF-HOLLAND. York has given us a foothold in India, which is one of the fastest growing trailer markets worldwide. It has also opened up our access to other promising markets in the Asia-Pacific region, such as Thailand, Indonesia and Vietnam. With the acquisition of V.ORLANDI, we are expanding our product range to include coupling systems for agricultural and forestry vehicles and special applications in the mining sector. At the same time, V.ORLANDI helps us to consolidate our position as the number two in Europe for fifth wheel couplings.

With the acquisition of the British company Axscend, we added an application for digital trailer management to our product portfolio. With this application, important trailer data from components such as the brakes, lights and tires can be evaluated. We can now provide fleet managers with information about the condition of their fleets in real time; a crucial prerequisite for being able to further optimize their processes and costs. Together with our own new developments, which we presented at last year's IAA Commercial Vehicles, we are reasserting our claim as a pioneer in the development of innovative customer solutions today and in the years to come.

Turning to the restructuring of our North American production network; despite the progress we made in the 2018 financial year, the higher-than-expected customer demand and related supply bottlenecks slowed down the anticipated reduction in our start-up costs. In addressing this situation, SAF-HOLLAND had made a deliberate decision to make timely delivery to customers and defending its market share its top priorities. The additional expenses that resulted, coupled with sharply higher steel prices, led us to revise our original target for the EBIT margin.

The further stabilization of our processes in North America and an accompanying improvement in our cost structures will be the focus of our efforts in the current financial year. These goals are also reflected in the recent changes that were made to the Group Management Board. On January 1, 2019, Dr. André Philipp assumed responsibility as Chief Operating Officer (COO) for all of the Group's production sites. His core tasks include optimizing the processes and launching an efficiency enhancement program specifically aimed at the North American production network. The expansion in the Board and the appointment of Mike Ginocchio as President APAC underscore the growing importance of the Asian market for SAF-HOLLAND. In my role as the new chair of the Group Management Board, I will pay particular attention to optimizing the Group-wide processes and structure alongside my responsibility for the EMEA region and global procurement.

2019 will be a transitional year. Many of the goals we set for the 2020 growth strategy have either already been achieved or are within reach. We have made significant progress in recent years, especially in our quest to become a global player. Since we presented our Strategy 2020 in the year 2014, we have increased Group sales by approximately 35 percent. With the acquisition of KLL in 2016 and York in 2018, we have significantly expanded our position in the emerging markets. And, this year, our new plant in China will start production. This will be not only SAF-HOLLAND's most modern plant but also its largest in terms of capacity. We believe the overall conditions in our industry will be challenging in 2019. However, thanks to our strong position in structurally growing market segments, we expect to be able to increase our sales by 4 to 5 percent in the current year. We also expect to achieve an adjusted EBIT margin around the mid-point of the range of 7 to 8 percent. We are standing by our goal of achieving an adjusted EBIT margin of at least 8 percent by 2020.

I am convinced that SAF-HOLLAND is well positioned given its product range, innovative strength and broad positioning in the three major commercial vehicle markets. We would like to sincerely thank you for the confidence that you have placed in your company and in us, and we look forward to continuing with you on the course ahead.

Sincerely

Alexander Geis
Chief Executive Officer (CEO) and
Chairman of the Group Management Board

GROUP MANAGEMENT BOARD

ALEXANDER GEIS

Chief Executive Officer (CEO)
Chief Procurement Officer (CPO)
President EMEA region

Since February 26, 2019, CEO of SAF-HOLLAND.

Since January 1, 2019, Chief Procurement Officer, and since January 1, 2016, President of the EMEA region .

Since 1995 at SAF-HOLLAND, among others in sales and later responsible for the Aftermarket business

MBA degree from the University of Maryland

DR. MATTHIAS HEIDEN

Chief Financial Officer (CFO)

Since March 1, 2017, Chief Financial Officer (CFO) of SAF-HOLLAND

Previously, executive finance positions at SAP, among others CFO of SAP Germany and Middle and Eastern Europe

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

DR. ANDRÉ PHILIPP

Chief Operating Officer (COO)

Chief Operating Officer (COO) of SAF-HOLLAND since January 1, 2019

Previously held executive positions at HELLA Group and Deutz Dalian Engine Co. Ltd., including CTO and COO

Holds a PhD in Economics and a degree in industrial engineering

STEFFEN SCHEWERDA

President Americas region

Since January 1, 2016, President of the Americas region

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

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

GUOXIN MAO

President China

Since July 1, 2016, President 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

MIKE GINOCCHIO

President APAC region

President of the APAC region since January 1, 2019

Has held several executive positions at SAF-HOLLAND since 1995

Juris Doctor,
Chicago Kent College of Law, Chicago

REPORT OF THE BOARD OF DIRECTORS

Martina Merz, Chair of the Board of Directors

Ladies and Gentlemen,
Dear Shareholders and Investors,

2018 was a financial year in which we, as the Board of Directors, we were able to set the course for the sustainable success of the company together with the Group Management Board. The successful implementation of our 2020 growth strategy and its further development looking forward to the year 2025 was a particular focus of our work. This past year, we completed three acquisitions and substantially expanded our market position and technology base. We were also able to raise our forecast several times during the year. At the same time, however, we were also faced with unexpected burdens due to extremely high capacity utilization and the sharp increase in steel prices in North America. As a result, we did not fully achieve our original earnings target.

The Board of Directors placed a special focus on the North American business this financial year by launching the Special Committee North America in the fourth quarter. This committee was set up to consult with the local management and Group Management Board. The Board of Directors was intensely involved in the search for a Chief Operating Officer and subsequently appointed Dr. André Philipp as the Company's new COO. Dr. Philipp is an established expert who brings important reinforcement to the Group Management Board. In his role, Dr. Philipp will pay particular attention to the North American operations and specifically to the processes of the Group-wide plant network, including optimizing and standardizing the process chains to reach the highest level of operational efficiency possible at all plants.

Next to focusing on the challenges that naturally arise in business operations after a period of strong growth, increasing internationalization and higher complexity, I and my colleagues on the Board of Directors place a strong emphasis on preparing the company for its next phase of corporate development. This preparation encompasses several levels within the company, from employee leadership to the processes and products – in an effort to ensure that SAF-HOLLAND remains a lasting pioneer and continues to strengthen its position during the technological and macroeconomic changes in the years ahead. I am very confident that we will be successful and would like to thank you for your trust in us as we embark on this phase of development.

COOPERATION BETWEEN THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT BOARD

The Board of Directors conscientiously carried out its duties in the 2018 financial year in accordance with the law, Articles of Association and Rules of Procedure. It regularly advised the Group Management Board on operational management and oversaw the conduct of business. The Group Management Board informed the Board of Directors promptly, regularly and comprehensively about all material events and developments related to the Company, both in writing and verbally. The focus of these exchanges was the development of orders, sales and earnings. The Board of Directors and the Group Management Board worked closely together to align the Group's strategic direction and mutually discussed market developments alongside the topics of risk management, compliance and the Group's financial situation. The Board of Directors was also involved in sustainability issues and the non-financial reporting of the SAF-HOLLAND Group. In this context, the Board of Directors specifically discussed employee, social and environmental issues, as well as respect for human rights and the fight against corruption and bribery. Matters requiring approval were submitted by the Management Board in good time and approved after a thorough review by the Board of Directors.

KEY TOPICS OF DISCUSSIONS

As in the previous year, acquisitions were one of the main topics discussed by the Board of Directors during the reporting year. The Board was particularly involved in the acquisitions of V.ORLANDI S.p.A., York Transport Equipment (Asia) Pte. Ltd. and Axscend Ltd. announced during the year. Following the closing of the acquisitions, the Board of Directors also kept up-to-date with the progress made in integrating these companies into the Group. The Board concerned itself with a number of other possible acquisition targets, discussing not only the financial aspects but especially the strategic objectives.

Personnel decisions were another key topic in the discussions and particularly the search and selection of a new Chief Operating Officer (COO). At the end of December 2018, this search ended successfully with the appointment of Dr. André Philipp. The Board of Directors also appointed Alexander Geis as Chief Procurement Officer (CPO) of the Group, in addition to his role as President of the EMEA region. As of January 1, 2019, Mike Ginocchio, who was previously Vice President of the APAC/China region, was appointed President of the APAC region and a new member of the Group Management Board. Also during the reporting year, the Board of Directors gave consideration to the overall talent management in the Group and succession planning for senior management.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met for a total of six meetings during the 2018 financial year. Five of the meetings were conducted in person, and one was held as a conference call. At least one meeting took place in every quarter. All meetings, as well as the respective committee meetings, were fully attended by all members of the Board of Directors.

	Meeting days (incl. Committee meetings)	Meetings attended	Attendance in %
Martina Merz (Chair)	23	23	100 %
Dr. Martin Kleinschmitt (Vice Chair)	23	23	100 %
Detlef Borghardt	11	11	100 %
Jack Gisinger	19	19	100 %
Anja Kleyboldt	19	19	100 %
Carsten Reinhardt	23	22	96 %

In the meeting in the period from March 13 – 15, 2018, the focus was 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 thorough examination. The Board of Directors also approved the agenda for the 2018 Annual General Meeting, which included the proposal for the reappointment of PriceWaterhouseCoopers Société Coopérative (PwC) as the external auditor for the 2018 financial year. The Board of Directors attended to the SAF-HOLLAND Group's first sustainability report for the 2017 financial year. The Board also reviewed the efficiency and effectiveness of its work and those of its committees as part of a self-assessment carried out with external support.

In its second meeting on May 3, 2018, the Board of Directors focused on the report on business development in the first quarter of 2018 as well as an analysis of the IT business unit and the digitization of business processes and quality management. This focus was in step with a decision by the Board of Directors in the prior year to regularly obtain a detailed picture of all areas critical to the Company's success. Among others, this also includes an assessment of the related investment planning.

The meeting on August 10, 2018, was conducted as a conference call. The main issue addressed in this meeting was the business development in the second quarter of 2018. The Board also dealt extensively with the situation in North America and the measures initiated to improve the region's earnings situation. Additionally, the Board of Directors discussed setting up a holding company to consolidate its existing activities in China. In this context, the Board further decided to purchase the outstanding 20% stake in Corpco Beijing Technology and Development Co., Ltd.

The Board of Directors held a two-day meeting from August 22 – 23, 2018, during which it discussed current business performance, as well as the development and outlook for the EMEA region's aftermarket business. Other topics included the budget for the upcoming financial year and the medium-term planning until 2023.

From November 6 – 7, 2018, the Board of Directors held another two-day meeting. Next to the appointment of Dr. André Philipp as Chief Operating Officer (COO), the focus of this meeting was primarily a review of the 2018 third quarter business performance and an update of the budget. In relation to this, the Board again thoroughly discussed the business development in North America. Other key topics included an analysis of the business development in the APAC/China region and the progress made in integrating the York Group into the existing Group structures. The Board of Directors also approved a draft for a new format for the remuneration report. For the first time, the Company will publish the compensation of the members of the Group Management Board on an individual basis as of the 2018 financial year in accordance with the requirements of the German Corporate Governance Code.

The final meeting of the year took place from December 6 – 7, 2018. As usual, the focus was on the budget for the upcoming year, mid-term planning and the performance targets for the Group Management Board. At this meeting, the Board of Directors adopted new rules of procedure as a building block to further intensify the professionalization of the Board of Directors' work in 2018. The rules of procedure can be viewed on the Company's website. The Board of Directors adopted the new competency profile and dealt with the future composition of the Board of Directors.

The Board of Directors also met regularly during the financial year without the participation of the members of the Group Management Board.

WORK OF THE COMMITTEES

The Board of Directors receives support for its work from a total of four committees. In holding discussions and preparing for complex issues in these smaller groups, the Board of Directors aims, above all, to increase its efficiency. To facilitate this, the committees are delegated individual decision-making powers to the extent this is permitted by law. For information on the composition of the individual committees, please refer to the information in the corporate governance chapter starting on page 31.

AUDIT COMMITTEE

The Audit Committee met on four occasions during the reporting year. This Committee primarily dealt in depth with the annual financial statements, quarterly results, risk management and the results of the audit and compliance reviews and the status of implementation of the General Data Protection Regulation. During the reporting year, the Audit Committee also discussed the conclusion of a revolving credit facility with an expanded banking syndicate. The content of these meetings was presented to the Board of Directors and submitted for the Board's approval when required.

REMUNERATION COMMITTEE

The Remuneration Committee met five times in 2018 and, among other matters, dealt with the determination and review of the Group Management Board's remuneration. The services of an external advisor specialized in remuneration matters were used to perform this task.

NOMINATION COMMITTEE

The Nomination Committee, established in the 2018 financial year, met twice during the reporting year. The focus of this committee during the reporting year included finding a successor for the COO position. The Nomination Committee used the services of a recruitment company in the reporting year to fill executive positions.

SPECIAL COMMITTEE NORTH AMERICA

In the fourth quarter of 2018, the Board of Directors also established the Special Committee North America, which met for the first time in December. The purpose of this committee is to provide regular updates on the progress made in North America and maintain close contact with the Group Management Board and the management team in North America.

CORPORATE GOVERNANCE

SAF-HOLLAND S.A. is a Luxembourg-based Société Anonyme (S.A.), which is listed exclusively in Germany. As such, SAF-HOLLAND S.A. is subject to the corporate laws in Luxembourg and not those of Germany. Consequently, the Group is not required to comply with the German corporate governance regulations that apply to listed German companies. Nevertheless, because SAF-HOLLAND S.A. considers the German Corporate Governance Code an important foundation for responsible corporate governance, it is committed to complying with certain recommendations of the Code on the principles of good corporate governance.

During the 2018 reporting year, the Board of Directors intensely dedicated itself to the issue of corporate governance. The 2018 Declaration of Conformity on the recommendations of the German Corporate Governance Code was submitted by the Board of Directors of SAF-HOLLAND on March 15, 2018. The current Declaration of Conformity submitted on March 20, 2019, is available on the Company's homepage.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTS REVIEW MEETING

PricewaterhouseCoopers Société Coopérative (PwC) audited the December 31, 2018, 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 Declaration of Conformity on the German Corporate Governance Code, 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 Board of Directors discussed the results of the audit at its meeting on March 19, 2019. The auditor was present for portions of that meeting and presented his key audit findings and answered Board members' questions. The Board of Directors approved both PwC's audit results and the consolidated financial statements as submitted. The Board of Directors endorsed the Group Management Board's proposal for the appropriation of retained earnings and recommended proposing an unchanged dividend per share of EUR 0.45 (previous year: EUR 0.45) for the 2018 financial year for the 2018 financial year at the Annual General Meeting on April 25, 2019.

The Board of Directors would also like to thank all of the employees, the employee representatives and the Management Board for their tremendous dedication and valuable contribution during the 2018 financial year.

Luxembourg, March 20, 2019

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 HINDERED BY UNFAVORABLE MARKET AND SECTOR ENVIRONMENTS

2018 was a disappointing year for the German stock market. After starting the year on an encouraging note, growing concerns about the escalating trade dispute between the US and China, the European Union and other states began to emerge. In the second half of the year, the stock market was additionally weighed down by the deteriorating economic outlook in Europe and China, uncertainties surrounding the impending Brexit, the budgetary plans of the new Italian government and fears of excessive interest rate hikes in the US. In this environment, the DAX lost 18.3 % of its value in 2018, and the SDAX small-cap index, whose companies are more dependent on the domestic economy than global trade, also lost 20.0 % for the year.

Shares of the German car manufacturers and suppliers also suffered from a number of sector-specific issues, including concerns about higher import duties on European cars in the US, a decline in production resulting from the new WLTP emissions tests and the continued diesel ordeal. All of this contributed to a 27.2 % decline in the relevant sector index, the DAXsector Automobile, which significantly underperformed the DAX in 2018.

SAF-HOLLAND shares failed to escape the effects of the adverse sector environment in 2018. The change in the forecast for the adjusted EBIT margin in 2018 also weighed on the share price. And after closing at an all-time high of EUR 19.91 on January 12, 2018, the share price corrected and reached the year's low of EUR 10.83 on December 17. SAF-HOLLAND shares went on to end the year at EUR 11.20, corresponding to a price decline of 37.6 %.

TRADING VOLUME IN SAF-HOLLAND SHARES INCREASES ALMOST 30 %

The average daily trading volume in SAF-HOLLAND shares on all German stock exchanges – a key investment criterion, particularly for institutional investors – increased 28.8 % to approximately 149,800 shares in 2018 (previous year: 116,300). The daily turnover in the SAF-HOLLAND share increased by 23.9 % to EUR 2.2 million (previous year: EUR 1.8 million). The rise in trading volume was in part due to the change in the shareholder structure during the reporting year (see the section entitled "Shareholder structure" on page 14).

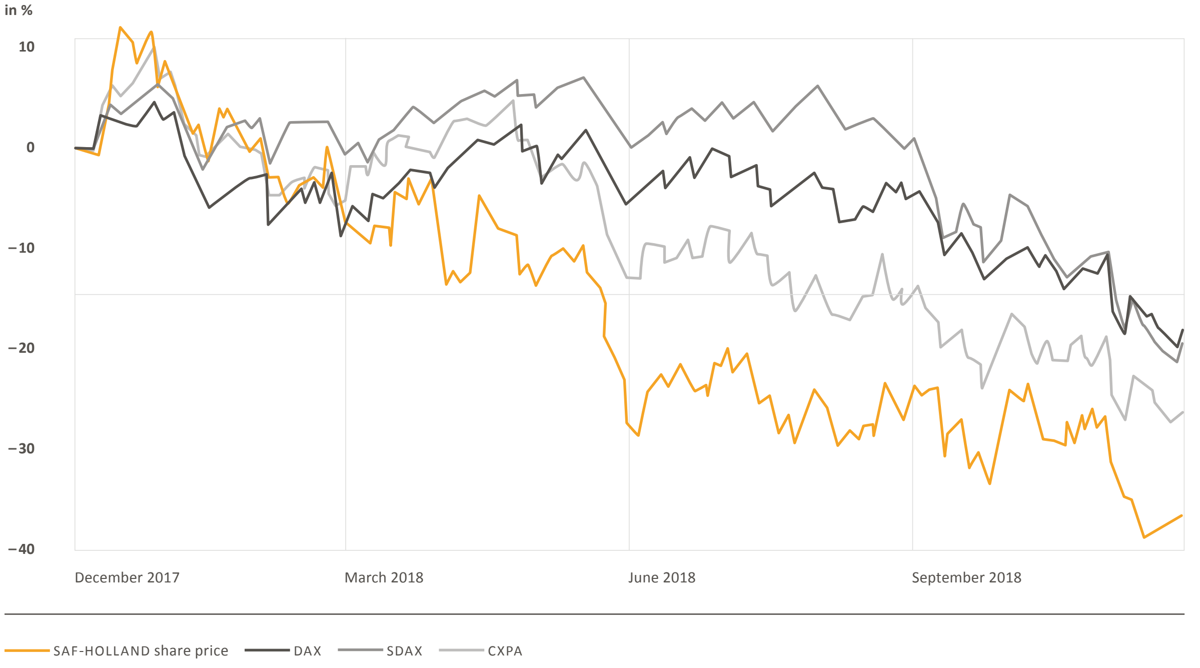
For the past several years, however, the importance of the trading volume on the regular German stock exchanges has been declining steadily. In 2018, Xetra and Tradegate together accounted for 36 % of the total trading volume in SAF-HOLLAND shares (previous year: 44 %) with the regional stock exchanges accounting for well below 1 % (previous year: just over 1 %). This is in contrast to alternative trading venues which, combined, accounted for over 60 % of trading volumes in the reporting year. These venues include so-called dark pools (such as Turquoise and Blockmatch) and other over-the-counter trading platforms such as CBOE. These venues are used, above all, by investment banks, brokerage firms and institutional investors who prefer to deal with each other directly.

POSITION IN THE INDEX RANKING

In September 2018, Deutsche Börse AG reformed its regulations governing the composition of its selection indices. The existing division between technology sectors and traditional sectors was abandoned, opening up both the MDAX and SDAX indices for technology companies. At the same time, Deutsche Börse expanded the MDAX from 50 to 60 stocks, and the SDAX increased from 50 to 70 stocks.

In the SDAX, SAF-HOLLAND ranked midrange among index members, landing in 41st place in terms of free float market capitalization and 36th place based on trading volume, respectively.

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 AGAIN IN 2018

In June 2018, SAF-HOLLAND was again the recipient of two coveted German Investor Relations Awards, awarded annually by the German Investor Relations Association e.V. (DIRK) in cooperation with the business magazine WirtschaftsWoche and corporate access company We-Convene Extel. SAF-HOLLAND ranked second for its investor relations activities for companies listed in the SDAX. SAF-HOLLAND also won the prize for the best Investor Relations Manager in the SDAX for the second consecutive year. SAF-HOLLAND sees these awards as a sign of acknowledgment and recognition for its investor relations' efforts over the past several years. They also give the Group an incentive to continue to maintain its policy of open and constructive communications with the capital markets.

INVESTOR RELATIONS ACTIVITIES CONTINUE TO EXPAND

Within the scope of its investor relations activities, the Group provides comprehensive, timely and transparent information on current business developments, strategic objectives and today's trends in the truck and trailer markets. The department's focus is on preparing and hosting investor and analyst conferences on the annual financial statements, including regular telephone conferences with the publication of the quarterly figures. SAF-HOLLAND also maintains close contact with investors, analysts, journalists and other capital market participants via personal discussions, investor conferences and roadshows.

In 2018, SAF-HOLLAND deliberately expanded its investor relations activities. This expansion included hosting a total of seven roadshows and a focus on not only the London and Paris financial centers but also the Benelux countries, Scandinavia and Switzerland. The Company attended eight capital market conferences in Germany and abroad, during which members of the Group Management Board and the Investor Relations team presented the Group's current business developments and growth prospects and reported on the progress of the implementation of the strategic objectives. Another highlight of last year's activities was the Capital Markets Day held in September during the IAA Commercial Vehicles Exhibition, which received an excellent response. Along with presentations by the CEO, CFO and Vice President Digital & Strategy, visitors had the opportunity to talk to specialists from the R&D departments while touring the exhibition booth.

The interest from the capital markets in SAF-HOLLAND was evident by the large number of company visits from investors and analysts. SAF-HOLLAND gave visitors an insight into the production and engineering areas. In addition to the plant tours, the key topics of interest included technology trends in the areas of weight reduction and digitization, as well as the future outlook for the Company.

Further detailed and up-to-date information on SAF-HOLLAND's shares and convertible bonds is published on the Investor Relations website at http://corporate.safholland.com/en/investor-relations. Here you will find important figures, current financial news and information about the Annual General Meeting, along with reports, presentations and recorded conference calls.

SAF-HOLLAND's website also now features analyst consensus estimates, giving investors a tool they can use at any time to find the sales and earnings expectations for the current quarter and the full year. This data is provided directly by the analysts to Vara Research, which ensures that the process remains independent and objective.

PREDOMINATELY POSITIVE ANALYST RATINGS; AVERAGE PRICE TARGET EXCEEDS EUR 18.00

SAF-HOLLAND is followed and analyzed by both national and international banks and research companies. At the end of 2018, a total of 12 brokers covered SAF-HOLLAND shares. Of these, ten analysts recommended either buying the stock or believed that SAF-HOLLAND shares would outperform the overall market. Two of the recommendations were "hold" and "accumulate." The analysts' price targets ranged from EUR 13.80 to EUR 23.00. The average price target was approximately EUR 18.23, implying significant upside potential versus the current share price.

Analyst Ratings as of December 31, 2018

Bankhaus Lampe	Buy
Berenberg	Buy
Commerzbank	Buy
Deutsche Bank	Hold
equinet	Accumulate
Hauck & Aufhäuser	Buy
HSBC	Hold
Kepler Cheuvreux	Buy
MainFirst	Outperform
M.M. Warburg	Buy
Montega	Buy
ODDO BHF	Buy

The latest analyst ratings are available on the Investor Relations website under the menu item "Share."

SHAREHOLDER STRUCTURE: PROPORTION OF INSTITUTIONAL INVESTORS RISES ABOVE 25 %

SAF-HOLLAND shares are widely held. According to the definition of Deutsche Börse AG, 100 % of the shares of the Company are in free float. 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.

Based on the voting rights notifications available to SAF-HOLLAND, five institutional investors held more than 5 % of the Company's share capital as of December 31, 2018:

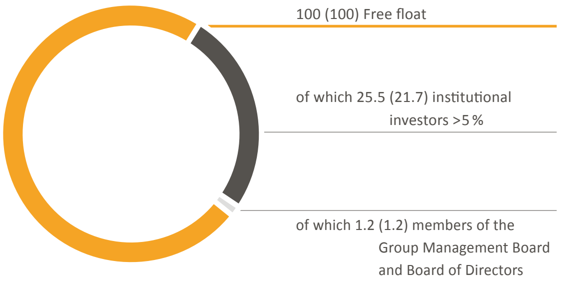
Shareholder name	% share of notified voting rights
Times Square Capital, USA	5.19 %
NN Group N.V., NL	5.16 %
Kempen Oranje Participaties, NL	5.07 %
Nordea 1 SICAV, LUX	5.06 %
Union Investment Privatfonds, D	5.04 %

The share of institutional investors with holdings of more than 5 % of the Company's share capital increased to 25.5 % compared to the previous year (previous year: 21.7 %).

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

Shareholder structure 2018

in %



Status: December 31, 2018

2018 ANNUAL GENERAL MEETING RESOLVES DIVIDEND INCREASE TO EUR 0.45 PER SHARE

In accordance with a proposal from the Board of Directors, the Annual General Meeting of SAF-HOLLAND S.A. on April 26, 2018, resolved to distribute a slightly higher dividend of EUR 0.45 per share (previous year: EUR 0.44) for the 2017 financial year. This dividend corresponded to a total payout of around EUR 20.4 million (previous year: EUR 20.0 million) and a payout ratio based on the result for the period of 49.9 % (previous year: 45.9 %) and 47.6 % of the result for the period attributable to parent company shareholders (previous year: 45.1 %). This represents a continuation of SAF-HOLLAND's long-term dividend policy that generally aims to distribute between 40 % and 50 % of the result for the period to shareholders. Based on SAF-HOLLAND's closing share price for the 2017 financial year, the dividend yield amounted to 2.5 % (previous year: 3.2 %).

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 19.91/EUR 10.83
Year-end closing price[1]	EUR 11.20
Market capitalization	EUR 508.4 million

[1] XETRA closing price

CORPORATE BOND OVERVIEW

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 feature an interest coupon of 1.0 % and mature on September 12, 2020. The first conversions into SAF-HOLLAND S.A. shares took place in the 2017 financial year, reducing the outstanding nominal volume of the convertible bonds to EUR 99.8 million.

Due to the cash dividend payment to the SAF-HOLLAND S.A. shareholders resolved by the 2018 Annual General Meeting, the conversion price and conversion ratio were adjusted in accordance with the bond conditions. As of April 27, 2018, the adjusted conversion price has been EUR 11.9235 (previously: EUR 12.0517) and the adjusted conversion ratio has been 8,386.7992 (previously: 8,297.5846).

The price of the convertible bond declined in 2018, in step with the development of SAF-HOLLAND's share price. After ending the 2017 financial year at a closing price of 139.0 %, the bond closed on December 28, 2018, at 105.3 %, corresponding to a price decline of 24.2 %.

The convertible bond prices and important key figures and conditions can be found on the Investor Relations website under the menu item "Share."

SAF-HOLLAND CORPORATE BOND REDEEMED ON SCHEDULED

On April 26, 2018, SAF-HOLLAND redeemed its 2012 corporate bond on schedule. The bond had a nominal volume of EUR 75.0 million and a coupon of 7.0 %.

COMPANY'S BBB CREDIT RATING WITH STABLE OUTLOOK RECONFIRMED

On April 5, 2018, 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 highlighted SAF-HOLLAND's excellent market position in axle and suspension systems for trailers in the EMEA region and fifth wheel couplings and suspensions in North America. The rating agency also justified its rating based on SAF-HOLLAND's positive growth prospects by pointing to the increase in global transportation volumes. According to Euler Hermes, the somewhat higher business risk from cyclical fluctuations in the commercial vehicle industry is met only by a low level of financial risk due to the Group's solid capital structure and financial flexibility. Euler Hermes expects the key figures to continue to improve in the years ahead as a result of the goals of the "Strategy 2020" globalization campaign, under which the Company is anticipating growth in new markets. According to the rating agency, the latest acquisitions corroborate the steady implementation of this strategy.

MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

SAF-HOLLAND S.A., located in Luxembourg, is the largest independent listed commercial vehicle supplier in Europe, delivering mainly to the trailer markets. With sales of EUR 1,301 million in 2018, the SAF-HOLLAND Group is one of the leading international manufacturers of chassis-related systems and components, primarily for trailers as well as for trucks and buses. The product range comprises axle and suspension systems, fifth wheels, kingpins and landing gear and is marketed under the SAF, Holland, Neway, KLL, Corpco, V.Orlandi and York brands. SAF-HOLLAND sells its products to original equipment manufacturers (OEMs) on six continents. The aftermarket business delivers the Group's spare parts to the service networks of Original Equipment Suppliers (OES) in addition 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. More than 4,400 committed employees worldwide are already today working on the future of the transportation industry.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

At a share of over 62 %, OEM customers in the trailer industry contribute the majority of SAF-HOLLAND's sales. The various SAF-HOLLAND products account for roughly one-third of the total value of a standard trailer. For many products, such as axle and suspension systems, it is the end customers themselves who determine the trailer specifications and choose their own suppliers. As a result, SAF-HOLLAND's customers include not only trailer manufacturers but also fleet operators. By maintaining direct contact with end customers, SAF-HOLLAND is in constant exchange with fleet operators, ensuring that the Company always has the right solution for the ever-changing customer requirements. The business with OEM customers in the trucking industry accounts for slightly less than 14 % of Group sales.

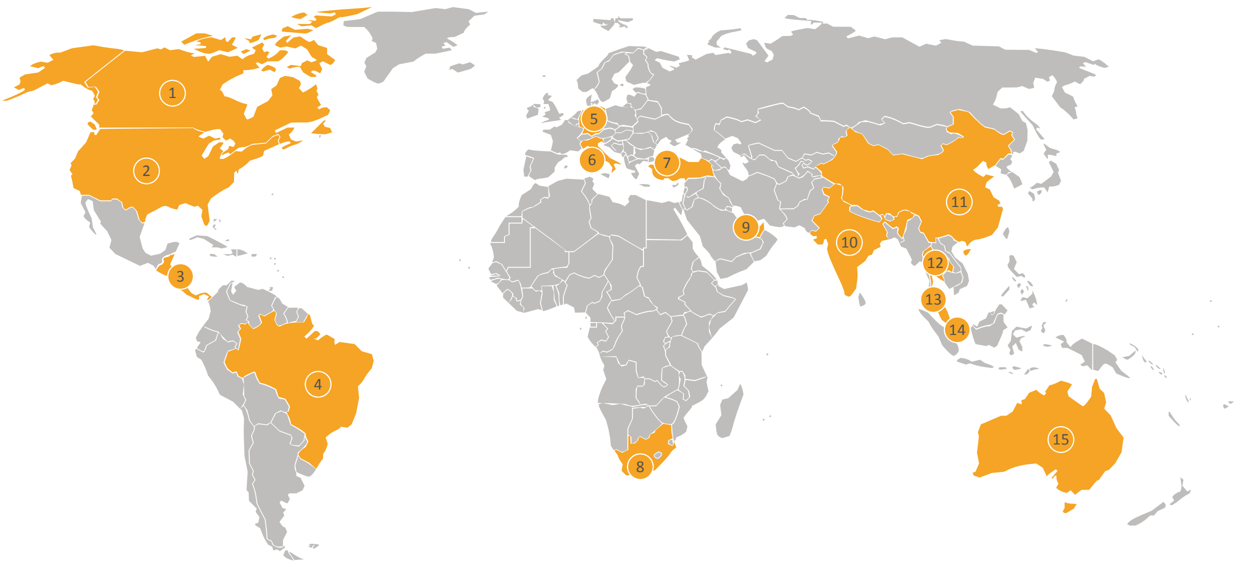
Apart from the original equipment (OEM) business, another key component of the Company's business model is the aftermarket business, which represents almost 24 % of Group sales. With roughly 10,000 spare parts and service stations, alongside dealers and repair shops in over 80 countries, SAF-HOLLAND possesses one of the densest spare parts and service station networks in the industry. Following its acquisition of York in 2018, the Group now also has roughly 200 service stations in India, making it one of the most important suppliers of spare parts and accessories in this country. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers, making it a high barrier to entry for potential competitors at the same time. Because 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 present in all of the world's important truck and trailer markets comprising a total of 26 production locations spread over six continents. In addition to its plants in its core markets of 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.

The Group's key sales markets are still the regions EMEA and Americas. A total of roughly 87 % of sales were generated in these two regions in the reporting year. In addition, SAF-HOLLAND has been continuously expanding its activities outside these established sales markets for several years. The Group has strengthened its position in the BRIC countries through the acquisitions of Brazil's KLL Equipamentos para Transporte Ltda. (2016) and India's York Transport Equipment (Asia) Pte. Ltd. (2018) and its initiation of the construction of a production center in China (2018). In China and Brazil, SAF-HOLLAND is not only active in the truck and trailer sector but also in the segment for bus suspensions.

SAF-HOLLAND production locations



1 **Canada**
Woodstock

2 **USA**
Cincinnati, OH
Dumas South, AR
Dumas North, AR
Nashville, TN
(as of January 2019)
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **Mexico**
Querétaro City

4 **Brazil**
Alvorada

5 **Germany**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

6 **Italy**
Flero (Brescia)
Nave

7 **Turkey**
Düzce

8 **South Africa**
Johannesburg

9 **United Arab Emirates**
Dubai

10 **India**
Pune

11 **China**
Baotou
(until Dec. 31, 2018)
Beijing
(as of January 2019)
Xiamen
Qingdao
Yangzhou
(starting in the
second half of 2019)

12 **Thailand**
Bangkok

13 **Malaysia**
Kuala Lumpur

14 **Singapore**

15 **Australia**
Melton

PRODUCTS: A FOCUS ON QUALITY, PERFORMANCE, INNOVATION AND SAFETY

SAF-HOLLAND's product portfolio is distinguished by its focus on products that are of crucial importance for manufacturers of trucks and trailers in terms of quality, performance, innovation and safety standards. With its lightweight components and the accompanying weight savings, SAF-HOLLAND sets standards in the industry, providing end customers with what they need to optimize their total cost of ownership.

Key products include axle and suspension systems, kingpins and landing gear for trailers, fifth wheel couplings for trucks and suspension systems for vocational vehicles and buses. Whereas customers for the trailer components business are spread over several hundred original equipment manufacturers and a large number of fleet operators, customers for truck components are concentrated among a significantly smaller number of global truck manufacturers and smaller regional suppliers and manufacturers of vocational vehicles.

SAF-HOLLAND sells its original equipment products worldwide under the brands SAF, HOLLAND, NEWAY, KLL, Corpco, V.ORLANDI and York. The SAF brand identifies axle and suspension systems for trailers. The HOLLAND logo is carried by towing and lifting technology products. NEWAY stands for suspensions on tractors and buses. Under the KLL brand, the Group offers air suspension systems for trucks and buses as well as axles and suspension systems for trailers in Brazil, while Corpco offers air suspension systems for trucks and buses in China. SAF-HOLLAND sells coupling systems for trucks, semi-trailers, trailers and special applications under the name V.ORLANDI. The York logo is carried by trailer axle and suspension systems primarily in India but also in several other major transportation markets in the APAC/China region. At a local level, mainly in the Middle East and East Africa, SAF-HOLLAND also uses the

TRILEX brand. SAF-HOLLAND's TrailerMaster brand is the first digital system for analyzing the data collected by semi-trailers. Currently, this system is only available in the UK.

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 under the brands SAUER GERMANY QUALITY PARTS and Gold Line. 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	Towing and lifting technology	Suspensions for vocational trucks and buses

KLL	CORPCO	V.ORLANDI
Air suspensions for trucks and buses and axles and suspension systems for trailers in Brazil	Air suspensions for trucks and buses in China	Coupling systems for trucks, semi-trailers, trailers and special applications

YORK – SIMPLY MILES AHEAD - SINCE 1950
Trailer axles and suspension systems

SAF-Holland ORIGINAL PARTS	SAUER QUALITY PARTS / GOLD LINE QUALITY PARTS
SAF-HOLLAND ORIGINAL PARTS	SAUER QUALITY PARTS and GOLDLINE QUALITY PARTS
is the aftermarket brand for our premium products developed and tested to meet 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

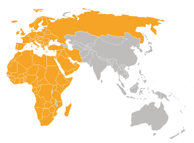
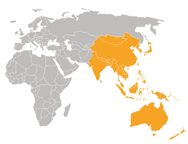
SAF-HOLLAND's core markets – Europe and North America – are largely dominated by oligopolistic competitive structures. Nearly all product segments are controlled by the three largest suppliers who together account for roughly 80-90 % of the market volume. In these markets, SAF-HOLLAND is one of the three leading suppliers in all of the relevant product segments. In Europe, SAF-HOLLAND is the leader in axle and suspension systems for trailers, and in North America, it is the market leader for fifth wheels, landing gear and kingpins.

In the emerging markets, however, market structures are less consolidated. Nevertheless, following the acquisition of York, SAF-HOLLAND is the market leader in India for trailer axle systems. In China, the Group holds the number 2 position in this area.

ORGANIZATIONAL STRUCTURE

As of December 31, 2018, SAF-HOLLAND's Group structure spanned three regions: EMEA, the Americas and APAC/China. Following the acquisition of the York Group in the 2018 financial year, India was reallocated from the EMEA/I region to the APAC/China region. This regional structure reflects the Group's reportable segments and includes both the original equipment and aftermarket businesses. Each segment is fully 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 at the Group level.

Regionally focused structure

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

LEGAL STRUCTURE OF THE GROUP

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 local subsidiaries.

In the 2018 financial year, SAF-HOLLAND acquired the 20 percent stake in Corpco Beijing Technology and Development Co., Ltd., which was still owned by the founding family, making SAF-HOLLAND now the company's sole owner. SAF-HOLLAND also acquired India's York Transport Equipment (Asia) Pte. Ltd., Orlandi Australia Pty Ltd, and majority stakes in Italy's V.ORLANDI S.p.A. and Britain's Axscend Ltd. For further information on these acquisitions, please refer to the comments in the section entitled "Key Events" on page 46 and to the statements in the Notes starting on page 104.

Legal group structure

in %

SAF-HOLLAND S.A.

100 % **SAF-HOLLAND GmbH**

- 100 % SAF-HOLLAND Polska Sp. z o.o.
- 100 % SAF-HOLLAND France S.A.S.
- 100 % SAF-HOLLAND Bulgaria EOOD
- 100 % SAF-HOLLAND Romania SRL
- 100 % SAF-HOLLAND España S.L.U.
- 100 % SAF-HOLLAND Italia s.r.l. unipersonale
- 100 % SAF-HOLLAND Czechia spol.s.r.o
  - 100 % SAF-HOLLAND Russland s.r.o
- 100 % SAF-HOLLAND do Brasil Ltda.
  - 57.5 % KLL Equipamentos para Transporte Ltda.
- 70 % V.ORLANDI S.p.A.
  - 100 % Orlandi Russia
- 100 % SAF-HOLLAND South Africa Ltd.
- 100 % SAF AL-KO Axle Co. (Xiamen formerly Jinan), Ltd.
- 95 % OOO SAF-HOLLAND Rus
- 100 % SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi
- 100 % SAF HOLLAND Middle East FZE
- 100 % York Transport Equipment (Asia) Pte Ltd, Singapore
  - 100 % York Transport Equipment Pty Ltd, Australia
  - 100 % York Transport Equipment (India)
  - 100 % York Sales (Thailand) Co Ltd, Thailand
  - 100 % YTE Special Products Pte Ltd, Singapore
    - 100 % Qingdao YTE Special Proucts Co Ltd, China
    - 100 % York Transport Equipment (Shanghai) Co. Ltd, China
  - 100 % YTE Transport Equipment (SA) (Pty) Ltd, South Africa
  - 100 % Rednet Pte Ltd, Singapore
  - 100 % PT York Engineering, Indonesia
- 100 % Corpco Tech, China
- 70 % Axscend Group Ltd, United Kingdom
  - 100 % Axscend Ltd., United Kingdom
- 100 % SAF-Holland (Shanghai) Investment Co., Ltd., China
  - 100 % SAF-Holland (Yangzhou) Vehicle Parts Co., Ltd., China
- 10 % SQG S. u. G. gem. GmbH
- 100 % **SAF-HOLLAND Inc.**
  - 100 % SAF-HOLLAND Canada, Ltd.
  - 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
    - V.Orlandi Australia 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 has held a strategic equity interest since 2006 of over one-third in the French company Castmetal FWI S.A. The remaining 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. This joint venture supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market.

INFLUENTIAL ECONOMIC AND REGULATORY 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 resulting in higher demand for tractors, trailers and buses, which in turn benefits SAF-HOLLAND.

Regulatory requirements can provide an added boost to product sales. The growing regulatory stringency worldwide in terms of load restrictions, fuel consumption and emission requirements for commercial vehicles, and the increasing importance of sustainability issues for truck and trailer manufacturers, is driving the demand for products that have the least possible effect on the environment. This increases the need for weight-reduced components – a development that benefits SAF-HOLLAND who today sells some of the lightest components on the market. Similar developments are occurring when it comes to safety requirements, which are also becoming tighter internationally. Again, this opens up attractive opportunities for SAF-HOLLAND as its products help meet the more stringent safety standards.

STRATEGY AND OBJECTIVES

GROWTH STRATEGY 2020: SALES GROWTH TO EUR 1.5 BILLION; TRANSFORMATION INTO A GLOBAL GROUP

With the introduction of Strategy 2020 in 2015, SAF-HOLLAND aligned its business to the global megatrends in the transportation industry early on. The anticipated strong growth in global consumption driven by factors such as a growing population and higher purchasing power – particularly in the middle class – leads to rising demand for goods and, consequently, steadily increasing transportation volumes. This 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. This structurally driven market growth is mainly occurring in the emerging economies, particularly in the Asia Pacific, Middle Eastern and African markets. In the developed economies, trends such as the ever-increasing share of online commerce ("Amazon economy") are what is further increasing the demand for transportation capacity.

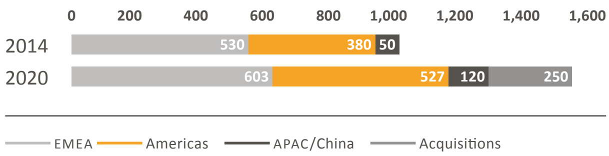
Under Strategy 2020, SAF-HOLLAND is transitioning from an international company into a global player with a strong presence in the three most important economic regions. The target of this strategy is to significantly increase the Group's presence in emerging markets by expanding its product portfolio and opening up new regional markets beyond the current core markets of Europe and North America. The goal is to increase the share of sales generated by the regions outside Europe and North America to 30 % by 2020.

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

In line with the targets set out in Strategy 2020, SAF-HOLLAND also intends to increase 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 an average organic growth rate of around 4 % p.a. Complementary collaborations, joint ventures and acquisitions are expected to add sales of roughly EUR 250 million and boost the Group's total sales to around an estimated EUR 1,500 million in 2020.

Strategy 2020 sales targets

in EUR millions



The Group's key financial performance indicator, adjusted EBIT margin, is expected to reach an average level of at least 8 % by 2020, in accordance with the Group's targets. SAF-HOLLAND expects earnings per share to rise around 75 % compared to its level in 2014 and reach about EUR 1.20 by 2020. These expectations already take into account a higher number of shares from the exercise of conversion rights from the convertible bonds issued in 2014.

Despite this strong growth, the Group intends to retain its high level of capital efficiency. The annual investment volume over the next several years is expected to average around 4 – 5 % of sales. The ratio of net working capital to sales is expected to remain largely stable at around 13 %. The Group will continue to strive for a maximum leverage ratio (net debt/EBITDA) of 2.0, whereby a level of above 2.5 may be temporarily acceptable in case of larger acquisitions.

STRATEGY 2020 ORGANIC SALES TARGET ALMOST ACHIEVED ALREADY IN THE 2018 FINANCIAL YEAR

SAF-HOLLAND has almost achieved its organic sales target of EUR 1,250 million two years ahead of plan. Excluding KLL, V.ORLANDI, York and Axscend, which were acquired after the growth strategy was formulated, SAF-HOLLAND's sales in the 2018 financial year reached EUR 1,215.5 million. This corresponds to an average annual growth rate of 6.1 % compared to the 2014 reference year.

SAF-HOLLAND also reached important milestones with respect to its acquisition plans. In 2018, the acquired companies contributed a total of EUR 85.1 million to Group sales. It should be noted that York and V.ORLANDI were consolidated only on a pro rata basis over the past year and their full sales contribution will not be recognized until the 2019 financial year. As expected, most of this sales contribution originated from the emerging markets. SAF-HOLLAND still believes that acquisitions need to offer added strategic and financial value – at the right price. SAF-HOLLAND believes this is in the best possible interest of its shareholders and remains committed to these principles, also in the case of any future acquisitions.

SAF-HOLLAND has also already met its targets for profitability and capital efficiency. In the period from 2015–2018, the adjusted EBIT margin averaged more than 8 %. The slight miss on the margin target in the reporting year was primarily caused by the earnings situation in North America during the first half of 2018. The investment ratio in 2015-2017 was between 2.4 % and 2.6 %. As forecast at the beginning of 2018, spending on the new production center in China led to a temporary increase in the investment ratio in the past financial year to 3.1 %.

By taking on financial liabilities over the past years in the form of the issue of different tranches 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 most important performance indicators used to manage the Group are based on the development of sales, earnings and net assets, or 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 the adjusted EBIT margin derived from it
— 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	2018	2017	2016	2015	2014
Sales	1,250–1,500	1,300.6	1,138.9	1,042.0	1,060.7	959.7
Adjusted EBIT	≥ 100–120	89.6	91.2	90.4	94.0	70.7
in % of sales	≥ 8 %	6.9	8.0	8.7	8.9	7.4
Diluted earnings per share in EUR	~1,20	0.92	0.82	0.85	0.99	0.69
Net working capital	150–180	172.5	120.6	110.3	116.6[1]	102.7
in % of sales	13	13.5	11.0	10.9	12.0	10.9

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

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

Other important financial performance indicators taken into account 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 capital employed
— Days Sales Outstanding (DSO)
— Days of Inventory on Hand (DIO)

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators listed above, SAF-HOLLAND also relies on several non-financial indicators to aid in its decision-making. These indicators include, above all, data on delivery reliability, quality, sales volume, customer structure and satisfaction and market share development. The parameters gathered are recorded separately for each region and product group to give the Company the ability to detect developments at an early stage and specifically address them.

SAF-HOLLAND also takes sustainability indicators into account to measure its performance. These include employee-related indicators such as staff turnover rates, length of service, and training, as well as environmental-related indicators such as emissions, energy consumption and volume of waste. Further details on these indicators can be found in the section entitled "Sustainability" on page 80 and in the 2018 Sustainability Report, which will be published on April 30, 2019.

GROUP INTERNAL CONTROL SYSTEM

Each year, SAF-HOLLAND internally prepares a medium-term 5-year plan in addition to an annual budget. A periodic forecast is also prepared regularly each quarter for the respective financial year based on the Group's current business development.

The Group 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 Group 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 serve as an indicator of the level of capacity utilization to be expected and the likely development of sales and earnings.

The management continuously monitors and analyzes the statistics and forecasts on overall economic development, as well as on 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

A PIONEER IN INNOVATIVE SOLUTIONS

SAF-HOLLAND has earned itself a reputation in the market not only as a provider of premium solutions but even more so as a technology leader. The Group's customers expect it to provide innovative and pioneering solutions, especially when it comes to disc brake technology and lightweight construction. In order to live up to its claim to being a pioneer in the industry, SAF-HOLLAND attaches great strategic importance to its research and development activities. This commitment was demonstrated in the reporting year by the innovations presented by the Group at the IAA Commercial Vehicles trade show.

Research and development costs in the 2018 financial year amounted to EUR 19.6 million and were virtually unchanged year-on-year (previous year: EUR 20.4 million). In addition, capitalized development costs amounted to EUR 4.3 million (previous year: EUR 4.2 million). The decline in the R&D ratio to 1.8 % (previous year: 2.2 %) was solely a consequence of the strong rise in Group sales in 2018.

At the end of the 2018 financial year, the Group employed a total of 199 people (previous year: 175) in the areas of development, design and testing.

Multi-year overview of research and development

	2018	2017	2016	2015	2014
R&D expenses including capitalized development costs (in EUR millions)	23.9	24.6	23.4	24.6	21.9
R&D ratio (expenses as a percentage of sales)	1.8	2.2	2.2	2.3	2.3
Number of employees in the areas of development, design and testing	199	175	192	191	171

Our development activities focus not only on developing new products but also on adapting existing solutions to customer-specific and regional market requirements. Therefore, we have teams of developers and engineers in Germany and the United States, as well as worldwide. Close proximity to our customers ensures that the specific market expertise obtained by the local entities flows directly into the different variations of our products.

OPTIMIZING THE CUSTOMERS' TOTAL COST OF OWNERSHIP

The objective of the SAF-HOLLAND Group's research and development activities is to offer customers products that lower their total cost of ownership (TCO), to help ensure that their fleet operations are as efficient as possible. This is the reason why our research and development activities have long focused on the areas of weight reduction with lightweight components, longevity and safety. In the last several years, "digitization" has also become a focus of the Group's activities. At SAF-HOLLAND, digitization means, for one, the combination of its mechanical products with sensors and electronics; for example, the integration of electronic intelligence in axles, suspensions and fifth wheel couplings. At SAF-HOLLAND, these activities fall under the motto "SMART STEEL – ENGINEER, BUILT, CONNECT."

Another facet of digitization is the ability to link systems intelligently and evaluate the collected data. Digitization can be used, for example, to monitor the wear and tear of components such as brake pads and avoid damage to the trailer. This capability goes hand-in-hand with optimizing the maintenance intervals and minimizing downtimes. Fleet operators can also access accurate, real-time information about the position of the trailer and the loading and condition of the load. This information gives operators what they need to further optimize their route and service scheduling. SAF-HOLLAND significantly enhanced its capabilities in this area in the reporting year through its acquisition of Axscend.

During the reporting year, SAF-HOLLAND presented a number of product innovations at trade shows in Germany and abroad and provided insight into its development pipeline over the next few years. One of the highlights was the IAA Commercial Vehicles trade show in Hanover, Germany, in September 2018 where, under the motto "Future is now," SAF-HOLLAND presented upcoming products such as its automatic coupling system and the new trailer axles with electric drives (SAF TRAKr and TRAKe).

SAF INTRA CD TRAK

One of the 2018 highlights at the IAA to enter series production was the SAF INTRA CD TRAK trailer axle concept. This system works as a pull-away assist and supports the tractor unit on inclines and difficult terrain using a hydraulically driven motor. This special motor directs the required performance right to the trailer precisely where it is needed, enabling the drive axle to carry the full axle load and transmit the entire drive torque. This makes the SAF INTRA CD TRAK especially well suited for tippers at construction sites or landfill areas and is optimized for trailers in the 9 ton standard range. The system is particularly durable, requires little maintenance and has an exceptionally long service life, making it an attractive solution.

The SAF INTRA CD TRAK concept was first presented in 2016 and further developed in the years that followed in close cooperation with customers. SAF-HOLLAND therefore had the opportunity to incorporate customers' suggestions into the finished product. SAF INTRA CD TRAK has been in series production and available since 2018, helping to demonstrate SAF-HOLLAND's systems expertise outside of mechanical components.

SAF INTRADRUM, SAF MODUL AND SAF INTRA BILL

In an effort to reduce weight even further, SAF-HOLLAND introduced a series of new axle systems featuring the SAF INTRADRUM, which combines the proven SAF INTRA suspension system with a drum brake. Using an optimized wheel hub unit, the weight was reduced by 80 kg per axle or 240 kg per trailer compared to the predecessor product. The new version of the INTRADRUM is specifically designed for vehicles with 19.5-inch tires and a maximum axle load of 9 tons.

Another product to contribute significantly to weight savings is the SAF MODUL. The bolted axle connection allows numerous combinations and is particularly well suited for vocational applications involving axle loads of 9–14 tons. The SAF MODUL is 28 kg lighter per axle than its predecessor.

The SAF INTRA BILL self-steering axle system was especially developed for delivery traffic and winding roads. By optimizing the steering knuckles and axle stub, the weight has been reduced by 35 kg for optimum maneuverability. This system helps reduce tire wear and fuel consumption and has easy maintenance.

TRAILERMASTER

The patented TrailerMaster system allows any trailer to be upgraded to a smart trailer with numerous data-based functionalities. The intelligent interface for line connection technology takes on a range of tasks that were previously distributed to different systems. The most important integrative functionalities include a lighting functions control, load testing and optimization, the evaluation of tire pressure monitoring data and EBS, patented performance data and a status evaluation of the brake system. The TrailerMaster system also provides a maintenance planning tool that automatically informs fleet managers by e-mail or text message of an upcoming routine service or tire check. The collected data can also be transferred and evaluated even when the trailer is in an uncoupled state. This saves fleet managers time and money and enables them to operate their fleets more efficiently.

The TrailerMaster system was originally developed by the British telematics and connectivity specialist Axscend Ltd. This system was further developed together with SAF-HOLLAND following SAF-HOLLAND's acquisition of Axscend in 2018. Initially, the developers combined mechanical chassis systems with TrailerMaster technology in order check the braking performance of trailers and semi-trailers. SAF-HOLLAND introduced this new solution in Europe as its complete digital offer for trailer management and intends the next step to be its introduction worldwide.

NUMBER OF PRIORITY APPLICATIONS REMAINS HIGH IN THE 2018 FINANCIAL YEAR

Our high number of priority applications for many years validates our innovative strength and the effectiveness of our research and development activities. A priority application is the term describing the initial filing of a patent or patent family at a designated patent office. These are usually accompanied by a number of partial or supplemental applications. Of the total of 38 new applications in the past year, 20 applications were submitted by SAF-HOLLAND GmbH and 18 by SAF-HOLLAND Inc.

Number of priority applications

	2018	2017	2016	2015	2014
Number of priority applications	**38**	50	36	30	41

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 based on the single-tier principle of the Anglo-American board system.

BOARD OF DIRECTORS

As a financial holding company without its own operating business, the management of SAF-HOLLAND S.A. by the Board of Directors focuses primarily on the strategic direction of the SAF-HOLLAND Group and overseeing the operations of each of its direct and indirect operating subsidiaries. In addition, the Board of Directors advises, controls and monitors the Group Management Board. Further details on the cooperation between the Board of Directors and the Group Management Board in the reporting year is provided in the section entitled "Report of the Board of Directors" on page 8.

In 2018, the Board of Directors also dealt with sustainability issues in the context of non-financial reporting. The Board of Directors discussed Corporate Social Responsibility (CSR) aspects and the potential impact of SAF-HOLLAND's business policy on society. The main topics discussed were employee, 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 hold discussions with investors on supervisory board topics in an appropriate framework.

The Board of Directors may consist of external members, non-executive directors and executive directors who are the operational managers of the Company. At SAF-HOLLAND, the Board of Directors currently has six members. Five of these members, including Chair Martina Merz, are external members. Until February 25, 2019, the sixth seat on the Board was held by Detlef Borghardt, SAF-HOLLAND's Chief Executive Officer (CEO), ensuring that a member of the Board of Directors is directly involved in the daily business of the SAF-HOLLAND Group. The Board of Directors appoints a chair and vice chair from among its members. In accordance with the Articles of Association, the Board decides by a simple majority of the members present or represented at a meeting. At least half of the members must be present or represented (quorum).

According to the SAF-HOLLAND S.A. Articles of Association, as a rule, there must be at least three independent members on the Board of Directors. As of December 31, 2018, 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, regarding the role of non-executive and supervisory directors in listed companies. Dr. Martin Kleinschmitt and Jack Gisinger are two former members of the Group Management Board who are currently members of the Board of Directors. Detlef Borghardt, Chief Executive Officer of SAF-HOLLAND (until February 25, 2019), is also classified as a dependent member as defined by the Articles of Association of SAF-HOLLAND S.A.

Board of Directors

As of December 31, 2018

Name	Position	First appointment	Term expires
Martina Merz[1]	Chair of the Board of Directors (since April 27, 2017) Non-Executive Director	April 24, 2014	April 2019
Dr. Martin Kleinschmitt[2, 3]	Vice Chair 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, 4]	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	April 27, 2017	April 2020

[1] Independent member as defined by the SAF-HOLLAND Articles of Association
[2] Former member of the SAF-HOLLAND Group Management Board
[3] Dependent member as defined by the SAF-HOLLAND Articles of Association (Annex II Ziff. 1c of the European Commission Recommendation of February 15, 2005)
[4] Dependent member as defined by the SAF-HOLLAND Articles of Association (Annex II Ziff. 1a of the European Commission Recommendation of February 15, 2005)

More information on the activities of the Board of Directors during the 2018 financial year can be found in the corresponding report on page 8.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has set up four committees so that it may perform its duties effectively – the Audit Committee, the Remuneration Committee, the Nomination Committee and the Special Committee North America. The Audit Committee, the Remuneration Committee and the Nomination Committee are comparable to the corresponding committees of a German supervisory board. As set out in the Articles of Association, the main task of the Nomination Committee, created in 2018, is to propose suitable candidates to fill the Board of Directors and the Group Management Board. To do this, the Committee creates the appropriate requirement and competence profile and checks the independence of the candidates in question. In December 2018, the Board of Directors also established the Special Committee North America, whose task it is to receive and discuss routine reports on the progress made in North America beginning with the 2019 financial year. More information on the tasks and activities of the respective committees during the reporting year can be found in the Report of the Board of Directors on page 8.

The Nomination Committee consisted of the following members as of December 31, 2018:

— Martina Merz (Chair)
— Jack Gisinger
— Anja Kleyboldt

Two of the three members of the Nomination Committee are independent members of the Board of Directors.

The members of the Audit Committee were unchanged as of December 31, 2018, compared to the prior year and consisted of:

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

Dr. Kleinschmitt possesses 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 members of the Remuneration Committee were unchanged as of December 31, 2018, compared to the prior year and consisted of:

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

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

The Special Committee North America consisted of the following members as of December 31, 2018:

— Carsten Reinhardt (Chair)
— Dr. Martin Kleinschmitt
— Anja Kleyboldt

Two of the three members of the Special Committee North America were independent members of the Board of Directors.

GROUP 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 Group Management Board that includes other members of management from the various regions of the Group and China in addition to the Executive Board of SAF-HOLLAND GmbH. The members of the Group Management Board are appointed by SAF-HOLLAND S.A. The Board of Directors and the Executive Board of SAF-HOLLAND GmbH and the Group Management Board maintain a close, continuous and faithful cooperation in the best interest of the Company.

In addition to the members with functional responsibility (CEO, CFO, COO and CPO), the Group Management Board's responsibilities are allocated by region in line with the respective organizational structure of the SAF-HOLLAND Group. The Americas, EMEA and the country of China regions are each represented by their own Managing Director. The former APAC/China region was led by the Chief Executive Officer until the end of 2018. Due to the division of this region into two new regions – APAC/India and China – each of the new regions has had a representative on the Management Board since January 1, 2019. At the end of 2018, SAF-HOLLAND's Group Management Board consisted of the following five members:

Group Management Board

As of December 31, 2018

Detlef Borghardt*	Chief Executive Officer (CEO) President Region APAC/China
Dr. Matthias Heiden*	Chief Financial Officer (CFO)
Alexander Geis*	President Region EMEA
Guoxin Mao	President Region China
Steffen Schewerda*	President Region Americas

* Managing Director of SAF-HOLLAND GmbH

REMUNERATION SYSTEM

GROUP MANAGEMENT BOARD

The Remuneration Committee of the Board of Directors conducts an annual review of the Group Management Board's remuneration in terms of its structure and appropriateness. Remuneration is based on the Company's size and global orientation, as well as on its economic and financial situation. The level and structure of remuneration are designed to be internationally competitive to provide incentives for engaging and succeeding in a dynamic business environment. The duties and performance of each Group Management Board member are also taken into account when determining remuneration.

Group Management Board remuneration for the 2018 financial year is reported in accordance with the applicable accounting principles (DRS 17) as well as the recommendations of the German Corporate Governance Code.

The remuneration package consists of the following components:

— a fixed annual base salary
— 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
— fringe benefits

The average total annual remuneration of a Group Management Board member consisting of fixed salary and short-term and long-term variable remuneration corresponds to around 15 times the average remuneration of an employee of the German company and 9 times the annual salary of an employee in the highest salary scale under a collective agreement. The vertical compensation comparison substantiates the appropriateness of the Group Management Board's compensation.

The following criteria applied to the individual components of the Group Management Board's remuneration in the 2018 financial year:

Fixed annual base salary
The base salary is a set amount of remuneration for the entire year and is granted on a monthly basis. Unlike many other companies, the members of the Group Management Board do not receive pension benefits from the Company. To counterbalance this, the Company introduced a compensation component in the 2018 financial year that is added to the base salary.

Short-term variable remuneration
(short-term incentive – STI)
The annual bonus is variable cash remuneration based on the measurable success of the Company in the past financial year and is determined on the basis of the consolidated financial statements for the respective 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 the remuneration to be paid is calculated by multiplying the percentage of the target achievement by the target bonus amount. In the year of joining and leaving the company, the BoD member is entitled to a pro rata bonus.

Long-term variable remuneration
(variable long-term incentive – LTI)
The LTI is a variable remuneration component whose objective is the Company's long-term appreciation in value, which sustainably links the interests of the Company' management and executives with the interests of the shareholders of SAF-HOLLAND S.A. The program used is a performance share unit plan (PSUP) introduced in 2013 that takes into account both company performance and share price performance and stipulates a four-year performance period.

Participants receive virtual share units at the beginning of the performance period, the number of which 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. An entitlement to shares of SAF-HOLLAND S.A. does not exist. The remuneration amount is determined by the Board of Directors at the beginning of the performance period. 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 in cash 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 year		200 % cap on gross annual base salary
Number of share units	**x**	**Target achievement factor**	**x**	**Share price**	**=**	**PSUP payment**

The prerequisite for exercising stock appreciation rights is the achievement of a defined performance target. This performance target is met when, during the grant period, the Group on average achieves the minimum operating performance, which is measured in terms of the "adjusted EBIT" performance indicator. A level of target achievement that is below 70 % results in a target achievement factor of "0" and no payout.

If a Group Management Board member leaves the Company or a Group company prior to the expiration of the performance period as a result of death, disablement, disability or retirement according to the contractually agreed age, he or she will receive a potential payout amount on a pro rata basis on the payment due date.

A potential payment may be temporarily withheld by the Board of Directors should imminent or urgent financial issues at SAF-HOLLAND S.A. and/or a Group company make a payment impossible. Generally, the Board of Directors is allowed to suspend or terminate the LTI plan at any time. Rights from already granted plans cannot be subsequently changed without the consent of the participant.

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. This cap in conjunction with the fixed base salary and the upper limit of 125 % of the short-term variable compensation thereby constitute the maximum limit for the remuneration of the members of the Management Board.

The Company does not require members of the Group Management Board to invest parts of their remuneration into company shares.

Fringe benefits

The taxable fringe benefits granted to the Group Management Board consist primarily of company cars and insurance benefits. Both workmen's compensation and D&O insurance have been concluded as part of the insurance benefits.

Review and adjustment of remuneration

A review of remuneration components is performed annually by the Board of Directors. The BoD has the right to grant the Group Management Board special compensation. Based on the results of an externally conducted Executive Compensation Survey in 2017 that identified differences in compensation for comparable companies, individual Management Board members were granted a compensation payment for 2017 in the form of a one-time special payment in April 2018. The findings of the survey, especially with respect to the absence of an otherwise customary pension plan, led to a 15 percent salary adjustment as of the beginning of 2018.

Severance payments

The members of the Group Management Board have permanent contracts with a notice period of 12 months. If the employment contract has been in place for at least two years at the time of termination, the member of the Group Management Board who is also a managing director of SAF-HOLLAND GmbH receives a severance payment amounting to 1.5 times the current annual base salary and 1.5 times the short-term variable bonus upon termination without good cause. The amount of the variable bonus is based on the average of the variable bonus payments made in the 3 prior years.

Loans to members of the Group Management Board

In 2018, there were no loans or advances made to members of the Group Management Board.

REMUNERATION OF THE GROUP MANAGEMENT BOARD

Group Management Board remuneration for the 2018 financial year is reported in accordance with the applicable accounting principles (DRS 17) as well as the recommendations of the German Corporate Governance Code in the version of February 7, 2017.

The total remuneration of the management and the managing directors according to Section 314 (1) no. 6a sentence 7 to 4 HGB are shown in the following overview. The remuneration of Arne Jörn is based on the period that ended with the end of his duties on February 28, 2018. The remuneration of Dr. Heiden in 2017 is based on the start of his employment on March 1, 2017.

Pursuant to DRS 17: Section 315e ICW Section 315(2) and Section 314(1) HGB

In kEUR

	Detlef Borghardt		Dr. Matthias Heiden		Alexander Geis		Steffen Schewerda		Guoxin Mao		Arne Jörn		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-performance related components	625	477	363	259	400	305	322	339	299	251	45	250	2.054	1.881
Performance-related components	162	237	123	0	159	186	113	105	115	50	128	57	799	635
Long-term incentive	419	683	188	0	237	387	252	367	59	0	0	64	1,155	1,501
Total remuneration	**1,206**	**1,397**	**674**	**259**	**796**	**878**	**686**	**811**	**473**	**301**	**173**	**371**	**4,009**	**4,017**

German Corporate Governance Code (GCGC)

In kEUR

	Detlef Borghardt				Dr. Matthias Heiden Employed as of March 1, 2017				Alexander Geis			
	2017	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**
Base salary	452	530	530	530	250	352	352	352	294	345	345	345
Bonus compensation		68	68	68	0	0	0	0	0	44	44	44
Fringe benefits	25	27	27	27	9	11	11	11	11	11	11	11
Total	**477**	**625**	**625**	**625**	**259**	**363**	**363**	**363**	**305**	**400**	**400**	**400**
1-year variable remuneration	220	220	0	275	167	200	0	250	160	160	0	200
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
2014 – 2017 LTI Plan	0	0	0	0	134	0	0	0	0	0	0	0
2015 – 2018 LTI Plan	0	0	0	0	170	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	170	0	0	0	0	0	0	0
2017 – 2020 LTI Plan	300	0	0	1,060	170	0	0	500	170	0	0	588
2018 – 2021 LTI Plan	0	300	0	1,060	0	170	0	704	0	170	0	690
Total	**520**	**520**	**0**	**2,395**	**811**	**370**	**0**	**1,454**	**330**	**330**	**0**	**1,478**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**997**	**1,145**	**625**	**3,020**	**1,070**	**733**	**363**	**1,817**	**635**	**730**	**400**	**1,878**

German Corporate Governance Code (GCGC)

In kEUR

	Steffen Schewerda				Guoxin Mao				Arne Jörn Resignation on February 25 ,2018			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Base salary	319	302	302	302	196	245	246	246	240	43	43	43
Bonus compensation	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benefits	20	20	20	20	55	54	54	54	10	2	2	2
Total	**339**	**322**	**322**	**322**	**251**	**299**	**300**	**300**	**250**	**45**	**45**	**45**
1-year variable remuneration	194	186	0	232	118	115	0	145	150	25	0	31
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
2014 – 2017 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2015 – 2018 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0
2017 – 2020 LTI Plan	170	0	0	638	170	0	0	392	170	0	0	480
2018 – 2021 LTI Plan	0	170	0	604	0	170	0	492	0	0	0	0
Total	**364**	**356**	**0**	**1,474**	**288**	**285**	**0**	**1,029**	**320**	**25**	**0**	**511**
Pension-related expenses	10	9	9	9	0	0	0	0	0	0	0	0
Total remuneration	**714**	**687**	**331**	**1,805**	**531**	**584**	**300**	**1,329**	**570**	**70**	**45**	**556**

German Corporate Governance Code: Benefits granted

In kEUR

	Total			
	2017	2018	2018 (Min)	2018 (Max)
Base salary	1,752	1,817	1,818	1,818
Bonus compensation	0	112	112	112
Fringe benefits	130	125	125	125
Total	**1,801**	**2,054**	**2,055**	**2,055**
1-year variable remuneration	1,009	906	0	1,133
Multi-year variable remuneration	0	0	0	0
2014 – 2017 LTI Plan	134	0	0	0
2015 – 2018 LTI Plan	170	0	0	0
2016 – 2019 LTI Plan	170	0	0	0
2017 – 2020 LTI Plan	1,150	0	0	3,658
2018 – 2021 LTI Plan	0	980	0	3,550
Total	**2,633**	**1,886**	**0**	**8,341**
Pension-related expenses	10	9	9	9
Total remuneration	**4,525**	**3,949**	**2,064**	**10,405**

Inflow in accordance with the GCGC

In kEUR

	Detlef Borghardt		Dr. Matthias Heiden		Alexander Geis		Steffen Schewerda		Guoxin Mao		Arne Jörn		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Base salary	452	530	250	352	294	345	319	302	196	245	240	43	1, 751	1,817
Bonus compensation	0	68	0	0	0	44	0	0	0	0	0	0	0	112
Fringe benefits	25	27	9	11	11	11	20	20	55	54	10	2	130	125
Total	**477**	**625**	**259**	**363**	**305**	**400**	**339**	**322**	**251**	**299**	**250**	**45**	**1,881**	**2,054**
1-year variable remuneration	237	162	0	123	186	159	105	111	50	115	57	128	635	798
2013 – 2016 LTI Plan	683	0	0	0	387	0	367	0	0	0	64	0	1,501	0
2014 – 2017 LTI Plan	0	419	0	188	0	237	0	252	0	59	0	0	0	1,155
Total	**920**	**581**	**0**	**311**	**573**	**396**	**472**	**363**	**50**	**174**	**121**	**128**	**2,136**	**1,953**
Pension-related expenses	0	0	0	0	0	0	10	9	0	0	0	0	10	9
Total remuneration	**1,397**	**1,206**	**259**	**674**	**878**	**796**	**821**	**694**	**301**	**473**	**371**	**173**	**4,027**	**4,016**

REMUNERATION OF THE BOARD OF DIRECTORS

Members of the Board of Directors receive their fixed annual remuneration after the end of the financial year, which means that the fixed annual remuneration for the year 2017 was paid out in the year 2018. Performance-based or stock-based compensation components are not granted.

The Chair receives 2.5 times the remuneration of the other members of the Board of Directors. The chairs of committees also receive an additional EUR 20,000.

The remuneration of each member of the Board of Directors, paid out in the year 2018 for the year 2017, is set out below:

Renumeration of the Board of Directors

In kEUR

Martina Merz[1]	Chair of BoD	81
Dr. Martin Kleinschmitt	Vice Chair of BoD	60
Detlef Borghardt	Member of BoD	–
Jack Gisinger	Member of BoD	40
Anja Kleybolt	Member of BoD	40
Carsten Reinhardt[2]	Member of BoD	27

[1] First appointment as chair of the Board of Directors on April 27, 2017
[2] First appointment as member of the Board of Directors on April 27, 2017

In addition, a D&O group insurance policy was concluded for the Group Management Board that also covers the members of the Board of Directors.

Detlef Borghardt did not receive any additional remuneration for his mandate on the Board of Directors in addition to his remuneration as Chief Executive Officer.

No advances or loans were made to members of the Board of Directors in 2018.

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 German standards for corporate governance. Nevertheless, the Board of Directors, the Group 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 voluntarily complies with the recommendations and suggestions of the German Corporate Governance Code in its currently valid version 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 20, 2019 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. In our view, the concept of compliance refers not only to compliance with the applicable national and international laws and regulations but also includes a commitment to ethical and moral values. This is the reason we have established a Compliance department to help our employees meet these requirements.

The head of the Compliance & Legal Affairs department oversees compliance management and reports directly to the Chief Financial Officer. The design and effectiveness of the compliance management system are also the subject of reviews conducted by the Internal Audit department. The overall responsibility for the compliance system, regulatory compliance and internal corporate policies lies with the Board of Directors. Therefore, the Board of Directors' Audit Committee attends regularly to the compliance management system, its effectiveness and further development.

In 2018, a whistleblower system was implemented throughout the Group, giving employees the opportunity to provide anonymous and protected information about legal violations in the Company. This system is also available to third parties.

Our Code of Conduct comprises the compliance requirements for the SAF-HOLLAND Group, which are binding for the Company and the management, as well as each individual employee.

The Code of Conduct includes but is not limited to regulating the following:

— 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. Employees may contact the head of the Compliance & Legal Affairs department at any time in the event of questions or suspected cases.

Other compliance issues, such as the handling of receiving benefits and insider information are regulated by binding guidelines and memorandums throughout the Group. When changes are made to the legal framework, the corresponding information is updated and the employees affected are informed.

DIVERSITY AT SAF-HOLLAND

DIVERSITY AS A FACTOR FOR SUCCESS

In the scope of our global business activities, the Group employs people from many different 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 operating in the world's transport markets under a wide variety of local conditions. SAF-HOLLAND is firmly convinced that diverse people also means diverse opportunities and ideas at the same time.

SAF-HOLLAND has taken a number of measures demonstrating its commitment to diversity in the workplace where employees with very different backgrounds contribute 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 strengthen their social skills by interacting with severely handicapped people, among other things.
— In an international trainee program, university graduates from a wide range of cultural backgrounds (e.g., China and Vietnam) are able to 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 is popular, especially among 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.

The proportion of women on the Board of Directors of SAF-HOLLAND S.A. is 33 %, which exceeds the female quota required by German law of at least 30 % on supervisory boards. Since April 27, 2017, SAF-HOLLAND has a woman, Martina Merz, as Chair of the Board of Directors. SAF-HOLLAND has also set targets for the proportion of women in the first and second management levels below the Group 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 figure compares to a share of women in the Group's total workforce in Germany of currently around 12 %. At the end of 2018, the proportion of women in top management positions was 4.6 % (previous year: 5.0 %). The search for and recruitment of women, especially in the commercial vehicle industry where the representation of women is traditionally low, is proving to be challenging. The technical orientation common in the industry and the associated qualifying technical courses also tend to have a lower-than-average proportion of women.

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

Group Management Board

The composition of the Group 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 Group 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 Group Management Board should have several years of management experience, as well as experience in as many different professions as possible.
— The Group 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 Group's main regions/markets (Americas, EMEA, APAC, India and China).
— 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 Board member should possess in order to join. Although female candidates were considered in the search for a new COO in 2018, ultimately, the Board decided on a male candidate, Dr. André Philipp, based on his extensive experience in the automotive industry, especially in the North American and Chinese markets.

Board of Directors

The Board of Directors should consist of members that have the knowledge, experience and abilities listed below that are required 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 important 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 (the "Pay Transparency Act"). The law stipulates that the same or equal work deserves equal pay, irrespective of gender. Among other stipulations, 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. These cases were resolved in 2018.

In order to attract more female employees, we will continue to increase our efforts to provide more information and advice 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 every 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 full, equitable and timely communication with its shareholders and the public to ensure maximum transparency and the equal dissemination of information. The dates of regular financial reporting and other important events, such as the Annual General Meeting, are available in the financial calendar. SAF-HOLLAND also has all annual and quarterly reports, ad-hoc statements and press releases, investor presentations and notifiable changes in voting rights available in both German and English on the SAF-HOLLAND website. The website gives those interested the chance to find out more about the Group, its organizational structure, financing structure, Articles of Association, members of the Board of Directors and Management Board and upcoming and previous Annual General Meetings.

With the publication of the SAF-HOLLAND S.A. annual financial statements, the Company hosts an analyst and investor meeting, and following the publication of the quarterly results, it holds regular conference calls. Recordings of these conference calls are also available on the website.

ACCOUNTING AND AUDITING

The consolidated financial statements and the interim reports of SAF-HOLLAND S.A. are prepared by the Board of Directors in cooperation with the Group Management Board in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements are published within 90 days of the end of the financial year (31 December), and the interim financial information (half-year report and quarterly statements) within 45 days of the end of each quarter or half-year.

The consolidated financial statements were audited by PricewaterhouseCoopers Sociéte Cooperative, Luxembourg, which is the auditor elected by the 2018 Annual General Meeting. The audit of the consolidated financial statements was conducted in accordance with the International Standards on Auditing, adopted by the Commission de Surveillance du Sector Financier (CSSF) for Luxembourg. Before awarding the audit mandate, the Board of Directors was assured by the auditor of its independence and objectivity. The financial statements are discussed, reviewed and approved by the Board of Directors after their preparation by the Audit Committee.

MANAGER'S 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 2018 reporting year, SAF-HOLLAND received three notifications of managers' transactions 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 THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP 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 14 of this annual report.

b) There are no restrictions on the transfer of shares under the Company's Articles of Association.

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

Shareholder name	Shares[1, 2]	% share of voting rights[1]
Times Square Capital, USA	2,354,472	5.19 %
NN Group N.V., NL	2,342,860	5.16 %
Kempen Oranje Participaties , NL	2,297,543	5.07 %
Nordea 1 SICAV, LUX	2,297,403	5.06 %
Union Investment Privatfonds, D	2,288,386	5.04 %

[1] As of December 31, 2018
[2] Total number of SAF-HOLLAND shares: 45,394,302

d) There are no shareholders possessing special powers of control.

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

f) There are no restrictions on voting rights under the Company's Articles of Association or any other rules restricting voting rights.

g) As of December 31, 2018, 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 450-1 (2) of the Luxembourg Law (Loi du 10 août 1915 concernant les sociétés commerciales) 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 (principle of co-option).

   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. The same voting majority (two-thirds) applies as for the first shareholders' meeting.

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

   After a change of control, the effective date is specified by the Company and communicated in an announcement to the bondholders. The effective date is a business day that is, at the earliest, 40 calendar days and at the latest 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 of a total volume of EUR 200 million. Following a change of control, the Company is required to inform the paying agent of that event immediately. 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 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.

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

k) No agreements exist between the Company and members of the Board of Directors or members of the Group Management Board that, in the event of a takeover bid, would 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 as a result of a takeover bid.

Agreements do, however, exist between the Company and some 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 level of expenses that could arise in this connection should be considered very small in terms of both their total amount and in relation to a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT: SOLID GLOBAL ECONOMIC GROWTH DESPITE EMERGING RISKS

The global economy continued its upward trend in 2018. According to estimates by the International Monetary Fund (IMF), global growth in 2018 registered a solid increase of 3.7 %, almost matching the previous year's level (3.8 %), but slightly below the growth acceleration of 3.9 % hoped for at the beginning of the year. The greatest stimulus in 2018 came from the United States, where tax cuts that came into effect earlier in the year and the government's containment of regulatory requirements triggered a surge in growth. Gross domestic product (GDP) in the US in 2018 increased by 2.9 %. The economic development in Europe was more moderate, as expected. With an increase in GDP of 1.8 %, the eurozone economy grew solidly again in 2018. Economic development in the emerging markets was mixed. While SAF-HOLLAND's key emerging economies, China (+ 6.6 %) and India (+ 7.3 %), continued their economic recovery at a high level, countries such as Turkey and Argentina came under pressure due to the sharp depreciation in their local currencies.

SECTOR DEVELOPMENT: BETTER-THAN-EXPECTED DEMAND FOR TRUCKS AND TRAILERS IN NEARLY ALL MARKETS

The development of the global commercial vehicle markets in 2018 exceeded the expectations described in the 2017 Annual Report – particularly with respect to the high demand for trucks and trailers in North America. Markets in Europe also performed slightly better than the expectations published at the start of the year. Sales in some of SAF-HOLLAND's key regional markets, such as Australia and Brazil, also grew faster during the year than originally forecast.

TRUCK REGISTRATIONS AROUND 3 % HIGHER IN EUROPE

New registrations for heavy trucks (over 16 tons), the vehicle class relevant to SAF-HOLLAND, increased by 3.1 % in the European Union in 2018 according to the European Automobile Manufacturers Association ACEA. As a result, the European truck market once again exceeded the experts' growth expectations, which were 2 % at the beginning of the year. The strong overall economic situation in Europe gave a particular boost to the high-volume markets of Germany, France and Italy. In the United Kingdom, uncertainties surrounding the upcoming Brexit led to 5.4 % fewer heavy truck registrations than in 2017.

In Russia, new registrations of heavy and medium trucks increased by 4.8 %. Momentum weakened slightly as the year progressed to the point that new registrations in the fourth quarter were up by only around 1 %.

NORTH AMERICAN TRUCK MARKET ACHIEVED RECORD ORDER BOOKINGS

After a very strong first half-year in 2018, heavy-duty truck (Class 8) orders continued to pick up momentum in the second half of the year and reached record highs in July and August. According to the market research institute ACT Research, incoming orders increased by 65 % to 490,000 trucks in 2018. The primary reason for the strong demand was the unexpected high growth in US industrial production, which was faced with the limited capacity of fleet operators. The shortage of truck drivers and the strict monitoring of driving time (ELD – Electronic Logging Device) this year led to capacity bottlenecks, and truck manufacturers were barely able to meet the extremely strong demand. According to ACT, production of Class 8 trucks grew nearly 27 % in 2018 to approximately 324,000 units. Order backlog at the end of 2018 had increased accordingly to 297,000 trucks (end of 2017: 134,000 trucks).

BRAZILIAN TRUCK MARKET CONTINUES TO RECOVER

The Brazilian heavy truck market continued the recovery that began in 2017, even though the country's economy as a whole showed only a modest improvement (GDP + 1.3 %). According to the Manufacturers Association Anfavea (Associação Nacional dos Fabricantes de Veículos Automotores), heavy truck production increased by 52 % in 2018. It is important to note that this high percentage increase follows years of economic downturn, which resulted in a low base level for a year-on-year comparison.

RENEWED RISE IN EUROPEAN TRAILER MARKET

The European trailer market continued its multi-year upswing in 2018, and production increased again by around 4 % from a very high base level in 2017. The key driver of this continued growth was the ongoing overall robust economic development in Europe, which increased demand for transport capacity. The replacement demand from fleet operators increased at the same time. Overall, the European trailer market performed better than originally expected, and registrations were up by almost 6 %. This compares with the forecast from the market research institute CLEAR International Consulting (CLEAR) which, at the start of the year, had still projected a production decline in 2018 of 4 %.

NORTH AMERICAN TRAILER PRODUCTION CANNOT KEEP PACE WITH ORDER BOOM

In North America, the strong economy coupled with concerns about supply bottlenecks for trailer manufacturers prompted a number of fleet operators to place larger orders in the second half of 2018 for delivery in 2019. Consequently, trailer orders in the US picked up again significantly, with orders on hand (according to ACT Research) rising around 64 % to 247,000 trailers. Production in North America for the year as a whole increased by 12.4 % to 356,000 units.

STRONG GROWTH IN THE BRAZILIAN TRAILER MARKET

Similar to the rise in trucks, the production of trailers increased in the mid-double-digit percentage range to a level of more than 44,000 units (CLEAR) in 2018, which was around 55 % above the average level of production over the last three years. It is important to note that this growth is being compared to the low base since 2015 in contrast to the years prior to 2015 when just over 55,000 units were produced.

SOLID DEMAND IN THE COMMERCIAL VEHICLE MARKETS IN THE APAC/CHINA REGION

New heavy truck registrations in the Chinese market increased by around 4 % in 2018, according to LMC Automotive, despite the trade conflict between China and the United States. Trailer production was slightly down (– 4.4 %) in the same period, according to CLEAR. The premium segment for trailers, however, which is the more important segment for SAF-HOLLAND, continued its upward trend in 2018. Demand in the Chinese trailer market for premium applications such as air suspensions and axle systems with integrated disc brake technology was particularly strong and contributed to the market segment's ongoing very positive development.

The Indian market, which has gained much greater importance for SAF-HOLLAND since the acquisition of York Transport Equipment (Asia) Pte. Ltd., saw new heavy truck registrations increase more than 23 % in 2018 (LMC Automotive) and trailer production rise 13 %.

The regional market of Australia registered around 17 % more heavy and medium-duty trucks in 2018. Demand benefited from a recovery in the commodity markets, as well as in the mining sector, which gave a particular boost to new purchases of heavy trucks and specialty vehicles. At the same time, the production of trailers increased by a solid 7 %.

KEY EVENTS

INVESTMENT IN NEW PRODUCTION CENTER IN CHINA

In early 2018, SAF-HOLLAND announced it was significantly expanding its production capacity in China. The Group planned to spend a high single-digit million amount on a new central production center at the Yangzhou site in the Yangtze River Delta with a total area of around 46,000 m². Operations are scheduled to begin in the second half of 2019. This is SAF-HOLLAND's response to the projected increase in demand for modern disc brakes and air suspension technology in China. The demand from fleet operators for these products will get increasingly stronger as legislation continues to tighten further.

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

In March 2018, SAF-HOLLAND announced the signing of a purchase agreement to acquire 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 initially acquired 70% of the company's shares for around EUR 39 million and agreed to a purchase option for the remaining 30%, which can be exercised at a later date. The closing of the acquisition took place at the beginning of April 2018.

By acquiring V.ORLANDI, the Group has added a supplier of couplings for trucks and specialty fifth wheels and strengthened its position as the number 2 player 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 industrial, agricultural, forestry and mining segments. V.ORLANDI generates nearly a quarter of its sales with coupling systems for agricultural and forestry vehicles. At the time of the acquisition, the company had approximately 60 employees and manufactured at two locations in northern Italy near Brescia. Next to Western Europe, the company is focused on sales markets primarily in Russia, Asia and Australia.

In December 2018, SAF-HOLLAND also took over Orlandi Australia Pty Ltd. Before the acquisition, the company operated as a legally independent distribution company in Australia.

ACQUISITION OF THE TRAILER AXLE AND SUSPENSION SYSTEM MANUFACTURER YORK TRANSPORT EQUIPMENT (ASIA) PTE. LTD.

In March 2018, SAF-HOLLAND also announced it had signed an agreement to acquire all shares in the manufacturer of axle and suspension systems York Transport Equipment (Asia) Pte. Ltd., headquartered in Singapore. The purchase price for York, including assumed liabilities, was around EUR 35.6 million, and the acquisition was completed at the end of April 2018.

York and its subsidiaries ("York Group") are considered to be one of the leading providers of trailer axle and suspension systems in India, distributing a wide range of components for trucks and trailers throughout the entire APAC region. The York Group occupies a strong market position in the APAC countries, especially in the area of heavy-duty (> 9 tons) trailer axles and mechanical suspensions. The group is also one of the most important suppliers of spare parts and accessories for trailers and semi-trailers on the Indian subcontinent. York has manufacturing facilities in Pune, India and Qingdao, China, and supplies the majority of the truck and trailer manufacturers in the APAC region. In addition to India, the York Group is also very well represented in the other fast-growing Southeast Asian markets such as Thailand, Indonesia and Vietnam, as well as in Australia. Its geographical footprint complements the SAF-HOLLAND Group's regional presence. The York Group has also built up a strong service and spare parts network in the subcontinent over the past few years, encompassing more than two hundred service points and dealers. This network provided a strong boost to the SAF-HOLLAND Group's aftermarket business in the region.

SAF-HOLLAND ACQUIRES SPECIALIST FOR DIGITAL TRAILER MANAGEMENT AXSCEND LTD.

Effective July 24, 2018, SAF-HOLLAND acquired 69.99% of the shares in the digital trailer management specialist Axscend Ltd., Aylesham, UK, for a purchase price in the mid-single-digit million euro range. At the same time, an option was extended to SAF-HOLLAND for the acquisition of the remaining shares in 2022.

With its TrailerMaster Connect product, Axscend offers an intelligent interface for line connection technology, with which any semi-trailer can be upgraded or retrofitted into a smart trailer with numerous data-based functions. The technology allows data transmission and evaluation on both mobile and stationary devices, even when the trailer is uncoupled. This enables fleets to make optimal use of their resources. The acquisition of this telematics and connectivity specialist strengthens SAF-HOLLAND's know-how in the software and programming segments and expands its technology portfolio for digital trailer applications in line with its SMART STEEL strategy.

MAJOR ORDER FOR AXLE SYSTEMS WITH INTEGRATED DISK BRAKES IN THE US

In May 2018, SAF-HOLLAND received a pioneering order in the US for the supply of trailer axle systems. Within the scope of this order, the Company will deliver fully dressed axle systems combined with modern disc brake technology to North America's largest fleet rental operator, XTRA Lease.

Prior to the order, SAF-HOLLAND had been supplying the mechanical suspension and associated slider boxes for the trailer chassis. In the future, the chassis system will also integrate the complete SAF-HOLLAND axle system with the latest generation of P-89 wheel end technology featuring disc brakes. The initial delivery volume was around 6,000 trailers annually, and production started in June 2018.

SAF-HOLLAND RENEWS REVOLVING CREDIT LINE

In October, SAF-HOLLAND concluded a new syndicated loan agreement with an extended international banking syndicate. The newly concluded syndicated loan facility replaced the previously existing scope of financing and ensures SAF-HOLLAND Group has access to long-term financing at slightly better interest rates.

The new loan agreement includes a revolving credit facility of EUR 200 million (previously: EUR 150 million), which can be drawn on in various currencies. There is also the option to extend the facility by an extra EUR 100 million if needed. As a result of this new agreement, SAF-HOLLAND has been able to secure favorable interest rates for a term of up to seven years.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

SALES TARGET RAISED SEVERAL TIMES OVER THE COURSE OF THE YEAR

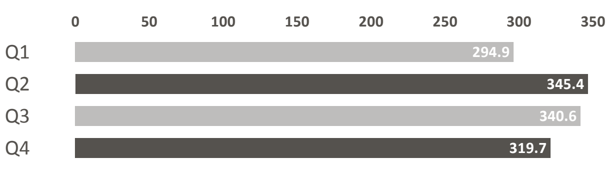
With the publication of the 2017 Annual Report, SAF-HOLLAND had initially set a target for organic growth for the 2018 financial year of 4 – 5 %. In July 2018, with the announcement of the preliminary figures for the second quarter, SAF-HOLLAND slightly raised its organic sales forecast for the first time in the year to growth in the range of 5 – 7 %. The Group also projected the expected sales contribution from the acquisitions to be around EUR 60 million.

After continued strong demand in North America in the course of the year, SAF-HOLLAND revised its organic sales target for the second time on October 19, 2018, raising it to 9 – 10 %. Thanks to the development of the acquired companies – which was well above expectations – SAF-HOLLAND also made an upward revision to its target for the expected sales contribution from the acquisitions to a range of EUR 65 and 70 million.

The consistently strong sales development in the fourth quarter of 2018 led to organic growth for the year as a whole of 12.2 %, exceeding our sales forecast raised in October 2018. Acquisitions contributed a total of EUR 70.9 million to sales, which was also above the upward revised forecast range. Sales, including currency and consolidation effects, increased by 14.2 % to EUR 1.3 billion in the 2018 financial year, setting a new record.

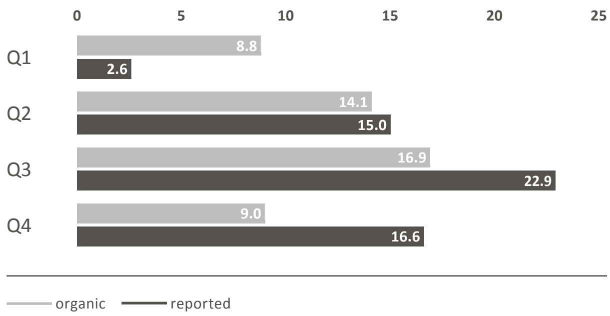
Sales by quarter 2018

in EUR millions



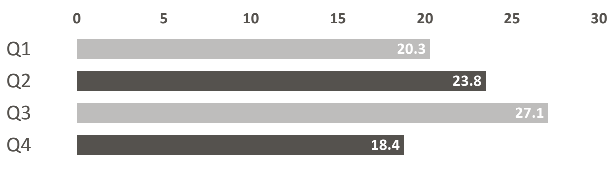
Sales growth by quarter (YoY) 2018

in %



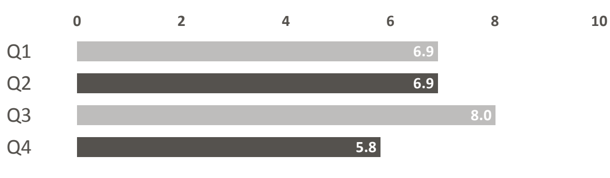
Adjusted EBIT by quarter 2018

in EUR millions



Adjusted EBIT margin by quarter 2018

in EUR millions



REDUCED MARGIN TARGET ACHIEVED: EARNINGS IMPROVEMENTS IN NORTH AMERICA FALL SHORT OF EXPECTATIONS DUE TO SHARPLY HIGHER STEEL PRICES AND A STRAIN ON CAPACITY UTILIZATION

At the beginning of the 2018 financial year, SAF-HOLLAND had expected a slight improvement in its adjusted EBIT margin to 8 to 8.5 %. The Group anticipated lower earnings in the first half of 2018 than in the second half based on the anticipated, gradual improvement in profitability in the Americas.

Due to significantly higher customer demand in North America than planned and supply bottlenecks along the entire value chain, the reduction in additional operating expenses and start-up costs for the restructured production network in North America progressed more slowly than expected during the 2018 financial year. As a result, the additional operating expenses for 2018 as a whole amounted to EUR 9.6 million. The sharp rise in steel prices in North America also increased costs and put pressure on the region's earnings in the total amount of EUR 11.3 million.

Based on these higher expenses, the Group initially reduced its adjusted EBIT margin target in July 2018 to a range of 7 to 8 %. SAF-HOLLAND narrowed its earnings forecast with the publication of preliminary figures for the third quarter in October 2018 and subsequently forecasted that the adjusted EBIT margin would tend toward the lower end of the 7 to 8 % range. This forecast also included extraordinary income of EUR 4.4 million from the partial settlement of a medical plan in the United States.

At 6.9 %, the Group achieved an adjusted EBIT margin at the lower end of the reduced range for the full year 2018.

	Actual 2017	Forecast 2018 (March 2018)	Adjustment July 2018	Adjustment October 2018	Actual business development 2018
Sales	EUR 1,138.9 million	Organic growth in a range of 4.0–5.0 %	Organic growth in a range of 5.0–7.0 % Additional sales contribution from acquisitions: EUR 60 million	Organic growth in range of 9.0–10.0 % Additional sales contribution from acquisitions: EUR 65–70 million	Organic growth of 12.2 % Additional sales contribution from acquisitions: EUR 70.9 million
Adjusted EBIT margin	8.0 %	Between 8.0–8.5 %	Between 7.0–8.0 %	Tending toward lower end of the range of 7.0–8.0 % (includes EUR 4.4 million extraordinary income)	6.9 % (includes EUR 4.7 million extraordinary income)
Net working capital ratio	11.0 %	12.0 %	–	–	13.5 %

NET WORKING CAPITAL RATIO RISES TO 13.5 %

The net working capital ratio in the 2018 financial year was 13.5 %, exceeding the forecast of 12.0 %. The main reason for the higher ratio was the deliberately higher inventories in North America to ensure on-time delivery to customers in the tight market environment. At the Group level, inventories increased by EUR 45.7 million to EUR 179.4 million compared with the end of 2017. The change in inventories resulted in an increase in the net working capital ratio of 180 basis points.

SALES AND EARNINGS PERFORMANCE

GROUP SALES GROW BY 14.2% AND REACH EUR 1.3 BILLION

In the 2018 financial year, SAF-HOLLAND increased Group sales by 14.2% to EUR 1,300.6 million (previous year: EUR 1,138.9 million). Organic sales – that is sales before currency and acquisition effects – increased by 12.2% to EUR 1,278.1 million. The successful market launch of new products enabled the Group to grow faster than the relevant truck and trailer markets during the reporting year and, consequently, expand its market share. The newly acquired companies, V.ORLANDI S.p.A., York Transport Equipment (Asia) Pte. Ltd. and Axscend Ltd., contributed a total of EUR 70.9 million to Group sales in 2018. This contribution was partially offset by negative currency effects of EUR 48.4 million, which originated primarily from the depreciation of the US dollar and Turkish lira against the euro.

All regions were able to increase their sales in 2018 as a whole. The strongest growth was recorded in the APAC/China region, driven by the integration of the York Group and organic growth.

ORGANIC GROWTH IN THE FOURTH QUARTER OF 9.0%; MAIN SALES DRIVER IS AMERICAS REGION

In the fourth quarter of 2018, sales increased by 16.6% to EUR 319.7 million (previous year: EUR 274.2 million) and by 9.0% on an organic basis. Negative currency effects in the quarter amounted to EUR 3.3 million. The sales contribution from acquisitions totaled EUR 24.2 million.

The Group benefited strongly from the high growth rates in the Americas region. In the EMEA region, solid growth continued in the last three months of the year, whereas business in China suffered from a sharp decline in export business to the US due to the trade dispute between the two countries. As a result, organic sales in the APAC/China region declined in the fourth quarter of 2018 after growing rapidly in the first nine months of the year.

Effect on Group sales

	Q4		Q1 – Q4	
	in EUR millions	Share of growth in %	in EUR millions	Share of growth in %
Sales in 2017	274.2	–	1,138.9	–
Organic growth	24.6	9.0	139.2	12.2
Currency effects	–3.3	–1.2	–48.4	–4.3
M&A	24.2	8.8	70.9	6.2
Sales in 2018	**319.7**	**16.6**	**1,300.6**	**14.2**

Sales performance by business area

	2018		2017	
	in EUR millions	% share	in EUR millions	% share
Original equipment business	998.8	76.0%	861.3	75.6%
Spare parts business	311.8	24.0%	277.6	24.4%
Total	**1,300.6**	**100.0%**	**1,138.9**	**100.0%**

ORIGINAL EQUIPMENT BUSINESS GROWS NEARLY 15% IN 2018

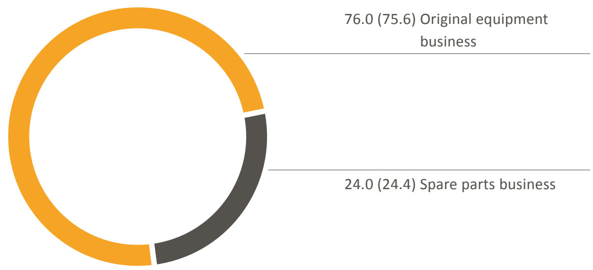
In the original equipment business, sales increased noticeably across all regions in the financial year 2018, rising 14.8% to EUR 988.8 million (previous year: EUR 861.3 million). The strongest percentage growth for the full year came from the APAC/China region, which benefited not only from the inclusion of the York Group but also from strong demand in the Chinese premium segment. The original equipment business in the Americas region was characterized by strong demand in the past fiscal year coupled with existing capacity bottlenecks throughout the entire supply chain. Over the course of the year, the region increasingly got a better grip on this challenge and increased its sales year-on-year, despite negative currency effects. In the EMEA region, sales in the OE business in 2018 also increased significantly. In addition to the contribution from the new acquisitions, V.ORLANDI and Axscend, the region benefited, above all, from a series of product launches, enabling it to gain additional market share in the region.

SPARE PARTS BUSINESS GAINS MOMENTUM OVER THE COURSE OF THE YEAR

After a moderate start to the year, sales growth in the spare parts business increased in the quarters that followed. For the year as a whole, sales increased by 12.3%, reaching EUR 311.8 million (previous year: EUR 277.6 million). In percentage terms, sales increased most in the APAC/China region, including the York Group and its established network of service stations in India. In absolute terms, however, the region's aftermarket business remained at a low level. The Americas region was able to work off some of its order backlog in the North American spare parts business in the second half of the year caused by capacity bottlenecks and the US plant consolidation. Despite negative currency effects, a clear double-digit sales increase was achieved in 2018. In the EMEA region, the spare parts business benefited from the steadily increasing number of SAF-HOLLAND installed systems in the market and the comparatively high age of the vehicles in many fleets. As a result, sales in this reagion were also higher.

Share of Group sales by business area in 2018

in %



INCOME STATEMENT

Income Statement

	2018		2017	
	in EUR millions	in % of sales	in EUR millions	in % of sales
Sales	1,300.6	100.0%	1,138.9	100.0%
Cost of sales	−1,101.3	−84.7%	−933.8	−82.0%
Gross profit	**199.3**	**15.3%**	**205.1**	**18.0%**
Other income	10.5	0.8%	1.6	0.1%
Other expenses	−0.8	−0.1%	0.0	0.0%
Selling expenses	−61.4	−4.7%	−62.1	−5.5%
Administrative expenses	−51.8	−4.0%	−53.6	−4.7%
Research and development costs	−19.6	−1.5%	−20.4	−1.8%
Operating result	**76.2**	**5.9%**	**70.6**	**6.2%**
Share of net profit of investments accounted for using the equity method	1.7	0.1%	2.1	0.2%
Earnings before interest and taxes	**78.0**	**6.0%**	**72.7**	**6.4%**
Financial result	−13.8	−1.1%	−16.5	−1.4%
Result before tax	**64.2**	**4.9%**	**56.2**	**4.9%**
Income taxes	−16.1	−1.2%	−15.2	−1.3%
Result for the period	**48.1**	**3.7%**	**41.0**	**3.6%**
Number of shares[1]	45,394,302		45,361,385	
Basic earnings per share in EUR	1.06		0.95	
Diluted earnings per share in EUR	0.92		0.82	

[1] Weighted average number of ordinary shares.

2018 OPERATING RESULT AND RESULT FOR THE PERIOD IMPROVE YEAR-ON-YEAR; SEVERAL EXTRAORDINARY FACTORS COMPLICATE COMPARISONS

In the 2018 reporting year and in the previous year, the SAF-HOLLAND Group's results contained a number of extraordinary effects that mainly concern the Americas region and should be taken into consideration.

The result of the 2018 financial year included additional operating expenses totaling EUR 9.6 million (previous year: EUR 10.3 million) for the restructured production network in North America. In addition to start-up-related production inefficiencies, these costs primarily resulted from express freight costs and higher logistics costs stemming from capacity bottlenecks. Over the course of 2018, the level of additional operating expenses was gradually reduced and, in the fourth quarter of 2018, they were at a level of EUR 1.4 million (previous year: EUR 6.3 million).

The sharp rise in steel prices in North America added costs of EUR 11.3 million in the 2018 financial year. Typically, SAF-HOLLAND is able to pass on the majority of such price increases, but this usually occurs only after a significant delay of up to six months. As the increases in steel prices were solely in the first half of the year, the higher purchase prices were successively passed on to customers. Consequently, the level of additional material costs incurred in the fourth quarter of 2018 was significantly lower than in previous quarters and amounted to EUR 1.1 million (Q3 2018: EUR 3.9 million; Q2 2018: EUR 4.3 million; Q1 2018: EUR 2.0 million).

Following the completion of the US plant consolidation, a local company agreement for the reimbursement of medical benefits for retirees (medical plan) was partial terminated. In the third quarter of 2018, one-time non-cash income of EUR 4.4 million was realized from the partial settlement of the underlying pension plan.

The measurement of the put option on the outstanding 42.5% stake in KLL resulted in income of EUR 8.1 million in the fourth quarter of 2018. The value of the call/put option is based on assumptions regarding KLL's future earnings development. This option is exercisable in 2020. Since the expected development of KLL's earnings in the 2020 financial year was lower as of the 2018 reporting date than at the same time in the previous year, the other financial liability resulting from the option declined. This was offset by an expense of EUR 0.8 million from the valuation of the call/put option for the acquisition of the outstanding 30.0% stake in V.ORLANDI S.p.A., resulting in net income of EUR 7.3 million in 2018 from the valuation of the call/put options.

Restructuring and transaction costs totaled EUR 9.0 million in 2018 (previous year: EUR 13.2 million). The main expenses in 2018 were the transaction costs (EUR 3.4 million) incurred in connection with the year's acquisitions. Most of the expenses in 2018 related to transaction and post-merger integration costs in connection with the acquisitions made during the reporting year (EUR 3.4 million). As a result of the reorganization of activities in the APAC/China region and the integration of the York Group, restructuring costs of EUR 1.5 million and EUR 1.6 million were incurred in China and Australia, in addition to the restructuring costs incurred for post-consolidation measures in North America in the amount of EUR 2.4 million. In the previous year, restructuring costs for the US plant consolidation amounted to EUR 10.9 million. In the fourth quarter of 2018, restructuring and transaction costs of EUR 3.7 million were incurred, which were predominantly in North America (EUR 1.1 million), China (EUR 0.9 million) and Australia (EUR 1.3 million). The transaction costs in the period from October to December 2018 amounted to EUR 0.4 million.

SHARP RISE IN STEEL PRICES AND UNFAVORABLE SEGMENT MIX LEAD TO LOWER GROSS MARGIN

As previously explained, the sharp year-on-year rise in steel prices, especially in the Americas region, resulted in additional material costs in the amount of EUR 11.3 million in the 2018 financial year. Consequently, the cost of sales rose disproportionately by 17.9 % to EUR 1,101.3 million in 2018 compared with the increase in sales (previous year: EUR 933.8 million). The gross profit of the Group therefore amounted to EUR 199.3 million (previous year: EUR 205.1 million), and the gross margin fell to 15.3 % (previous year: 18.0 %). The higher steel prices reduced the gross margin by 0.9 percentage points.

The lower gross margin was also due to an unfavorable product mix. Due to the stronger-than-average growth in the original equipment business, the share of the higher-margin spare parts business fell to 24.0 % in the 2018 financial year (previous year: 24.4).

At EUR 9.6 million, the additional operating expenses in 2018 that were related to the start-up of the new production network in North America were slightly below the previous year's level (previous year: EUR 10.3 million). Restructuring costs included in the cost of sales also declined to a level of EUR 4.1 million (previous year: EUR 11.2 million), largely as a result of the lower restructuring costs for the US plant consolidation, which had amounted to EUR 10.5 million in the previous year.

The previous year's gross profit had also benefited from positive effects in the amount of EUR 4.5 million, which were linked to the achievement of certain procurement volumes. This was in contrast to the corresponding income in the financial year 2018, which was significantly lower after being offset to a large extent by write-downs on inventories.

NUMBER OF EMPLOYEES INCREASE DUE TO GROWTH AND ACQUISITIONS

As of the December 31, 2018, reporting date, SAF-HOLLAND employed 4,470 people worldwide (previous year: 3,566), including temporary staff. Compared to the previous year, the number of employees increased by 25.4 %. This increase was largely due to the inclusion in the scope of consolidation of the SAF-HOLLAND Group of the two acquisitions completed in the 2018 financial year. The companies acquired – V. Orlandi and the York Group – had a total of 555 employees at the end of 2018. Excluding the new acquisitions, the Group's number of employees would have risen by just 10.7 %. The Group's strong organic growth in all reporting regions also made it necessary to hire additional employees to coincide with the expansion in capacity.

Development in employee numbers by region

	12/31/2018	12/31/2017
EMEA	1,498	1,399
Americas	1,835	1,606
APAC/China	1,137	561
Total	**4,470**	**3,566**

OPERATING EXPENSES VIRTUALLY UNCHANGED DESPITE SALES GROWTH; POSITIVE EFFECT FROM THE LIQUIDATION OF A PENSION PLAN

Total operating expenses (selling expenses, general administrative expenses, research and development costs and other operating expenses) amounted to EUR 133.5 million in 2018, which was 1.9 % below the previous year's level (EUR 136.1 million). Measured in terms of Group sales, the overall operating expense ratio fell to 10.3 % (previous year: 11.9 %). Excluding extraordinary income of EUR 4.7 million from the partial settlement of the pension plan in the US that was included in general administrative expenses, the total operating expense ratio would have been 10.6 % (previous year: 11.9 %). The key drivers for the positive trend in operating expenses were the cost-saving measures successfully implemented throughout the Group.

The Group spent EUR 19.6 million on research and development in 2018 (previous year: EUR 20.4 million). Development costs of EUR 4.3 million (previous year: EUR 4.2 million) were capitalized and partially offset by scheduled amortization of EUR 1.8 million (previous year: EUR 1.1 million). Including capitalized development costs, the Group spent EUR 23.9 million (previous year: EUR 24.6 million) on research and development (R&D). Due to the sharp increase in sales in the 2018 financial year, the R&D ratio fell to 1.8 % (previous year: 2.2 %).

Other income totaled EUR 10.5 million in the 2018 financial year (previous year: EUR 1.6 million). The significant increase resulted from the income of EUR 8.1 million previously described that originated from the measurement of the call/put option on outstanding shares in KLL. The valuation of the call/put option for the acquisition of the outstanding shares in V.ORLANDI S.p.A., in contrast, resulted in an expense EUR 0.8 million, which was recognized in other operating expenses.

EBIT INCREASES BY 7.2 %

Earnings before interest and taxes (EBIT) rose by 7.2 % to EUR 78.0 million in 2018 (previous year: EUR 72.7 million), resulting in an EBIT margin of 6.0 % (previous year: 6.4 %). The burden of EUR 11.3 million from higher steel prices outweighed the extraordinary income of EUR 4.7 million from the settlement of the pension plan and the decline in restructuring and transaction costs from EUR 13.2 million in 2017 to EUR 9.0 million in the reporting year and the reduction in additional operating expenses from EUR 10.3 million to EUR 9.6 million.

AT 6.9 %, ADJUSTED EBIT MARGIN REACHES THE LOWER END OF THE REVISED FORECAST OF 7 TO 8 %

On an adjusted basis (including the one-time restructuring and transaction costs and the effects of the purchase price allocation), EBIT in the 2018 financial year was 1.8 % below the prior year's level at EUR 89.6 million (previous year: EUR 91.2 million). The adjusted EBIT margin reached 6.9 % (previous year: 8.0 %), placing it at the lower end of the 7 – 8 % forecast range adjusted in October 2018. In accordance with the definition of adjusted EBIT, the income from the partial settlement of the US medical plan was not adjusted in the calculation of adjusted EBIT. Excluding this income, adjusted EBIT would have amounted to EUR 84.9 million and the adjusted EBIT margin to 6.5 % in the 2018 financial year. The decline in the adjusted EBIT margin compared with the previous year was mainly due to higher steel prices, which caused a 0.9 percentage point decline in the full-year 2018 margin.

Due to their operational nature, the additional operating expenses in the amount of EUR 9.6 million (previous year: EUR 10.3 million) from North America mentioned above were neither adjusted in the reporting year or the prior year and were therefore fully recognized as expenses in the adjusted EBIT in both years.

In the fourth quarter of 2018, adjusted EBIT amounted to EUR 18.4 million (previous year: EUR 18.5 million), and the adjusted EBIT margin equaled 5.8 % (previous year: 6.7 %). The year-on-year decline in the margin resulted from the aforementioned income of EUR 4.5 million in the same quarter of the previous year, which was linked to the achievement of certain purchasing volumes, and the additional costs resulting from higher steel prices (EUR 1.1 million).

Reconciliation of operating results to adjusted EBIT

in EUR millions

	2018	2017
Operating result	76.2	70.6
Share of net profit of investments accounted for at equity	1.7	2.1
EBIT	**78.0**	**72.7**
Additional depreciation/amortization of property, plant and equipment and intangible assets from PPA	8.8	5.3
Step-up purchase price allocation from valuation of inventory from acquisitions	1.1	0.0
Measurement effects from call and put options	–7.3	0.0
Restructuring and transaction costs	9.0	13.2
Adjusted EBIT	**89.6**	**91.2**
Depreciation/amortization (incl. from purchase price allocation)	29.5	24.6
EBITDA	**107.5**	**97.4**
Adjusted EBITDA	**111.1**	**110.6**

FINANCIAL RESULT IMPROVES FOLLOWING REPAYMENT OF HIGH-YIELD CORPORATE BOND

Following the repayment of a corporate bond with a coupon of 7.0% in April 2018, net interest expenses from the Group's interest-bearing loans and bonds fell to EUR 9.5 million (previous year: EUR 13.3 million). The financial result improved overall to EUR –13.8 million in the 2018 financial year (previous year: EUR –16.5 million) and included pension-related financial expenses of EUR 0.9 million (previous year: EUR 1.1 million), as well as amortization of transaction costs of EUR 0.6 million (previous year: EUR 0.8 million). Other expenses in the amount of EUR 2.8 million (previous year: EUR 1.3 million) include liabilities related to the put option for the outstanding shares in KLL.

2018 RESULT FOR THE PERIOD AROUND 17% HIGHER VERSUS THE PRIOR YEAR

As a result of the higher level of earnings before interest and taxes and the better financial result, the result before tax rose by 14.1% year-on-year to EUR 64.2 million (previous year: EUR 56.2 million). The tax rate fell slightly to 25.1% in the 2018 financial year (previous year: 27.2%) as the Group benefited from lower corporate tax rates in the United States.

The result for the period for the 2018 financial year increased by 17.3% to EUR 48.1 million in 2018 (previous year: EUR 41.0 million). Based on approximately 45.4 million ordinary shares outstanding, basic earnings per share equaled EUR 1.06 (previous year: EUR 0.95) and diluted earnings per share amounted to EUR 0.92 (previous year: EUR 0.82).

The result for the period in the fourth quarter of 2018 amounted to EUR 11.0 million and was 4.8% higher than in the prior year (previous year: EUR 10.5 million). On a quarterly basis, the aforementioned income of EUR 7.3 million from the measurement of the call/put option on the outstanding shares in KLL more than offset the burden of higher steel prices (EUR 1.1 million) and the absence of the income in the same quarter of the previous year for the achievement of certain purchase quantities (EUR 4.5 million). As a result, basic earnings per share reached EUR 0.24 in the fourth quarter of 2018 (previous year: EUR 0.26), and diluted earnings per share amounted to EUR 0.21 (previous year: EUR 0.22).

Reconciliation of adjusted earnings figures

in EUR millions

	2018	2017
Result for the period	48.1	41.0
Income taxes	16.1	15.2
Financial result	13.8	16.5
Depreciation/amortization from purchase price allocation[1]	8.8	5.3
Step-up purchase price allocation from valuation of inventory from acquisitions	1.1	0.0
Measurement effects from call and put options	–7.3	0.0
Restructuring and transaction costs	9.0	13.2
Adjusted EBIT	**89.6**	**91.2**
in % of sales	6.9	8.0
Adjusted result for the period	**55.5**[2]	**52.7**[3]
in % of sales	4.3	4.6
Number of shares[4]	45,394,302	45,361,385
Adjusted basic earnings per share in EUR[5]	**1.22**	**1.16**
Adjusted diluted earnings per share in EUR[6]	**1.05**	**1.00**

[1] Includes a loss in disposal of KEUR 847
[2] A uniform tax rate of 26.8 % was assumed to calculate the adjusted result for the period.
[3] A uniform tax rate of 29.4 % was assumed to calculate the adjusted result for the period.
[4] Weighted average number of ordinary shares.
[5] The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR 0 million (previous year: EUR –1.9 million).
[6] Calculated taking into account 8.3 million share equivalents (previous year: 8.3 million) and EUR 1.2 million (previous year: EUR 1.2 million) of earnings contribution from the convertible bonds issued in 2014 and non-controlling interests of EUR 0 million (previous year: EUR –1.9 million).

ADJUSTED RESULT FOR THE PERIOD IMPROVES BY 2.9 %

The adjusted result for the period increased by 5.3 % in the 2018 financial year to EUR 55.5 million (previous year: EUR 52.7 million). Restructuring and transaction costs, along with the effects of purchase price allocation, were adjusted for in the calculation of the adjusted result for the period, in line with the calculation for adjusted EBIT. Due to their operational nature, the additional operating expenses and additional material costs from the higher steel prices were not adjusted for but rather recognized as an expense in full in the adjusted result for the period. There was also no adjustment made for the income from the partial settlement of the US medical plan.

The reduction in the US corporate tax rate contributed to a reduction in the uniform tax rate used to calculate the adjusted result for the period to a level of 26.8 % (previous year: 29.4 %).

Based on approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the year as a whole amounted to EUR 1.22 (previous year: EUR 1.16) and adjusted diluted earnings per share amounted to EUR 1.05 (previous year: EUR 1.00).

PROPOSED DIVIDEND OF EUR 0.45 PER SHARE

SAF-HOLLAND’s dividend policy seeks to distribute dividends to shareholders equal to between 40 % and 50 % of the result for the period. The proposal of the Group Management Board and the Board of Directors to distribute a dividend of EUR 0.45 per share (previous year: EUR 0.45) for the 2018 financial year corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.4 million) and a payout ratio of 42.4 % (previous year: 49.8 %) of the result for the period. Based on the year-end closing price of EUR 11.20 for SAF-HOLLAND shares in 2018, the dividend yield for shareholders would be 4.0 % (previous year: 2.5 %).

SEGMENT REPORTING

Regional overview

in EUR millions

	EMEA[1]		Americas		APAC/China[1]		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Sales	658.9	611.6	471.6	429.4	170.1	97.9	1,300.6	1,138.9
Cost of sales	−529.2	−483.7	−424.6	−371.9	−147.5	−78.2	−1,101.3	−933.8
Gross profit	**129.7**	**127.9**	**47.0**	**57.5**	**22.5**	**19.7**	**199.3**	**205.1**
in % of sales	19.7	20.9	10.0	13.4	13.3	20.2	15.3	18.0
Sundry operating income and expenses[2]	−58.3	−60.1	−38.5	−41.4	−12.9	−12.4	−109.7	−113.9
Adjusted EBIT	**71.4**	**67.8**	**8.5[3]**	**16.1**	**9.7**	**7.3**	**89.6**	**91.2**
in % of sales	10.8	11.1	1.8	3.7	5.7	7.5	6.9	8.0

1 Adjustments to 2017 reported figures due to the change in segment reporting.
2 Sundry income and expenses consist of selling and administrative expenses, research and development costs, other income and the share of net profit of investments accounted for using the equity method less restructuring and transaction costs of EUR 9.0 million (previous year: EUR 13.2 million) and depreciation/amortization from PPA of EUR 8.8 million (previous year: EUR 5.3 million).
3 Including extraordinary income of EUR 4.7 million.

SOLID SALES AND EARNINGS GROWTH IN THE EMEA SEGMENT

In the course of the acquisition of the York Group, the SAF-HOLLAND Group's business in India was assigned to the APAC/China region after belonging to the EMEA/I region in the previous year. Consequently, the region was renamed the EMEA region. The previous year's figures have been adjusted accordingly. As the sales and earnings contributions from India were negligible in the 2017 financial year, there is only an insignificant effect from this reclassification.

In the 2018 financial year, the EMEA region grew its sales by 7.7 % to EUR 658.9 million (previous year: EUR 611.6 million). On a currency-adjusted basis and excluding the first-time contribution of V.ORLANDI and Axscend totaling EUR 18.8 million, sales in the region grew by 7.2 %. Negative currency effects amounted to EUR 15.4 million and resulted mainly from the devaluation of the Turkish lira against the euro. In the fourth quarter of 2018, sales rose by 7.1 % (organic sales up 6.1 %) to EUR 158.2 million (previous year: EUR 147.7 million).

The market environment for trucks and trailers in Europe remained favorable throughout 2018. In contrast to the cautious expectations at the beginning of the year, fleet operators continued to invest in the expansion and renewal of their transport capacities. SAF-HOLLAND's original equipment business also benefited from new product launches and market share gains in key regional markets. SAF-HOLLAND was able to boost its sales, especially in the truck sector. The region's aftermarket business also developed solidly, despite the high prior-year comparisons.

The strongest boost to growth in the 2018 financial year came from the southern European countries of Spain, Italy and France. Business in Eastern Europe, especially in Poland and Russia, also continued to grow. Despite the difficult political environment in some countries in the region, SAF-HOLLAND recorded solid overall development in key markets in the Middle East and Africa. The assembly plant for the manufacturing of axle systems in Düzce, Turkey, which opened in March 2017, made a significant contribution to this performance. The plant in Turkey was well utilized throughout 2018. Demand not only stemmed from domestic customers, but also from customers in major neighboring countries, alongside strong exports to Western and Southern Europe.

Sales of V.ORLANDI, acquired in April 2018, were fully in line with expectations in the past financial year. V.ORLANDI achieved profitability that was considerably higher than the Group's average.

In the 2018 financial year, the EMEA region recorded adjusted EBIT of EUR 71.4 million (previous year: EUR 67.8 million) and an adjusted EBIT margin of 10.8 % (previous year: 11.1 %). Steady process improvements and economies of scale as a result of the higher business volumes largely offset the negative effects of steel prices, which had also seen a noticeable rise in Europe. The inclusion of V.ORLANDI also had a positive effect on margins and earnings. In addition, the income linked to the achievement of certain purchasing volumes in procurement was significantly lower than in the prior year.

In the period from October to December 2018, the EMEA region achieved an adjusted EBIT of EUR 14.4 million (previous year: EUR 19.5 million) and an adjusted EBIT margin of 9.1 % (previous year: 13.2 %) – despite the negative currency effects. When comparing these figures to those in the prior year, it is important to take into account the income recognized from the achievement of certain purchase quantities in procurement.

PROFITABILITY IN THE AMERICAS GRADUALLY IMPROVES OVER THE COURSE OF THE YEAR

Sales in the Americas region increased by 9.8 % to EUR 471.6 million in 2018 (previous year: EUR 429.4 million). Adjusted for negative currency effects of EUR 24.9 million – mainly caused by the development of the euro against the US dollar – the region was able to increase organic sales by 15.6 %. Sales momentum increased steadily during the course of the year, and in the last quarter of 2018, sales in the Americas region increased by 25.1 % (organic growth of 22.2 %) to EUR 117.8 million (previous year: EUR 94.1 million).

The market environment in North America in the 2018 financial year was marked by extremely strong customer demand for truck and trailer components, which led to capacity bottlenecks throughout the entire supply chain across the industry. This forced SAF-HOLLAND's capacity utilization beyond the economically optimum level. Nevertheless, SAF-HOLLAND made a deliberate decision to make timely delivery to its customers and defending market share its highest priorities. As a result, the reduction of the remaining production inefficiencies in the restructured production network did not proceed at the planned pace. The Group therefore incurred additional expenses, consisting primarily of express freight and higher logistics costs, which totaled EUR 9.6 million in the full year 2018 (previous year: EUR 10.3 million). The Group was able to successively reduce additional operating expenses as the year progressed, and after still incurring expenses of EUR 3.9 million in the first quarter of 2018, expenses fell to only EUR 1.4 million by the final quarter of 2018.

The progress made in better integrating the capacity planning and logistics processes made it possible to improve deliveries to the aftermarket starting in mid-2018. This enabled the Group to gradually work off its existing order backlog and achieve a significant double-digit increase in sales in the aftermarket business for the full year 2018.

Costs were also forced higher by the sharp rise in steel prices in North America. Typically, SAF-HOLLAND is able to pass on the majority of such price increases, but this usually occurs only after a significant delay of up to six months. After steel prices rose sharply in North America in the first half of 2018, they began to decline again in the middle of the third quarter of 2018. Nevertheless, the average price for the year was significantly higher than in the prior year. As a result of the aforementioned delay in passing on these higher costs, the burden for the 2018 financial year totaled EUR 11.3 million. The highest additional costs were recorded in the second quarter of 2018 and amounted to EUR 4.3 million. The ability to pass on the higher costs as the year progressed led to a gradual reduction in these costs in the third and fourth quarters (EUR 3.9 million and EUR 1.1 million).

The Brazilian company KLL, which was acquired in 2016, achieved double-digit sales growth in 2018 in both the local currency and in euros. KLL benefited from the continuing recovery in the Brazilian market.

The adjusted EBIT of the Americas region amounted to EUR 8.5 million in 2018 (previous year: EUR 16.1 million), and the adjusted EBIT margin was 1.8 % (previous year: 3.7 %). These results included the aforementioned additional operating expenses of EUR 9.6 million (previous year: EUR 10.3 million) and additional costs of EUR 11.3 million resulting from higher steel prices. There was a positive effect, however, from the partial settlement of a US medical plan which resulted in extraordinary income of EUR 4.4 million in the third quarter of 2018. Income from the measurement of the call/put option on the outstanding shares in KLL was recognized in transaction costs and is therefore not included in the adjusted EBIT.

The Americas region significantly improved its adjusted EBIT in the fourth quarter of 2018 to EUR 2.0 million (previous year: EUR –3.9 million). The adjusted EBIT margin in the quarter was 1.7 % (previous year: –4.1 %). The previous year's quarter included additional operating expenses of EUR 6.3 million (Q4 2018: EUR 1.4 million). The adjusted EBIT margin also increased slightly compared to the third quarter of 2018 (adjusted EBIT margin of 1.6 % excluding extraordinary income mentioned), although the fourth quarter is usually weaker due to the lower number of working days.

SEGMENT APAC/CHINA ENTERS A NEW SALES DIMENSION WITH YORK TAKEOVER

As previously mentioned, India was assigned to the APAC/China region (formerly EMEA/I) as part of the acquisition of the York Group. The previous year's figures have been adjusted accordingly.

Boosted by York's sales contribution of EUR 52.1 million (consolidated as of May 1, 2018) and strong organic growth of 28.9 %, sales in the APAC/China region grew by 73.9 % in 2018 to EUR 170.2 million (previous year: EUR 97.9 million). Currency effects amounted to EUR –8.1 million. As a result, the APAC/China region was able to increase its share of Group sales from 8.6% in the previous year to 13.1%.

Strong organic growth in the APAC/China region was driven largely by strong demand for trailer components in the Chinese premium segment. The introduction of statutory load limits for commercial vehicles, as well as tightened safety regulations for the transportation of dangerous goods and automobiles, continued to prompt fleet operators to invest heavily in new vehicles. SAF-HOLLAND is well positioned for this demand given its weight-saving components and range of air suspension and axle systems with high-performance disc brake technology. With its focus on the Chinese premium segment, SAF-HOLLAND largely managed to escape the effects of the weaker overall market conditions in China in 2018. As a result, the Group's subsidiary in Xiamen, where the trailer components business in China is centralized, was able to record strong sales growth for the year as a whole.

In 2018, progress was made in the construction of the new production center at the Yangzhou site in China, with operating space of around 46,000 m², which will give SAF-HOLLAND the required capacity for the strong demand from the Chinese premium segment that is expected in the years ahead. The new plant is scheduled to commence operation in mid-2019 and, in terms of capacity, will be the largest and most sophisticated plant within the SAF-HOLLAND Group.

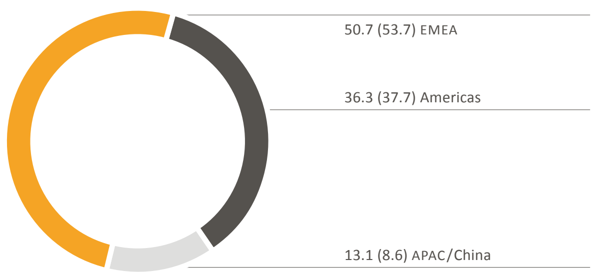
SAF-HOLLAND has also been able to further increase its sales and earnings in the important Australian transportation market, where demand rose considerably on the back of rising commodity prices. Business development at the Chinese subsidiary Corpco Beijing Technology and Development Co. Ltd. (Corpco), in contrast, remained sluggish. As a result, Corpco has started reorienting its business and expanding its bus suspension product portfolio to include the smaller bus segment. Production at the Baotou site will end in the first quarter of 2019 and will be transferred to the new production center in the intermediate term.

In the fourth quarter of 2018, the APAC/China region increased sales by 35.3% (organic sales: –16.3%) to EUR 43.8 million (previous year: EUR 32.4 million). Business at the Chinese subsidiary in Xiamen suffered from the significant decline in exports to the United States as a result of the trade dispute between the two countries.

Adjusted EBIT in the APAC/China region increased to EUR 9.7 million in 2018 (previous year: EUR 7.3 million), and the adjusted EBIT margin amounted to 5.7% (previous year: 7.5%). The lower margin compared to the prior year mainly resulted from up-front costs in connection with the construction of the new production center in China and the creation of the corresponding administrative structures. As expected, the first-time inclusion of York resulted in margin dilution in the region for the year as a whole. York, however, has already noticeably improved its margin, reaching a margin that exceeds the Group's average for the first time in the fourth quarter of 2018. The APAC/China region overall achieved an adjusted EBIT of EUR 2.1 million in the fourth quarter of 2018 (previous year: EUR 2.9 million) and an adjusted EBIT margin of 4.8% (previous year: 9.0%). The aforementioned decline in exports had a negative impact on capacity utilization at the Xiamen plant and led to a decline in margins overall.

Group sales by segment in 2018 (2017)

in %



NET ASSETS

SLIGHT DECLINE IN TOTAL ASSETS

The Group's growth and acquisitions during the 2018 financial year were largely funded by existing liquidity. Consequently, this led to a decline in total cash and cash equivalents as well as in other short-term investments to EUR 155.0 million in the 2018 financial year (December 31, 2017: EUR 337.1 million). The scheduled redemption of the corporate bond with a nominal volume of EUR 75.0 million in April 2018 also contributed to this decline. Total assets as of December 31, 2018, amounted to EUR 977.4 million and were 2.1% below their level at the end of 2017 (EUR 998.1 million).

GROWTH-RELATED INCREASE IN NET WORKING CAPITAL

Net working capital increased by EUR 51.9 million to EUR 172.5 million in the 2018 financial year. Contributing factors were the strong organic business expansion and the inclusion of the acquired companies. SAF-HOLLAND also consciously decided to increase inventories in North America in order to ensure timely delivery to customers in the tight market environment. This decision caused a rise in inventories by EUR 45.7 million to EUR 179.4 million (previous year: EUR 133.7 million).

Trade receivables, in contrast, increased only slightly and amounted to EUR 138.9 million at the end of 2018 (previous year: EUR 135.7 million). Trade payables grew year-on-year by EUR 14.9 million to EUR 129.1 million (previous year: EUR 114.2 million). Due to the disproportionate increase in net working capital versus sales growth, the net working capital ratio at the end of the 2018 financial year rose to 13.5% (December 31, 2017: 11.0%).

Due to the disproportionate increase in net working capital versus sales growth, the net working capital ratio at the end of the 2018 financial year rose to 13.5% (December 31, 2017: 11.0%).

NOTICEABLY REDUCED RECEIVABLES UNBURDEN NET WORKING CAPITAL IN THE FOURTH QUARTER OF 2018

After an interim increase in net working capital in the course of the first nine months of 2018 (EUR 97.3 million), net working capital declined by EUR 45.4 million in the fourth quarter of 2018. This drop was primarily due to a EUR 68.1 million reduction in trade receivables. Inventories declined by EUR 14.6 million at the same time, which was offset by a reduction in trade payables of EUR 30.4 million. As a result, the net working capital ratio in the fourth quarter of 2018 improved by 250 basis points.

ACQUISITIONS LEAD TO HIGHER NON-CURRENT ASSETS

The acquisitions of V.ORLANDI and York and, to a lesser extent, Axscend largely contributed to the EUR 94.5 million increase in non-current assets to EUR 472.3 million (December 31, 2017: EUR 377.8 million). Most of this increase stemmed from goodwill (additional EUR 30.4 million), other intangible assets (additional EUR 41.0 million) and property, plant and equipment (additional EUR 25.5 million).

Overview of net assets

in EUR millions

	12/31/2018	12/31/2017
Total assets	977.4	998.1
Equity	332.6	301.0
Equity ratio in %	34.0	30.2
Net debt[1]	213.4	105.5
Net working capital	172.5	120.6
Net working capital in % of sales	13.5	11.0

[1] Taking into account cash and cash equivalents and other short-term investments of EUR 155.0 million as of December 31, 2018 (December 31, 2017: EUR 337.1 million).

EQUITY RATIO IMPROVES TO 34.0%

Equity totaled EUR 332.6 million as of December 31, 2018, which was EUR 31.6 million higher than at the end of 2017, and the equity ratio improved to 34.0% (December 31, 2017: 30.2%). Equity was impacted by the net result for the period of EUR 48.1 million and the increase in non-controlling interests of EUR 8.9 million following the first-time consolidation of V.ORLANDI. Equity was reduced by EUR 20.4 million from the distribution of the dividend for the 2017 financial year. For further details on the development of equity, please refer to the consolidated statement of changes in equity on page 86.

NET DEBT RISES IN FULL-YEAR 2018 TO EUR 213.4 MILLION; SIGNIFICANT DECLINE IN THE FOURTH QUARTER

A corporate bond with a nominal volume of EUR 75.0 million was redeemed on schedule at the end of April 2018. As a result, non-current and current liabilities from interest-bearing loans and bonds fell to EUR 368.4 million at the end of 2018 (December 31, 2017: EUR 442.6 million). Based on the decline in liquid funds, net debt increased to EUR 213.4 million as of December 31, 2018 (December 31, 2017: EUR 105.5 million) and was largely attributable to the purchase price payments for the acquisitions, gross finance liabilities of around EUR 20 million assumed as part of the acquisitions, as well as to the distribution of the dividend.

Due to the reduction in net working capital in the fourth quarter of 2018, net debt also declined by EUR 59.5 million in this period (as of September 30, 2018: EUR 272.9 million).

FINANCIAL POSITION

CASH FLOW BEFORE CHANGES IN NET WORKING CAPITAL CLOSE TO PRIOR YEAR'S LEVEL

Cash flow before changes in net working capital reached EUR 104.9 million in the 2018 financial year, which was 5.4 % higher than in the prior year (EUR 99.5 million). The higher result before tax (EUR 64.2 million compared to EUR 56.2 million) and higher amortization/depreciation of intangible assets and property, plant and equipment (EUR 29.5 million compared to EUR 24.6 million) had a positive effect. This was offset by non-cash transactions amounting to EUR 7.3 million, which resulted from the measurement of the put/call options.

The strong business expansion led to a cash-effective build-up of net working capital of EUR 38.4 million in 2018 financial year (previous year: EUR 25.4 million). The main effects resulted from the change in inventories (EUR –27.1 million compared to EUR –13.8 million) and trade payables (EUR –7.3 million compared to EUR 13.9 million). The change in trade receivables, on the other hand, resulted in a cash inflow of EUR 1.1 million (previous year: cash outflow of EUR 27.0 million).

Cash flow from operating activities before income taxes paid reached EUR 66.5 million in the 2018 financial year (previous year: EUR 74.1 million). Due to higher income taxes paid (EUR 25.7 million compared to EUR 17.3 million), the net cash flow from operating activities of EUR 40.8 million was 28.0 % below the previous year's figure (EUR 56.7 million).

NET CASH FLOW FROM OPERATING ACTIVITIES IMPROVED SIGNIFICANTLY IN THE FOURTH QUARTER OF 2018

The described reduction in net working capital in the fourth quarter of 2018, and particularly the decline in trade receivables, led to a significantly better level of net cash flow from operating activities of EUR 73.8 million in the final quarter of 2018 (previous year: EUR 33.2 million).

Overview of financial position

in EUR millions

	2018	2017
Cash flow from operating activities before income taxes paid	66.5	74.1
Cash conversion rate in %[1]	74.2	81.3
Net cash flow from operating activities	40.8	56.7
Net cash flow from investing activities	–39.6	–84.3
Investments in property, plant and equipment and intangible assets	40.8	27.1
in % of sales	3.1	2.4
Net cash flow from financing activities	–124.1	–33.7
Free cash flow[2]	0.0	29.7

[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.

PLANNED INCREASE IN INVESTMENTS

Payments for investments in property, plant and equipment and intangible assets increased as planned in 2018 by 50.6 % to EUR 40.8 million (previous year: EUR 27.1 million). As expected, the investment ratio of the SAF-HOLLAND Group in the financial year 2018 rose to 3.1 % (previous year: 2.4 %). One of the key investments made in 2018 was the construction of the new production center in China, which was allocated a high single-digit million euro amount.

Payments for the acquisitions of V.ORLANDI, York and Axscend totaled EUR 58.7 million in 2018 and were funded by the proceeds from the sale of other short-term investments of EUR 58.2 million. In the previous year, the purchase of other short-term financial assets within the scope of disposing of financial funds led to a cash outflow of EUR 58.1 million. Accordingly, net cash flow from investing activities amounted to EUR –39.6 million in the 2018 financial year (previous year: EUR –84.3 million).

CASH FLOW FROM FINANCING ACTIVITIES AFFECTED BY MATURITY OF CORPORATE BOND AND DIVIDEND PAYMENT

In addition to the dividend payment of EUR 20.4 million (previous year: EUR 20.0 million), cash flow from financing activities mainly included the redemption of the corporate bond with a coupon of 7.0 % at the end of April 2018 in the amount of EUR 75.0 million. Net cash flow from financing activities totaled EUR –124.1 million in the 2018 financial year (previous year: EUR –33.7 million).

GROWTH IN NET WORKING CAPITAL LEADS TO BALANCED FREE CASH FLOW FOR 2018 AS A WHOLE; FREE CASH FLOW IN THE FOURTH QUARTER AT EUR 58.3 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) was almost break-even in 2018 at EUR 0.0 million (previous year: EUR 29.7 million). The decline in free cash flow compared to the previous year was due, in part, to the rise in net working capital. Consciously increasing inventories in North America to ensure timely delivery to customers in the tight market environment contributed to this decline. In addition, SAF-HOLLAND increased its investments in the 2018 financial year by around 50% compared to the prior year, most of which went into digitization projects and the new plant in China.

As a result of the reduction in net working capital in the fourth quarter of 2018 and the associated improvement in net cash flow from operating activities, there was a significant increase in free cash flow of EUR 58.3 million in the fourth quarter of 2018 (previous year: EUR 26.8 million).

TOTAL LIQUIDITY AT THE END OF 2018 ADDS UP TO MORE THAN EUR 350 MILLION

As of December 31, 2018, total liquidity consisting of cash and cash equivalents, other short-term investments, and the agreed credit lines, amounted to EUR 350.8 million (previous year: EUR 481.0 million). While cash and cash equivalents and other short-term investments fell by EUR 123.8 million and EUR 58.3 million, respectively, the scope of the agreed credit lines increased by EUR 51.7 million to EUR 208.0 million (previous year: EUR 156.3 million). For more information on the development of total liquidity, please refer to the explanations in the Notes on page 131.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2018 FINANCIAL YEAR

The year 2018 was mixed overall for the SAF-HOLLAND Group. On the sales side, not only could the Group far exceed its goal of organic growth of 4 – 5%, but it was the first time that the Group achieved sales of more than EUR 1.3 billion. The flip side of this strong growth is reflected in the unsatisfactory earnings performance in North America. Strong customer demand caused the Group to operate with capacity utilization in the US that exceeded the economically optimal level. SAF-HOLLAND made a conscious decision to make timely delivery to its customers and defending market share its highest priorities. As a result, the planned reduction in the remaining production inefficiencies in the restructured US plant network did not progress as quickly as planned, making it necessary again to incur additional expenses. In addition, the import tariffs on steel products imposed by the US government led to a sharp rise in steel prices in North America. Although we were largely successful in passing on the higher prices to our customers by the end of 2018, the rise in steel prices still placed a burden on our profitability in the amount of EUR 11.3 million in the 2018 financial year. This burden corresponded to a negative effect of 0.9 percentage points on our margin.

Against this backdrop, it was not possible to achieve the original target range of 8.0% – 8.5% for the adjusted EBIT margin in the 2018 financial year. The reported IFRS figures for the 2018 financial year reflect this development to only a limited extent, as the Group had also benefited from two extraordinary non-cash items: the partial settlement of a medical plan in the US and the measurement of the call/put option on the outstanding shares of KLL and V.Orlandi.

Despite the unsatisfactory situation in the Americas, SAF-HOLLAND reached important milestones in implementing the goals of the 2020 growth strategy during the past financial year. With the acquisitions of V.ORLANDI, York and Axscend in 2018 and then PressureGuard and Stara in the first months of 2019, it was not only possible to strengthen our market position but also gain important technological know-how for the Group. A new production center is currently being built in China and is scheduled to start production in the second half of the year 2019. This new plant will not only be the Group's most sophisticated but also its largest in terms of capacity.

We consider the year 2019 to be a transitional year. The focus of the management will be on optimizing the processes and, as a result, significantly improving the earnings situation in North America. In addition, it will be important to position the Group in such a way that it can continue to participate disproportionately in the structural growth in the target markets and thereby achieve the goals of the 2020 growth strategy.

OPPORTUNITIES AND RISK REPORT

FUNDAMENTALS OF THE SAF-HOLLAND GROUP RISK MANAGEMENT SYSTEM

SAF-HOLLAND has a comprehensive risk management system that is anchored in all of the major operational business and decision-making processes and implemented Group-wide by the Management Board. The risk management system is designed to identify potential risks at an early stage through the continual monitoring of relevant markets, regions, customers, suppliers and internal processes to be able to take effective counteractions. Identified risks that are significant in their amount and can reasonably be expected to occur are systematically and uniformly recorded, analyzed, evaluated and communicated to the greatest extent possible. General risks (such as macroeconomic risk) that are not directly related to the Company and risks that are not to be monitored (for example natural catastrophes) are deliberately omitted from the risk management system. The risk management system exists exclusively to identify risks and not to recognize opportunities.

A risk management handbook is continuously updated for effectiveness and appropriateness and made 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.

INTERNAL CONTROLLING SYSTEM BASED ON THE GROUP ACCOUNTING PROCESS

All of the Group's core accounting functions, 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 is reported to this department for the purpose of consolidation in accordance with uniform guidelines and defined processes.

An internal controlling and risk management system (ICS) 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 principle of double-checking is applied.

The risk-adequate design of the ICS and the guarantee of compliance with its specifications, rules and process instructions are the responsibility of the Group 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 development and 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 Group 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. The audit of the annual financial statements also includes the financial statements of the subsidiaries included in the consolidated financial statements, which in turn supports the ICS of the Group as a whole.

HIGHER OVERALL POTENTIAL RISK AT THE SAF-HOLLAND GROUP IN THE 2018 FINANCIAL YEAR RESULTING FROM BUSINESS EXPANSION AND A RISE IN THE GENERAL RISK SITUATION

Risk assessment is based on the criteria "probability of occurrence" and "extent of risk." The risks are subdivided into "low," "medium" and "significant" risks in accordance with the chart below. Risks are classified as "significant" starting at an extent of risk of more than EUR 1.5 million (with a probability of occurrence of at least 70 %) or at an extent of risk of more than EUR 3.0 million (with a probability of at least 30 %). Conversely, risks are classified as "low" at an extent of risk of less than EUR 1.5 million (with a probability of occurrence of no more than 10 %), or at an extent of risk of between EUR 1.5 million and EUR 3.0 million (with a probability of occurrence of no more than 10 %).

The extent of risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) and before any risk mitigation measures (gross assessment).

Risk categories

Extent 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

Based on a gross assessment, the overall potential risk of the SAF-HOLLAND Group at the end of the 2018 financial year increased by slightly more than 20 % to around EUR 40 million (previous year: around EUR 33 million). This increase in risk originated from the 14.2 % expansion in sales over the past financial year since higher business volumes usually go hand-in-hand with higher risk. Increased risk also stemmed from a number of external factors, such as continued global trade conflicts, the entry into force of the EU Data Protection Regulation and the increasing scarcity of skilled labor. Nevertheless, in view of the Group's business volume and economic situation, we still consider the risks within the overall risk situation that can be directly influenced by the Group to be quantifiable and well manageable. Adequate precaution was made for identifiable accounting risks in the form of depreciation, impairment and provisions in accordance with the relevant IFRS standards. Currently, there are no identifiable risks whose occurrence would jeopardize the continued existence of the Group or a major Group company.

Strategic risks as well as legal and regulatory risks were the two most important risk areas in the past financial year, each accounting for just under 25 % of overall potential risk. While the absolute significance of strategic risks remained essentially unchanged, legal and regulatory risks increased noticeably higher due to higher trade risks. Personnel risks also increased due to the aforementioned shortage of qualified employees. Financial risks and other risks declined.

RISK OVERVIEW

Risk areas[1]	Individual risks	Individual risk 2018 vs. prior year[2]	Total risk 2018 vs. prior year[3]
Strategic risks	Customer dependency risks	higher	
	Competitive risks	unchanged	
	Vertical customer integration	higher	unchanged
Legal and regulatory risks	Trademark and patent risks	higher	
	Liability risks	lower	
	Trade risks	higher	
	Other regulatory risks	higher	higher
Technology risks	Marketing risks	unchanged	
	Risks from technological progress	unchanged	
	Risks from the loss of a cooperation	unchanged	unchanged
Personnel risks	Loss of knowledge risks	higher	
	Strike risks	unchanged	higher
Operating risks	Procurement risks	unchanged	
	Inventory valuation risks	higher	higher
IT risks	System outage and cybercrime risks	higher	higher
Financial risks	Financing risks	unchanged	
	Currency risks	unchanged	
	Impairment risks	lower	lower
Other risks	Compliance risks	unchanged	
	Business relationship risks	lower	lower

Low Medium Significant

[1] The individual risk areas are arranged according to their respective extent 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-SPECIFIC RISKS

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 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 expected developments in these markets can have a positive or negative impact on the Group's net assets, financial position and results of operations.

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.

STRATEGIC RISKS CONTINUE TO BE THE MOST IMPORTANT RISK AREA

Customer dependency risks

The global truck business (13.9 % of sales of the SAF-HOLLAND Group) is dominated by a relatively small number of global manufacturers. Consequently, the dependency of the Group in this market on individual customers is relatively high. The trailer business, which accounts for 62.1 % of sales and is 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.

The SAF-HOLLAND Group responds to customer dependency risks by ensuring that 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-size 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 past financial year, the risk of dependency on individual customers increased following the SAF-HOLLAND Group's above-average growth in the APAC/China region, which was achieved with a relatively moderate number of customers. Nevertheless, no one customer represented more than 10 % of the Group's sales in the 2018 and 2017 financial years.

Competitive risks

Competitive risks continue to be the single most important risk for the Group. Overall, we rate the intensity of competition in our markets as high, mainly based on the entry of new and typically lower cost suppliers from emerging market countries entering established markets. This is the reason for our 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 with the market. We are also increasing our technological advantage through innovation and believe we are a technological pioneer in our industry in the areas of axle and suspension systems, coupling systems, lightweight construction and disk brakes. Another crucial competitive advantage is our aftermarket network, which encompasses more than 10,000 spare parts and service outlets, as well as dealers and repair shops in more than 80 countries. We possess the densest network in Europe and North America, which poses a significant barrier to market entry for potential new competitors.

Vertical customer integration

The trend toward higher 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 rather choose to manufacture them themselves. This change in purchasing behavior on the part of trailer manufacturers 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.

Even though SAF-HOLLAND is only affected by vertical integration to a limited extent, we estimate that this risk had increased by the end of the 2018 financial year. From an economic standpoint, producing axles only makes sense for a small number of trailer manufacturers and only refers to the production of standard axles and not the production of higher-margin specialty axles. Since fleet customers largely determine their trailer specifications and choice of the axle systems themselves, it is crucial to a supplier's success to have direct access to the end customer. Vertical customer integration currently also plays a lesser role in SAF-HOLLAND's important vocational vehicle business.

LEGAL AND REGULATORY RISKS RISE SIGNIFICANTLY

Trademark and patent risks

The misuse of SAF-HOLLAND trademark and patent rights can lead to economic damage. We counter these risks through ongoing and intense monitoring of the relevant patent applications and market developments worldwide – also in the spare parts segment. In the context of priority registrations, SAF-HOLLAND ensures that its in-house developments are patented at an early stage to ensure they are protected.

Liability risks

Liability risks include product liability and quality risks that may result from the production of products with insufficient quality or defects. Any soil, air or water pollution can also create related environmental risks. Consequently, manufacturing companies can never completely eliminate liability risks.

To isolate these risks as best as possible, SAF-HOLLAND ensures Group-wide that its manufacturing is 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 9001:2015 quality standard and the special requirements of the automotive industry (IATF

16949) at all of the locations supplying to the truck industry. All locations that exclusively manufacture products for the trailer industry are DIN ISO 9001:2015 certified. The system capability of the welding technology at the German plants in Bessenbach is regularly verified according to the ISO 3834-2 welding quality certification. Should any defective products still be shipped to customers despite the above quality assurance, making it necessary to recall the affected parts, the damage would be covered by insurance in an amount checked annually for sufficiency.

SAF-HOLLAND also maintains strict compliance with the relevant environmental protection regulations. 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.

Trade risks
Trade risks can arise through the tightening of restrictions or the introduction of tariffs, particularly in the context of international trade. Such risks are countered by the permanent, intense monitoring of international political developments, with any possible changes taken into account internally and reflected in the forecast on a monthly basis.

In the 2018 financial year, global trade relations came increasingly under pressure as a result of the imposition of reciprocal punitive tariffs between the US and China and the EU. The introduction of punitive tariffs on steel and aluminum products by the US administration led to a significant increase in steel prices in North America and propelled SAF-HOLLAND's procurement costs significantly higher. A solution to the trade conflict, particularly the one between the US and China, is not foreseeable at the moment, and the imposition of additional punitive tariffs has already been announced by both sides in the event of the failure of the ongoing negotiations. In this environment, trade and market access risks at the end of 2018 were rated significantly higher than in the previous year.

An event that is not expected to have a significant impact on the Company's operating business is Britain's decision to leave the European Union (Brexit) on March 29, 2019. SAF-HOLLAND is not operating in Great Britain through its own subsidiary but serves the local market through a distribution partner (local representative), which is invoiced in euros. In the 2018 financial year, exports to Great Britain accounted for roughly 2.4% of Group sales. As none of SAF-HOLLAND's major competitors have significant production capacities in Great Britain, we do not expect the Brexit or the weakening of the pound sterling versus the euro since the referendum to have any effect on our relative competitive position.

Other regulatory risks
Other regulatory risks specifically include changes in the political and legal framework. The introduction of the EU Data Protection Regulation increased the risks in the past financial year that could result from violating the relevant data protection regulations. The SAF-HOLLAND Group mitigates these risks by entering into the appropriate data protection agreements with customers and suppliers and providing ongoing training to the employees entrusted with processing personal data. The Group has also set up a Compliance Office to further optimize its internal processes. In addition, a data protection officer has been appointed to monitor compliance with data protection regulations. In the 2018 financial year, the risks resulting from the application of tax transfer prices have also increased. SAF-HOLLAND continuously analyzes the transfer prices used in the Group for their appropriateness.

In order to keep up-to-date with the regulatory requirements in the truck and trailer markets, SAF-HOLLAND closely monitors the relevant topics, for example, by always reviewing the analyses of leading market research institutes such as ACT Research or FTR.

TECHNOLOGY RISKS ESSENTIALLY UNCHANGED

Marketing risks
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 gained helps us to avoid misdirecting our technological and conceptual efforts as a result of misinterpreting the needs of the market. The Group Management Board routinely reviews and evaluates the Global Project List and with it the development pipeline of the Group. In addition, we also continuously monitor our competitors, particularly with respect to their product range and research and development focus. We use benchmarking and other tools to monitor our competitors' relevant products and activities.

Risks from technological progress
Theoretically, it is conceivable that we may not fully recognize general technological advances. We identify the risks associated with this through extensive monitoring in the course of preparing our annual research and development report, where we record and document technological progress in our industry. This enables us to recognize developments that affect our product range as well as the materials and manufacturing processes used at an early stage.

Risks from the loss of a cooperation
Generally, the termination of a collaboration with a business partner could lead to the loss of expert knowledge and, in turn, procurement or sales opportunities. We counter this risk by observing the developments in both the procurement and the sales markets and, as a rule, strive to form collaborations only based on contractually regulated strategic alliances.

INCREASE IN PERSONNEL RISKS IN THE “WAR FOR TALENT”

Risks from a loss of knowledge
Globally, the competition for qualified employees (“war for talent”) is becoming increasingly intense. In advanced economies, this is largely the result of demographic change, which is causing the labor market to lose a number of well-educated professionals. In the emerging markets, competition for qualified employees is resulting from the economic upturn over the past several years. The risk from a loss of executives or knowledgeable experts in key positions is also becoming an increasingly important issue for SAF-HOLLAND. This can be seen by the increase in the extent of risk estimated in the past financial year compared to the prior year. The Group avoids this risk by using an established system of succession planning and Group-wide knowledge management. There are also clearly defined deputy guidelines for all relevant management positions.

Strike risks
To minimize strike risks, SAF-HOLLAND maintains a trusting and respectful relationship with works councils and trade union representatives. In Germany, employment agreements have been concluded to help secure jobs while improving SAF-HOLLAND’s competitive situation. Similar arrangements have been made with various local unions in North America. We also use limited-term employment contracts.

OPERATING RISKS RISE AS A RESULT OF BUSINESS EXPANSION

Procurement risks
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. Because of its global organization, SAF-HOLLAND cannot rule out this risk completely but can partially limit it.

Inventory valuation risks
In the 2018 financial year, inventories of the SAF-HOLLAND Group increased by 34.1%. Next to the higher inventory buildup necessary to meet the strong rise in demand in North America – despite the bottlenecks caused by the US plant consolidation – higher inventory was also required for the unexpectedly high growth in the APAC/China region. The increase in inventories harbors the risk that too many individual materials or intermediate products were purchased that can no longer be used in the years that follow (which would lead to corresponding inventory impairment). Excess inventory also generally faces the risk that the prices of materials or intermediates could fall (which would also lead to inventory impairment). With this in mind, the inventory valuation risk in the 2018 financial year was included in the risk areas for the first time.

In addition, the creation of the position of Chief Procurement Officer (CPO) brought together the global procurement activities for the first time.

IT RISKS INCREASE SIGNIFICANTLY

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.

As the frequency of cyberattacks has been rising worldwide for years and the potential damage from such attacks has increased, the SAF-HOLLAND Group assigned a significantly higher level of risk to system failures and cybercrime in the past financial year than in the previous year. Penetration tests were carried out in order to identify and close possible security gaps. In addition, employees received training to learn more about IT risks.

OVERALL FINANCIAL RISK OF ONLY LIMITED IMPORTANCE

Financing risks

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 sufficient 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. In the 2018 financial year, the Group entered into a new syndicated loan agreement with an enlarged syndicate of banks. The credit agreement reached includes a revolving credit facility of EUR 200 million (previously EUR 150 million), which can be drawn on in various currencies. There is an option to extend the facility by an extra EUR 100 million if needed. SAF-HOLLAND has had 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 2018.

Further information on the Company's liquidity and financing can be found on pages 61ff. of this management report.

Currency risks

As a result of its global business activities, the Group is generally 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 a constant currency basis.

When currency risks are hedged using derivative 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.

Impairment risks

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. As of the end of the 2018 financial year, virtually no impairment risks had been identified leading to a lower assessment of the extent of risk than in the prior year.

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

LIMITED OTHER RISKS

Compliance risks

We counter risks arising from non-compliance with laws and regulations through the adoption of a Group-wide Code of Conduct, which we continuously review for timeliness and expand when necessary. SAF-HOLLAND bases its Code of Conduct on common ethical and moral principles. 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 Group Management Board and the Board of Directors work toward ensuring compliance with the law and the Company's policies. Another measure to prevent and detect potential compliance violations was the introduction of the whistleblower system in 2018.

Risks from individual business relationships

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. It was possible in the 2018 financial year to eliminate a number of risks that still existed in the prior year, leading to the assessment of "low" at the end of 2018 for the risks from individual business relationships.

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 megacities.

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 freight volumes. In the developed economies, trends such as the ever-increasing share of online commerce (“Amazon economy”) are driving the demand for transport capacity even higher.

LONG-TERM GROWTH IN THE MARKET FOR TRUCKS AND TRAILERS

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 2023. All of the world’s regions are expected to contribute to this growth, whereby the highest growth rates are expected in Mercosur countries and Central and Eastern Europe.

As safety requirements and compliance with environmental standards steadily increase worldwide, fleet operators are increasingly beginning to rethink the use of new combinations of materials and technological innovations, such as lightweight construction and disc brakes. As a result, the demand for premium transport equipment will increase disproportionately over the next few years (for more details, see the section “Opportunities arising from new regulatory requirements”). For a technology leader like SAF-HOLLAND, this trend means that there is substantial growth potential in the addressable market in the years ahead.

UNINTERRUPTED GROWTH IN THE DEMAND FOR SPARE PARTS

Due to the high volume of truck and trailer sales in recent years, especially in SAF-HOLLAND’s core markets of Europe and North America, fleet sizes in these markets have increased significantly. With the increasing age of these vehicles, the demand for spare parts also rises. It follows that high demand for spare parts can be expected in the next several years, regardless of the development in the original equipment business. This should have a positive effect on the profitability of the Group in the medium term as margins in the spare parts business are generally much higher than in the original equipment business.

With the launch of the trademarks SAUER GERMANY QUALITY PARTS and GoldLine, SAF-HOLLAND has penetrated another segment of the spare parts market. 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 what is known as the “second life” marketplace. This opens up additional sales potential, particularly in the emerging markets, which have a high number of older vehicles driving on 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

For some time, the European Union has been contemplating the admission of megaliners (extra-long truck and trailer combinations), sometimes referred to as EuroCombis. Megaliners can be up to 25.25 m long compared to the typical length of 18.75 m and have a total weight of up to 60 tons. The use of these megaliners might not only reduce traffic on the roads but also save fuel consumption and CO_2 emissions. In the meantime, megaliners are allowed in some Scandinavian countries as well as in both the Netherlands and Spain. Germany has been running a large-scale field test in several of its federal states 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 megaliners be allowed throughout the European Union in the coming years, it could spark a boom in the industry. The comparatively better efficiency of megaliners, with lower costs per kilometer compared to conventional truck and trailer combinations, would provide commercial benefits to fleet operators and likely trigger a multi-year boost in new truck and trailer purchases. Apart from the temporary effect on demand, SAF-HOLLAND could also benefit structurally from the introduction of megaliners. Due to their size and weight, megaliners demand more in terms of vehicle load capacity, safety and comfort. These are all areas where SAF-HOLLAND’s products are strongly positioned.

New commercial vehicle standards in China

The registration requirements for commercial vehicles in China have been significantly tightened in the past few years. Following the introduction of restrictions on the maximum weight, the total weight per axle and the dimensions of a truck and trailer combination in previous years, stricter safety regulations came into force at the beginning of 2019. After the expiration of a one-year transitional period, the GB 7258 standard has made the installation of disc brakes for the transport of dangerous goods mandatory since January 1, 2019. Trucks are required 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. These regulations also apply to all trailers with side walls and grid structures.

Although it is still unclear as of when old vehicles that do not meet the specifications will no longer be allowed, the GB 7258 standard should have a significant effect on demand in the Chinese market in the foreseeable future. Already in the past two years, there has been a shift in the focus of fleet operators increasingly toward lighter and technologically more sophisticated solutions, causing a boom in the premium segment. SAF-HOLLAND's products provide highly competitive solutions for these requirements and place the Group in an opportune position to greatly increase its market share in China.

Stricter emission regulations in the United States

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 emission reduction, which includes not only trucks but also regulations for trailers from 2018 onwards. For smaller trailer manufacturers, the tightened regulations apply to models built in 2019 and thereafter.

Even stricter requirements are scheduled to be introduced in 2021, 2024 and 2027. According to the EPA, the tightened regulations planned 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 in the medium term.

INCREASING DEMAND FOR DISC BRAKE TECHNOLOGY

Whereas the overwhelming majority of trailers in Europe have been equipped with disc brakes for many years, the percentage of trailers equipped with disc brakes in the US is only slightly above 10 %. 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. In the 2018 financial year, SAF-HOLLAND secured a further large contract from XTRA Lease – North America's largest fleet rental operator – for axle systems with integrated disc brake technology for roughly 6,000 trailers. The proportion of disc brake technology in the US is expected to increase in the medium term to 30-35 %. 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 its axle systems, the Group will be able to increase its added value per vehicle by 50 % or more.

OPPORTUNITIES THROUGH ACQUISITIONS

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

In the last few years, interesting options have presented themselves from potential sellers of family-run businesses but not at attractive terms and conditions. In view of the challenges facing many of these sellers, SAF-HOLLAND expects better opportunities going forward to expand its position in selective markets. A good example of this approach was the acquisition of KLL in the 2016 financial year. Through this acquisition, SAF-HOLLAND expanded its product portfolio to include products that stand out based on their durability and relatively low prices. The Group sees excellent sales potential for these types of products in other emerging markets, which should open up some cross-selling opportunities.

The takeover of the York Group in the 2018 financial year was another example of how SAF-HOLLAND is pursuing its strategic objectives. York is one of the market leaders in India, which is one of the largest and fastest growing transportation markets in the world. So far, demand for robust and reliable trucks and trailers has dominated the market, with price playing a crucial role. With York's product portfolio, SAF-HOLLAND will initially meet the current market demand. However, as already seen in China, market observers expect India and other APAC markets to transition to gradually stricter loading and safety regulations over the next few years. Therefore, the Group also expects these markets to shift toward technologically more sophisticated solutions. With the York acquisition, SAF-HOLLAND has gained a foothold for itself and its product portfolio at an early stage and is in a strong position to exploit the available market potential.

OPPORTUNITIES FROM PENETRATING NEW MARKETS

In the 2018 financial year, SAF-HOLLAND generated roughly 87 % of its sales in its traditional regions EMEA and Americas. Within the scope of its Strategy 2020, the Group's stated objective is to expand the share of its sales outside of these core regions to around 30 % over the medium term.

For this reason, SAF-HOLLAND has expanded its footprint significantly outside of its core regions over the last few years. In addition to the aforementioned acquisitions of KLL in Brazil and York in India, SAF-Holland also started operations at its new plant in Düzce-Istanbul (Turkey) in 2017 for the production of axle systems. This location offers some advantages due to lower transportation costs and also provides an opportunity to deliver more quickly to bordering new markets. Industry experts expect a significant boom in the release of pent-up investments in infrastructure in these countries and the transportation sector in particular.

In addition, in the past financial year, the Group decided to significantly expand its manufacturing capacity in China to take advantage of the high growth in modern axle and suspension systems for trailers expected in the years ahead. With a high single-digit million investment, a new central production center with a production area of around 46,000 m^2 is currently being built in the Yangtze River Delta. Operations are scheduled to begin in the third quarter 2019. This is yet another example of how the Company is laying the foundation for long-term, profitable growth in this region.

EVENTS AFTER THE BALANCE SHEET DATE

ACQUISITION OF PRESSUREGUARD LLC

SAF-HOLLAND Inc. acquired a 51 % stake in the manufacturer of tire pressure management systems, PressureGuard LLC, based in Nashville, Tennessee, effective January 9, 2019. A purchase option for the remaining outstanding shares in the company was agreed between SAF-HOLLAND and the previous owner, Servitech Industries, Inc. This option may be exercised at a later date. The purchase price for the acquired stake is in the low single-digit million euro range. PressureGuard's management team will remain at the company in their current roles to support the company's current production and its integration into the SAF-HOLLAND Group.

ACQUISITION OF THE BUSINESS OPERATIONS OF OY ARNE STARA AB

With effect from February 1, 2019, SAF-HOLLAND GmbH acquired the business operations of the family-owned Finnish Stara Group. The Stara Group was previously a distribution partner of SAF-HOLLAND GmbH, focused primarily on axle and suspension systems for trailers in Finland and Sweden. The acquisition was completed in two steps. First, SAF-HOLLAND GmbH acquired all of the shares in Stara Parts Oy, located in Finland, and of Trailax AB, located in Sweden, from the Finnish company Oy Arne Stara AB. In a second step, Stara Parts acquired the business operations of Oy Arne Stara AB. The purchase price was in the low tens of millions.

NEW SEGMENTATION IN CORPORATE MANAGEMENT

On January 1, 2019, a new segment structure was introduced to corporate management and reporting in order to better achieve the goals defined in the corporate strategy. The APAC/China region is now divided into the regions "APAC" and "China." As of January 1, 2019, corporate management and Group reporting have been conducted through the "EMEA," "Americas," "APAC" and "China" segments. The four regions cover both original equipment and spare parts business.

CHANGE AT THE COMPANY'S TOP MANAGEMENT

As of February 28, 2018, Arne Jörn, who at that time was the Chief Operating Officer (COO), resigned from the Company. Dr. André Philipp was appointed his successor and assumed his position in the SAF-HOLLAND Group effective January 1, 2019.

Also effective January 1, 2019, SAF-HOLLAND combined all global purchasing activities and appointed Alexander Geis as the Group's Chief Procurement Officer (CPO), in addition to his role as President of the EMEA region.

In addition, Mike Ginocchio, who was previously Vice President of the APAC/China region, was appointed President of the APAC/India region and a new member of the Management Board effective January 1, 2019.

On February 25, 2019, SAF-HOLLAND announced the appointment of Alexander Geis as the new chair of SAF-HOLLAND's Group Management Board effective February 26, 2019. Alexander Geis previously served on the Board and was responsible for the EMEA region and global procurement. The former chair of the Group Management Board, Detlef Borghardt, resigned from his duties effective February 25, 2019.

OUTLOOK

ECONOMIC CONDITIONS AND SECTOR ENVIRONMENT

GLOBAL ECONOMY REMAINS ROBUST, INCREASED RISK FROM FESTERING TRADE CONFLICTS

Leading economic research institutes expect the global economy to grow this year and next but believe that growth has already peaked in some regions and may lose some momentum. For 2019 the International Monetary Fund (IMF) expects a growth rate of 3.5 % for the global GDP and 3.6 % for 2020.

The IMF expects GDP growth of 1.6 % in the eurozone in 2019. The biggest risk factor remains the upcoming Brexit.

For Germany, the IMF expects economic growth of 1.3 % in 2019 and 1.6 % in 2020.

In light of the worsening trade conflict between the United States and China in recent months, experts expect US growth to slow down to 2.5 % in 2019 and to 1.8 % in 2020.

The IMF is more optimistic when it comes to Brazil, where it expects the economic recovery to continue in 2019, whereas it forecasts a relatively stable GDP in Russia.

According to the IMF, economic growth in China and other Asian countries will be weaker this year compared to 2018. In China, the pace of GDP growth in 2019 is expected to slow down only slightly but remain at a comparably high level of 6.2 %.

Expected economic development in key markets in 2019

in %

	2017	2018	2019
Euro zone	2.4	1.8	1.6
Germany	2.5	1.5	1.3
United States	2.2	2.9	2.5
Brazil	1.1	1.3	2.5
Russia	1.5	1.7	1.6
China	6.9	6.6	6.2
India	6.7	7.3	7.5

Source: IMF (World Economic Outlook January 2019).

SECTOR ENVIRONMENT: SOLID COMMERCIAL VEHICLE MARKETS WITH REGIONAL DIFFERENCES

The prospects for 2019 remain favourable in the commercial vehicle markets that are relevant for SAF-HOLLAND. A relatively high level of production can be expected in North America based on the record order intake and backlog for Class 8 trucks and trailers. In the China region, the premium segment is more relevant for SAF-HOLLAND than the overall market. It expects that the tightened regulatory requirements for vehicle safety and load limits should fuel further investments of Chinese fleet operators. The situation is different in the important European core market. After several years of growth, production figures for trailers in Europe are expected to decline in 2019.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

Due to the breakdown according to customer group into the OE (truck, trailer) and aftermarket business, the regions relevant to SAF-HOLLAND vary in their importance.

While the EMEA region (approximately 4 % of Group sales) and the Americas region (approximately 11 % of Group sales) are relevant for the truck customer group, all markets worldwide are important for the trailer and aftermarket customer groups.

Sales share by customer groups (2018)

	Trucks	Trailers	Aftermarket
Share of sales 2018	14 %	62 %	24 %

STABLE EUROPEAN TRUCK MARKET

According to estimates published by LMC Automotive, the Western European truck market is set to decline slightly in 2019. Industry observers expect a decline in production by almost 1 % drop in production. It should be noted, however, that the Western European truck market is only of minor importance for SAF-HOLLAND. In the years ahead, the market is expected to continue its multi-year uptrend and grow at over 2 % per year. In Eastern Europe, LMC Automotive expects the market to grow by 6 %, primarily driven by the continued market recoveries in Russia and Belarus.

DECLINING DEMAND FOR TRAILERS IN EUROPE IN 2019

After sustained growth in the period from 2012 to 2018, the market research institute CLEAR expects a decline in trailer production in 2019. The market researchers base their assessment on the fact that catch-up effects have further stimulated the demand for trailers and many European fleet operators have modernized and expanded their vehicle fleets in recent years. CLEAR predicts decline in production of roughly 10 %. Here, however, the high base of comparison with the previous year has to be taken into account, as more than 9 % more trailers were manufactured than the average of the last 3 years. In its medium-term forecast, CLEAR expects a record level of production and registrations in Europe for the period until 2021 after a temporary slowdown in 2019.

HIGHER ORDER INTAKE IN THE NORTH AMERICAN TRUCK MARKET

The continued high growth in the US economy and the disproportionately strong rise in freight volumes and freight rates led to strong demand in 2018 for additional transportation capacity in North America. At the same time, the Electronic Logging Device (ELD) introduced by the Federal Motor Carriers Safety Administration (FMCSA) on April 1, 2018, caused additional bottlenecks for fleet operators. The ELD obliges truck drivers to document their breaks, which in practice, lead to shorter operating times. Fleet operators responded to these bottlenecks with a flood of orders for new equipment. Due to the limited capacity of the truck manufacturers, however, these orders can only be completed in the course of 2019. As a result, ACT Research expects North American Class 8 truck production to increase 3 % year-on-year to approximately 335,000 units. Stronger growth is expected particularly in Mexico (+ 21 %), while the USA (+ 2 %) and Canada (+ 6 %) are expected to see a slightly lower increase.

NORTH AMERICAN TRAILER MARKET AT A HIGH LEVEL

For the North American trailer market, the outlook for 2019 is somewhat more subdued. In contrast to the continued high demand expected for Class 8 trucks, the trailer market is anticipated to decline slightly in 2019. ACT Research, for example, expects to see 2 % fewer trailers rolling off the production belts in 2019 than in the strong previous year.

CONTINUED GROWTH IN BOTH TRUCKS AND TRAILERS IN BRAZIL

Based on the moderate growth expectations and political reforms in Brazil, LMC Automotive expects heavy truck production to increase by 11 % in 2019, which indicates a continuation in Brazil's truck market recovery that began in 2017. Even at this level, however, truck production will still be significantly lower than it was prior to the last downturn in 2013. After strong growth of over 60 % in the trailer market in 2018, demand for trailers will be a bit more restrained, according to CLEAR. Market experts expect an increase in the production of trailers of around 5 % for 2019.

DECLINE IN TRUCK AND TRAILER DEMAND IN CHINA; PREMIUM SEGMENT CONTINUES TO GROW

After high growth rates in some of the prior years, the consolidation of truck and trailer demand in China, which was expected by many market observers, will continue in 2019. The expectation for the current year is a decline in production of heavy trucks of around 16 %. However, the slowdown should only be short-term, and production should rise moderately again until 2023. Still, it is important to keep in mind that the Chinese truck market has no significance for SAF-HOLLAND.

The introduction of the second phase of the GB 1589 standard in July 2018 and the GB 7258 standard as of January 1, 2019, will have a significant influence on the demand for trailers in China. The newly introduced load limits and safety regulations significantly affect the automobile and hazardous goods transporters in particular. The premium segment – the relevant segment for SAF-Holland – with more demanding, weight-reduced applications with air suspension and disc brake technology for the trailer sector, is estimated to amount to around 30 % of the market in 2025 (2018: 18 %). Market observers are therefore forecasting average growth of 20 % in the premium segment from 2019 through 2021.

In Australia, a regional market that is important for SAF-HOLLAND, LMC Automotive anticipates a decline in registrations of heavy and medium-duty trucks of almost 3 % in 2019. After a rise in the production of trailers of almost 7 % in 2018, CLEAR is forecasting a decline of 6 % in the current year.

Both CLEAR and LMC Automotive are also forecasting a slight decline in most other truck and trailer markets in the APAC region. In India, trailer production is expected to decline by 6 % and truck production by 10 % in 2019.

OUTLOOK ON BUSINESS DEVELOPMENT

SAF-HOLLAND places its medium to long-term business development at the forefront of its business activities. This will be realized within the scope of the 2020 growth strategy. To realize the growth opportunities the Company is rolling out its business into new regions outside the existing core markets, investing in technology, selectively expanding the product portfolio and entering into joint ventures and acquisitions.

Based on the expectations for the Group’s relevant markets, SAF-HOLLAND is anticipating a somewhat more challenging market environment in 2019 than in the prior year. Despite a slight decline projected in the demand for trailers in the key core markets of Europe and North America in 2019, SAF-HOLLAND still expects the general industry development in 2019 to have only a minor impact on the business development. The Group’s regional diversification should prove to be a significant advantage again in 2019.

INVESTMENTS IN REGIONS AND INFORMATION TECHNOLOGY

In the 2019 financial year, SAF-HOLLAND plans to increase its investment volume to around EUR 68 to 70 million, which will bring up the investment ratio from 3.1 % in 2018 to a level of 4 % to 5 %.

The higher investment budget is based on expansion of the York manufacturing site in Pune, India, and the completion of the construction of a new production center at the Yangzhou site in the Yangtze Province of China. In light of the higher demand expected over the next several years for advanced disc brake and air suspension technology in China, SAF-HOLLAND will significantly expand its production capacity in the region. The new Yangzhou plant will have a total area of approximately 46,000 m² and is scheduled to commence operations in the second half of 2019. The Group will invest a low double-digit million euro range in this production center in 2019.

Another focus of investment is the area of digitization. Among other initiatives, SAF-HOLLAND is implementing the Hybris e-commerce solution from SAP. This solution will offer our aftermarket customers the most up-to-date online shopping experience across all customer transactions. By achieving even closer integration and a merger of data with the SAP back-end system, SAF-HOLLAND is creating a centralized overview of its customers for even better customer management. The Company’s investment in digitization globally in 2019 is expected to be in the mid-single-digit million euro range.

SAF-HOLLAND expects to continue to maintain an investment ratio of 4 % to 5 % in subsequent years and remain above its long-term average of 2.5 % to 3.0 %.

GROUP MANAGEMENT BOARD’S GENERAL STATEMENT ON THE COMPANY’S ANTICIPATED BUSINESS DEVELOPMENT

With respect to the medium-term goals under Strategy 2020, SAF-HOLLAND still expects to achieve an adjusted Group EBIT margin of at least 8.0 % in the next several years. This expectation is based on the assumption that the global economy will grow at just over 3.5 % per year and that the economic situation in the current core markets of Europe, North America and China will continue to develop in a stable to positive manner. SAF-HOLLAND expects to increase sales per vehicle and gain additional market share through structural market growth in innovative solutions such as lightweight construction, disc brake technology and automated driving.

2019 SALES GROWTH AND EARNINGS IMPROVEMENT IN CHALLENGING MARKETS

Based on the high level of Group sales achieved in 2018, SAF-HOLLAND expects to be able to increase Group sales by 4% to 5% in the 2019 financial year. This forecast is based on the assumption of constant exchange rates and an unchanged scope of consolidation.

Start-up costs for the restructured North American plant network are set to continue to decline in 2019 alongside a simultaneous optimization in the process chain and the integration of capacity planning and logistics processes. Until the persistent production start-up inefficiencies are eliminated, the Company expects to incur additional operating expenses. However, these expenses are expected to gradually decline over the course of the year. SAF-HOLLAND expects to see incremental improvements in its cost structure and profitability in 2019. The appointment of the new COO Dr. Phillip as of January 1, 2019, will also facilitate these improvements. Mr. Phillip's core responsibilities include the operational implementation of the strategic goals in North America.

From a current perspective, SAF-HOLLAND is forecasting an adjusted Group EBIT margin for the full year 2019 around the midpoint of the range of 7 to 8%. This assumption is based on continued solid earnings performance in the EMEA, China and APAC regions. In light of the projected development in the Americas region, the Company expects the adjusted Group EBIT margin to improve throughout the year 2019.

In line with the objectives of the 2020 growth strategy, further sales and earnings contributions may also stem from collaborations, joint ventures or acquisitions concluded during the year. These would focus on rounding off SAF-HOLLAND's technology portfolio and combining mechanical components with sensors and electronics. Any collaborations, joint ventures or acquisitions would be concluded only if suitable opportunities were offered and could be realized at a reasonable purchase price and a clear risk profile.

CAPITAL EFFICIENCY EXPECTED TO EXCEED THE PRIOR YEAR'S LEVEL

Despite the challenging market situations in some markets due to economic or political reasons, management expects a solid Group's net assets and financial position in the 2019 financial year. Amid higher investments in the pipeline and the group-wide optimization of the net working capital, the Group's financial base is expected to remain strong. However, a temporary increase in inventories cannot be ruled out in 2019 as a result of the ongoing plant consolidation in the United States. The net working capital ratio is therefore projected to reach 13%. Free cash flow in 2019 is expected to exceed the level reported in 2018.

Overall, the SAF-HOLLAND Group considers itself well positioned to achieve the sales, earnings and profitability targets formulated in its 2020 medium-term strategy.

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 as important supplemental information for investors and other readers of the financial reports and press releases. The key financial ratios should therefore be seen in addition to rather than as a replacement for 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), SAF-HOLLAND provides an overview of the Alternative Performance Measures used, as well as their definition and compilation, 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

Sustainability is an integral part of SAF-HOLLAND's corporate strategy and operational activities. We developed our sustainability strategy at SAF-HOLLAND several years ago to ensure that sustainability issues are managed efficiently across the Group and make a meaningful contribution to the Company's performance. To ensure that our accomplishments are measurable, we established comprehensive sustainability reporting in 2017.

The results of these efforts were described in SAF-HOLLAND Group's first Sustainability Report, prepared in accordance with the GRI standards of the Global Reporting Initiative, and published in April 2018.

PUBLICATION OF THE NON-FINANCIAL STATEMENT

This year, SAF-HOLLAND will publish its second Sustainability Report. With the publication of this report, the Non-Financial Statement will be deemed to be rendered.

The 2018 Sustainability Report for the SAF-HOLLAND Group will be published on April 30, 2019.

FURTHER PROGRESS MADE IN SUSTAINABILITY MANAGEMENT

With the establishment of our CSR Council (Corporate Social Responsibility Council), we had already created a crucial foundation for consistent sustainability management. In 2018, we then took the next step and created the new positions of Chief Procurement Officer and CSR Officer.

The CSR Council is composed of a member from different countries and departments. It is comprised of senior representatives from the following areas of the company: Aftermarket, Compliance, Controlling, Facility Management, Finance, Health, Safety, Environment and Quality Management, Human Resources, Investor Relations & Corporate Communications, Logistics, Marketing, Procurement and Research & Development. External experts provide additional impulses for the Council's work.

NOW A MEMBER OF THE UNITED NATIONS GLOBAL COMPACT

Another step in mastering today's global challenges was our new membership in the United Nations Global Compact in December 2018. Through our participation, we want to ensure and demonstrate that our principles of sustainability apply everywhere and be able to show the progress we make. As a member of this network, we also benefit from the experience of other companies.

MORE PROFESSIONAL COLLECTION OF SUSTAINABILITY DATA AND MORE PLANTS CERTIFIED

The information reported in our Sustainability Report is in accordance with the guidelines of the Global Reporting Initiative (GRI). We have therefore also adapted the system we use to collect our data to this reporting framework. We have chosen to follow the GRI standards because they are consistent, internationally recognized and preferred by most large corporations. We are increasingly keeping track of the greenhouse gas emissions we are creating with our business activities, as well as offsetting a growing share of these emissions through our participation in reforestation projects worldwide.

In 2018, we were able to have all of our German sites certified in accordance with ISO 14001 – the international standard for environmental management. We also plan to certify all of our eligible plants around the world.

THINK AHEAD WINS THE HONORARY PRIZE "GREEN TRUCK INNOVATION"

Our commitment to sustainability was also recognized in 2018 by the trade journal "VerkehrsRundschau." The journal awarded us the "Green Truck Innovation" award for our sustainability initiative "Think Ahead." The jury praised the initiative's holistic concept and highlighted the way the Company saves energy and CO_2 in production and delivers weight-saving and, consequently, fuel-saving products that contain the least possible problematic substances in their disposal. SAF-HOLLAND also operates actual CO_2 compensation projects under this program, promoting the socially disadvantaged and focusing on employee health. Specific measures include our lightweight construction, the reduction of waste, reforestation, the support of climate academies and the promotion of a range of social projects. We are very pleased to receive this prize and see it as an incentive to continue our efforts.

Detailed information about all our sustainability activities is available in our Sustainability Report at www.we-think-ahead.de, which will be published on April 30, 2019.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1–Q4/2018	Q1–Q4/2017
Sales	(5.1)	1,300,555	1,138,933
Cost of sales	(5.2)	–1,101,292	–933,876
Gross profit		**199,263**	**205,057**
Other income	(5.3.1)	10,491	1,614
Selling expenses	(5.3.2)	–61,286	–62,079
Administrative expenses	(5.3.3)	–51,821	–53,542
Research and development costs	(5.3.4)	–19,572	–20,411
Other expenses	(5.3.5)	–834	–
Operating result		**76,241**	**70,639**
Share of net profit of investments accounted for using the equity method	(6.3)	1,729	2,086
Earnings before interest and taxes		**77,970**	**72,725**
Finance income	(5.3.6)	1,266	1,247
Finance expenses	(5.3.6)	–15,015	–17,760
Finance result		**–13,749**	**–16,513**
Result before tax		**64,221**	**56,212**
Income tax	(5.4)	–16,106	–15,252
Result for the period		**48,115**	**40,960**
Attributable to:			
Equity holders of the parent		48,151	42,887
Non-controlling interests		–36	–1,927
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	(6.10)	946	2,443
Income tax effects on items recognized in other comprehensive income	(6.10)	–45	–3,111
Items that may be reclassifed subsequently to profit or loss			
Exchange differences on translation of foreign operations	(6.10)	2,219	–24,651
Other comprehensive income		**3,120**	**–25,319**
Comprehensive income for the period		**51,235**	**15,641**
Attributable to			
Equity holders of the parent		51,522	18,002
Non-controlling interests		–287	–2,361
Basic earnings per share in EUR	(7.2)	**1.06**	**0.95**
Diluted earnings per share in EUR	(7.2)	**0.92**	**0.82**

CONSOLIDATED BALANCE SHEET

kEUR	Notes	12/31/2018	12/31/2017
Assets			
Non-current assets		**472,284**	**377,849**
Goodwill	(6.1)	84,480	54,134
Other intangible assets	(6.1)	181,285	140,336
Property, plant and equipment	(6.2)	163,263	137,766
Investments accounted for using the equity method	(6.3)	16,833	16,234
Financial assets	(7.1)	1,309	858
Other non-current assets	(6.4)	2,686	3,180
Deferred tax assets	(5.4)	22,428	25,341
Current assets		**505,132**	**620,259**
Inventories	(6.5)	179,368	133,745
Trade receivables	(6.6)	138,875	135,662
Income tax assets		5,226	1,865
Other current assets	(6.7)	25,149	11,824
Financial assets	(7.1)	1,505	82
Other short-term investments	(6.8)	–	58,306
Cash and cash equivalents	(6.9)	155,009	278,775
Balance sheet total		**977,416**	**998,108**
Equity and liabilities			
Total equity	(6.10)	**332,550**	**300,975**
Equity attributable to equity holders of the parent		**321,480**	**298,842**
Subscribed share capital		454	454
Share premium		269,044	269,044
Legal reserve		45	45
Other reserve		720	720
Retained earnings		86,282	67,983
Accumulated other comprehensive income		−35,065	−39,404
Shares of non-controlling interests		**11,070**	**2,133**
Non-current liabilities		**469,912**	**461,880**
Pensions and other similar benefits	(6.11)	30,507	34,134
Other provisions	(6.12)	7,604	9,333
Interest bearing loans and bonds	(6.13)	364,459	361,284
Finance lease liabilities	(7.1)	38	23
Other financial liabilities	(6.15)	16,271	15,910
Other liabilities	(6.16)	626	595
Deferred tax liabilities	(5.4)	50,407	40,601
Current liabilities		**174,954**	**235,253**
Other provisions	(6.12)	9,992	8,205
Interest bearing loans and bonds	(6.13)	3,936	81,321
Finance lease liabilities	(7.1)	191	32
Trade payables	(6.14)	129,115	114,219
Income tax liabilities		4,007	8,966
Other financial liabilities	(6.15)	776	655
Other liabilities	(6.16)	26,937	21,855
Balance sheet total		**977,416**	**998,108**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR									Q1–Q4/2018
	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests	Total equity (Note 6.10)
As of 01/01/2018 (as previously reported)	**454**	**269,044**	**45**	**720**	**67,983**	**–39,404**	**298,842**	**2,133**	**300,975**
Effects from the adoption of IFRS 9	–	–	–	–	–471	–	**–471**	–	**–471**
As of 01/01/2018	**454**	**269,044**	**45**	**720**	**67,512**	**–39,404**	**298,371**	**2,133**	**300,504**
Result for the period	–	–	–	–	48,151	–	**48,151**	–36	**48,115**
Other comprehensive income	–	–	–	–	–	3,371	**3,371**	–251	**3,120**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**48,151**	**3,371**	**51,522**	**–287**	**51,235**
Dividend	–	–	–	–	–20,427	–	**–20,427**	–	**–20,427**
Put option for acquisition of remaining shares of V.ORLANDI S.p.A.	–	–	–	–	–7,901	–	**–7,901**	–	**–7,901**
Reclassification					–832	832	**–**	–	**–**
Transactions with non-controlling interests	–	–	–	–	–221	136	**–85**	–549	**–634**
Addition of shares of non-controlling intersts from business combinations	–	–	–	–	–	–	**–**	9,773	**9,773**
As of 12/31/2018	**454**	**269,044**	**45**	**720**	**86,282**	**–35,065**	**321,480**	**11,070**	**332,550**

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	Total equity (Note 6.10)
As of 01/01/2017 (as previously 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**

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	Notes	Q1–Q4/2018	Q1–Q4/2017
Cash flow from operating activities			
Result before tax		**64,221**	**56,212**
– Finance income	(5.3.6)	–1,266	–1,247
+ Finance expenses	(5.3.6)	15,015	17,760
+/– Share of net profit of investments accounted for using the equity method	(6.3)	–1,729	–2,086
+/– Other non-cash transcations	(7.3)	–7,256	–
+ Amortization/depreciation of intangible assets and property, plant and equipment	(5.3.8)	29,521	24,630
+ Allowance of current assets	(6.5)/(6.6)	3,855	2,853
+/– Loss/Gain on disposal of property, plant and equipment		1,339	187
+ Dividends from investments accounted for using the equity method		1,214	1,178
Cash flow before change of net working capital		**104,914**	**99,487**
+/– Change in other provisions and pensions		–5,140	1,484
+/– Change in inventories		–27,097	–13,805
+/– Change in trade receivables and other assets		1,143[1]	–27,018
+/– Change in trade payables and other liabilities		–7,301	13,927
Change of net working capital		**–38,395**	**–25,412**
Cash flow from operating activities before income tax paid		**66,519**	**74,075**
– Income tax paid	(5.4)	–25,739	–17,328
Net cash flow from operating activities		**40,780**	**56,747**
Cash flow from investing activities			
– Purchase of other short term investments	(6.8)	–	–58,083
+ Proceeds from sale of other short tem investments		58,216	–
– Purchase of property, plant and equipment	(6.2)	–33,406	–21,761
– Purchase of intangible assets	(6.1)	–7,380	–5,361
+ Proceeds from sales of property, plant and equipment		1,308	490
– Payments for acquisition of subsidiaries net of cash	(3)	–58,691	–
+ Interest received		367	367
Net cash flow from investing activities		**–39,586**	**–84,348**
Cash flow from financing activities			
– Dividend payments to shareholders of SAF-HOLLAND S.A.	(6.10)	–20,427	–19,959
– Repayment of bonds		–75,000	–
– Payments for finance lease		–23	–1,477
– Interest paid		–12,793	–13,683
+/– Change in drawings on the credit line and other financing activities	(6.13)	–15,811	1,428
Net cash flow from financing activities		**–124,054**	**–33,691**
Net increase/decrease in cash and cash equivalents		**–122,860**	**–61,292**
+/– Effect of changes in exchange rates on cash and cash equivalents		–906	–4,501
Cash and cash equivalents at the beginning of the period	(6.9)	**278,775**	**344,568**
Cash and cash equivalents at the end of the period	(6.9)	**155,009**	**278,775**

[1] As of December 31, 2018 trade receivables in the amount of EUR 41.5 million (previous year: EUR 27.0 million) were sold in the context of a factoring contract. Assuming the legal validity of the receivables, 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, 2018 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, 2018 were authorized for publication by the resolution of the Board of Directors on March 19, 2019. 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 that 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, 2018 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, 2018, the carrying amount of goodwill totaled EUR 84.5 million (previous year: EUR 54.1 million), and that of intangible assets with indefinite useful lives amounted to EUR 40.2 million (previous year: EUR 33.0 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, 2018, the carrying amounts of property, plant and equipment totaled EUR 163.3 million (previous year: EUR 137.8 million), and those of intangible assets with finite useful lives amounted to EUR 141.1 million (previous year: EUR 107.3 million). Further details are provided in Notes 6.1 and 6.2.

Deferred tax assets
At each reporting 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 is 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, 2018, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 1.0 million (previous year: EUR 0.8 million). Unrecognized tax loss carryforwards amounted to EUR 48.5 million (previous year: EUR 54.9 million). In addition, as of December 31, 2018, the carrying amount of capitalized deferred tax assets for interest carryforwards was EUR 12.1 million (previous year: EUR 10.7 million). Further details are provided in Note 5.4.

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, 2018, the carrying amount of pensions and other similar obligations was EUR 30.5 million (previous year: EUR 34.1 million). Further details, including a sensitivity analysis, are given in Note 6.11.

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

As of December 31, 2018, other provisions amounted to EUR 17.6 million (previous year: EUR 17.5 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 reporting 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. As of December 31, 2018, the carrying amount of obligations was EUR 2.5 million (previous year: EUR 4.5 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, 2018, the fair value of derivative financial instruments was EUR –0.6 million (previous year: EUR –0.7 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 the 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 reporting 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 listed in the following table:

		Closing rate		Average rate	
		12/31/2018	12/31/2017	2018	2017
US-Dollar	USD	0.87428	0.83482	0.84728	0.88748
Canadian Dollar	CAD	0.64127	0.66516	0.65391	0.68374
Chinese Remimbi	CNY	0.12714	0.12824	0.12821	0.13126
Indian Rupie	INR	0.01258	0.01310	0.01242	0.01363
Turkish Lira	TRY	0.16614	0.22070	0.17999	0.24375

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 capitalized 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 network	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 useful lives and depreciation methods of the assets 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. Gains or losses on the derecognition of the asset are measured as the difference between the net realizable value and the carrying amount of the asset and are recognized in profit and loss in the period in which the item is derecognized.

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

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

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

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

The Group does not act as a lessor under any lease agreements.

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 reporting 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

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.

Financial Assets - Initial recognition and measurement

Upon initial recognition, financial assets are classified for subsequent measurement either as at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

The classification of financial assets upon first-time recognition depends on the characteristics of the contractual cash flows of the financial assets and the Group's business model for managing its financial assets. With the exception of trade receivables, the Group measures a financial asset at its fair value and, in the case of a financial asset that is not measured at fair value through profit or loss, plus transaction costs. Trade receivables are measured at the transaction price determined in accordance with IFRS 15. In this context, reference is made to the accounting methods in the section 5.1.

In order for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, the cash flows may only consist of principal and interest payments (SPPI) on the outstanding principal amount.

Subsequent measurement

For subsequent measurement, financial assets are classified into four categories:

- Financial assets (debt instruments) measured at amortized cost
- Financial assets measured at fair value through other comprehensive income with the reclassification of accumulated gains and losses (debt instruments)
- Financial assets measured at fair value through other comprehensive income without reclassification of accumulated gains and losses on derecognition (equity instruments)
- financial assets measured at fair value through profit or loss

Financial assets (debt instruments) measured at amortized cost

This category is the most significant for the consolidated financial statements. The Group measures financial assets at amortized cost when the following two conditions are met:

- the financial asset is held under a business model whose objective is to hold financial assets to collect the contractual cash flows,
  and
- the contractual terms of the financial asset give rise to cash flows at fixed dates, which are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured in subsequent periods using the effective interest method and should be tested for impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Group's financial assets measured at amortized cost include trade receivables.

Financial assets (debt instruments) measured at fair value through other comprehensive income
The Group measures debt instruments at fair value through other comprehensive income when the following two conditions are met:

- the financial asset is held under a business model whose objective is both the collection of contractual cash flows and the sale of financial assets,
  and
- the contractual terms of the financial asset give rise to cash flows at fixed dates that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments that are measured at fair value through other comprehensive income, interest income, revaluations of foreign exchange gains and losses and impairment losses or reversals of impairment losses are recognized in the income statement and calculated in the same way as financial assets measured at amortized cost. The remaining changes in fair value are recognized in other comprehensive income. Upon derecognition, the accumulated gain or loss from changes in fair value recognized in other comprehensive income is reclassified to profit or loss.

Financial assets (equity instruments) measured at fair value through other comprehensive income
Upon initial recognition, the Group may irrevocably choose to classify its equity instruments as equity instruments at fair value through other comprehensive income if they meet the definition of equity in accordance with IAS 32 and are not held for trading. The classification is done individually for each instrument.

Gains and losses on these financial assets are never reclassified to the income statement. Dividends are recognized in the income statement as other income if there is a legal claim to payment unless the dividends recover part of the acquisition cost of the financial asset. In this case, profits are recognized in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not tested for impairment.

Financial assets measured at fair value through profit or loss
The group of financial assets measured at fair value through profit or loss includes financial assets held for trading that were designated as measured at fair value through profit or loss upon initial recognition and financial assets that must be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of sale or repurchase in the near future. Derivatives, including separately recognized embedded derivatives, are also classified as held for trading except for derivatives designated as hedging instruments that are effective as such. Financial assets with cash flows that are not solely repayments and interest payments are classified as at fair value through profit or loss, regardless of the business model, and measured accordingly.

Financial assets at fair value through profit or loss are recognized in the balance sheet at fair value, with changes in fair value being netted in the income statement.

This category includes mainly derivative financial instruments, such as currency forwards and interest rate swaps, which the Group has concluded to hedge transactions and not designated as cash flow hedges.

Derecognition
A financial asset (or part of a financial asset or part of a group of similar financial assets) is derecognized (removed from the consolidated balance sheet) if one of the following conditions is met:

- The contractual rights to receive cash flows from the financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from the financial asset to third parties or has assumed a contractual obligation to pay the cash flow immediately to a third party under a transfer agreement and thereby either (a) transferred substantially all of the opportunities and risks that are related to the ownership of the financial asset or (b) neither transferred or retained substantially all of the opportunities and risks that are related to the ownership of the financial asset but transferred control over the asset.

When the Group transfers its contractual rights to receive cash flows from an asset or enters into a transfer agreement, it assesses whether and to what extent the opportunities and risks associated with ownership remain with it. If it does not transfer or retain substantially all of the opportunities and risks that are related to the ownership of the asset and nor transfers control over the asset, it will continue to recognize the transferred asset to the extent of its continuing involvement. In this case, the Group also recognizes a related liability. The transferred asset and the related liability are measured in such a way that the rights and obligations that the Group has retained are taken into account.

If the continuing involvement formally guarantees the transferred asset, then the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group may have to repay.

Impairment of financial assets
The Group recognizes impairment for expected credit losses (ECL) for all debt instruments that are not measured at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows that are contractually payable and the total cash flows that the Group expects to receive, discounted using an approximate value of the original effective interest rate. The expected cash flows include cash flows from the sale of the collateral held or other credit guarantees that are an integral part of the terms of the contract. Expected credit losses are recognized in two steps. For financial instruments whose default risk has not significantly increased since their initial recognition, a risk provision is recognized in the amount of the expected credit losses that are based on a default event within the next twelve months (12-month ECL). For financial instruments whose default risk has increased significantly since their initial recognition, an entity must recognize a risk provision in the amount of the credit losses expected over the remaining term, irrespective of when the default event occurs (total term ECL).

For trade receivables and contractual assets, the Group applies the simplified approach under IFRS 9 to measure the expected credit losses. As a result, the credit losses expected over the term are used for all trade receivables.

The Group assumes default on a financial asset when internal or external information indicates that the Group is unlikely to fully receive the outstanding contractual amounts, even when all of the credit protection it holds is taken into account. A financial asset is impaired if there are no reasonable expectations that the contractual cash flows will be realized.

Financial liabilities - Initial recognition and measurement
Financial liabilities are classified upon first-time recognition as financial liabilities measured at fair value through profit or loss, as loans, as liabilities or as derivatives that have been designated as hedging instruments and are effective as such. All financial liabilities are initially measured at fair value upon first-time recognition and, in the case of loans and liabilities, less directly attributable transaction costs. The Group's financial liabilities include trade payables and other liabilities, loans, including overdrafts and derivative financial instruments.

Subsequent measurement
The subsequent valuation of financial liabilities depends on their classification:

Financial liabilities measured at fair value through profit or loss
Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and other financial liabilities that are initially recognized at fair value through profit or loss.

Financial liabilities are classified as held for trading when entered into for the purpose of repurchasing in the near future. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships in accordance with IFRS 9. Separately recognized embedded derivatives are also classified as held for trading with the exception of derivatives that have been designated as hedging instruments and that are effective as such.

Gains and losses on financial liabilities held for trading are recognized in profit or loss.

The classification of financial liabilities measured at fair value through profit or loss takes place at the time of initial recognition, provided the criteria in accordance with IFRS 9 are met. The Group has not classified any financial liabilities measured at fair value through profit or loss.

Loans

The category "loans" has the greatest importance for the consolidated financial statements. After initial recognition, interest-bearing loans are measured at amortized cost using the effective interest method.

Interest-bearing loans usually fall into this category. Further information is provided in note 6.13.

Derecognition

A financial liability is derecognized when the underlying obligation is met, canceled or extinguished.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet 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.

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 reporting 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 new reporting 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. Call and put option granted in connection with acquistions are valued based on variable earnings figures.

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 reporting 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 Germany 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

Actual income taxes
Actual 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 reporting 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 according to IFRS 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 reporting 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.

Sales

Sales are recognized when the control over the goods or services is transferred to the customer. Sales are recognized in the amount of consideration that the Group is expected to receive in exchange for these goods or services. The Group has basically come to the conclusion that it acts as the principal in its sales transactions, as it usually retains control over the goods or services before they pass to the customer.

Sale of goods and merchandise

Sales from the sale of goods and merchandise in the OEM and aftermarket areas are recognized at the time when the control over the asset is transferred to the customer. This is generally the case upon delivery. The usual payment term is 30 to 120 days from delivery. The Group examines whether the contract contains other commitments that represent separate performance obligations to which part of the transaction price must be allocated. When determining the transaction price for deliveries made, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and any consideration payable to a customer.

Variable consideration

If consideration under a contract contains a variable component, the Group determines the amount of the consideration it is entitled to in exchange for the transfer of the goods to the customer. Variable consideration is estimated at the contract's inception and may only be included in the transaction price if it is highly probable that there will be no significant reversal in the cumulative sales recognized once the uncertainty associated with the variable consideration no longer exists. Some contracts for the sale of goods and merchandise give customers a volume discount. These volume discounts result in variable consideration.

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:

2.4.1 IFRS 9 "Financial Instruments: Classification and Measurement"

The Group has adopted the standard IFRS 9 "Financial Instruments" with effect from January 1, 2018, without the retrospective adjustment of comparative disclosures. The reclassifications and adjustments resulting from the new rules on impairment are therefore recognized in the opening balance sheet as of January 1, 2018. The main effects of the new standard relate to the classification and measurement of financial assets, the impairment of financial assets and hedge accounting.

Classification and measurement of financial instruments

As a result of the application of IFRS 9, the Group has classified its financial assets as either at amortized cost or at fair value through profit or loss, depending on the business model used to manage these financial assets and the type of contractual cash flows of the assets. The previous classification as "at fair value through profit or loss," "loans and receivables" and "financial assets measured at amortized cost" was discontinued as of January 1, 2018. Pursuant to the transitional provisions of IFRS 9, the Group has not adjusted the previous year's figures, but classified the financial assets held as of January 1, 2018 retrospectively in accordance with the business model and based on the facts and circumstances under which the assets were held at that time. The Group's classification of financial liabilities remained unchanged.

The following presents the classification and measurement changes for the Group's financial assets and financial liabilities upon the initial application of IFRS 9:

kEUR	Original measurement category and carrying amount under IAS 39				New measurement category and carrying amount under IFRS 9		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Remeasurements upon application of IFRS 9	Fair value through profit and loss	Amortized cost	Retained earnings on January 1, 2018
Assets							
Cash and cash equivalents	–	278,775	–	–	–	278,775	–
Trade receivables	–	135,662	–	−471	–	135,191	−471
Other financial assets	–	940	–	–	–	940	–
Other short-term investments	–	58,306	–	–	–	58,306	–
Total assets	**–**	**473,683**	**–**	**−471**	**–**	**473,212**	**−471**
Liabilities							
Trade payables	–	–	114,219	–	–	114,219	–
Interest bearing loans and bonds	–	–	442,605	–	–	442,605	–
Other financial liablities	15,910	–	–	–	15,910	–	–
Derivates without a hedging relationship	655	–	–	–	655	–	–
Total liabilities	**16,565**	**–**	**556,824**	**–**	**16,565**	**556,824**	**–**

Impairment of financial assets

As of January 1, 2018, the Group adjusted the method used to recognize impairments of financial assets from the incurred loss model in accordance with IAS 39 to the expected credit loss model in accordance with IFRS 9. Until December 31, 2017, the Group has estimated the losses incurred as a result of defaults or the inability of customers to pay when due. These estimates were made on an individual basis, taking into account the age structure of customer balances, specific credit conditions and the Group's past experience with credit losses. Under the new approach, it is no longer necessary for a loss to actually occur before an impairment loss is recognized. An impairment loss on the expected credit losses is recognized at the present value of the defaults over the expected useful lives of the financial assets.

The following table compares the closing balances of the impairments as of December 31, 2017 with the opening balance of the impairments as of January 1, 2018 for trade receivables measured at amortized cost upon the first-time application of IFRS 9:

kEUR	Allowance as of December 31, 2017	Allowance as of January 1, 2018
Cash and cash equivalents	–	–
Trade receivables	6,204	6,675
Other financial assets	–	–
Other short-term investments		–

Impairments on overdue trade receivables and other financial assets, which are measured at amortized cost, remain unchanged after the transition from the incurred loss model in accordance with IAS 39 to the expected credit loss model in accordance with IFRS 9. For trade receivables, which are measured at amortized cost and have not been impaired, the transition to the expected credit loss model resulted in an adjustment of EUR –0.5 million. This adjustment was recognized in retained earnings on January 1, 2018.

Hedge accounting

To limit the risk of foreign currency and interest rate fluctuations, the Group uses foreign currency derivatives and interest rate swaps to hedge the underlying cash flows. The accounting rules of IAS 39 regarding the recognition of hedge accounting were not applied because they were subject to certain conditions that have not yet been met. The accounting treatment of hedge transactions has not changed as a result of the first-time application of IFRS 9.

2.4.2 IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenues and related interpretations and, with a few exceptions, applies to all revenue from contracts with customers. This standard introduces a five-step model for accounting for revenue from contracts with customers. Under IFRS 15, revenue is recognized in the amount of consideration that an entity is expected to receive in exchange for the transfer of goods or services to a customer.

IFRS 15 requires entities to make judgments in applying each stage of the model to contracts with their customers and to consider all relevant facts and circumstances. The standard also governs the accounting of the additional costs associated with initiating a contract and the costs directly related to the contract's fulfillment.

SAF-HOLLAND has been applying the new IFRS 15 revenue recognition standard to its customer contracts since January 1, 2018. As explained in the 2017 notes to the consolidated financial statements, the application of IFRS 15 has no impact on the consolidated financial statements.

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 current 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 16 "Leases"

IFRS 16 replaces IAS 17 and 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 will 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 analyzed the effects of IFRS 16 during the past 2018 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 would not have a material effect on the presentation of the Company's net assets, financial position and results of operations. The Company expects that in the course of the first time adoption of the new leasing accounting standard that fixed assets as well as leasing liabilities will increase by roughly EUR 18 million.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the inconsistency between the rules of IFRS 10 and IAS 28 in connection with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss on the sale or contribution of assets should be fully recognized, provided that the assets constitute a business operation within the meaning of IFRS 3. Any gains or losses on the business or contribution of assets that do not constitute a business operation must be recognized only up to the amount of the share of non-affiliated other investors in the associate or joint venture. The IASB has postponed the date of first-time application of these amendments indefinitely. In the case of early application, these changes should be applied prospectively. The Group will apply these amendments as they come into force.

This change has no effect on the Group's net assets, financial position and result of operations as it is not intended to sell a subsidiary to an associated entity or joint venture.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 relate to the accounting for plan adjustments, curtailments or settlements made during a reporting period. They clarify that an entity must determine the following when a plan adjustment, curtailment or settlement has been made in the course of a financial year:

— the current service cost for the period remaining after a plan adjustment, curtailment or settlement, using the actuarial assumptions used to remeasure the net liabilities (or net assets) of defined benefit plans. Net liabilities (or net assets) reflect the benefits granted under the plan and plan assets after the date of the event.
— the net interest expense for the period remaining after a plan adjustment, curtailment or settlement, using the net liabilities (or net assets) of defined benefit plans, which corresponds to the benefits granted under the plan and the plan assets after the date of the event and the discount rate used in the remeasurement of this net liability (net asset). The amendments also clarify that any past service cost or profit/loss from a plan settlement must first be determined without taking into account the impact of the asset ceiling. The amount determined in this way is recognized through profit or loss. Next, the effects of the asset ceiling are to be determined after the plan adjustment, curtailment or settlement. Any discrepancies in relation to these effects, net of the amounts included in net interest, must be recognized in other comprehensive income.

The amendments to IAS 19 apply to any plan adjustments, curtailments or settlements that occur on or after the beginning of the first financial year, which begins on or after January 1, 2019. Early application is permitted only to plan adjustments, curtailments or settlements that will be made by the Group in the future.

The Company assumes that this accounting change will not have any impact on its consolidated financial statements as it is currently not planned to adjust, to curtail or to settle any plan.

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

The Group's scope of consolidation changed as follows when compared to the consolidated financial statement as of December 31, 2017.

ACQUISITIONS

Acquisition of V.ORLANDI S.p.A.
On April 9, 2018, SAF-HOLLAND GmbH acquired a 70 % stake in the Italian manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles V.ORLANDI S.p.A., headquartered in Flero. As part of the acquisition, the parties agreed to a put/call option for the sale/purchase of the remaining 30 % interest. The put option may be exercised during the period from January 1, 2019 to 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 IFRS 9. Because SAF-HOLLAND GmbH holds the majority of voting rights, it has obtained control of V.ORLANDI S.p.A. as of the acquisition date.

The first-time consolidation of V.ORLANDI S.p.A. was carried out in accordance with IFRS 3 using the purchase method.

The purchase price of approximately EUR 39.1 million was paid in cash.

The following table shows the purchase price allocation and the amounts of the main groups of acquired assets and assumed liabilities at the time of acquisition:

kEUR	Fair value as of acquisition date
Brand	3,126
Other intangible assets	15,952
Property, plant and equipment	6,951
Inventories	6,208
Trade receivables	7,093
Other financial assets	1,852
Other assets	1,069
Cash and cash equivalents	1,360
	43,611
Deferred tax liabilities	5,128
Interest bearing loans and borrowings	3,461
Trade payables	5,335
Other liabilities	712
Pension liabilities	1,086
Other provisions	95
Income tax liabilities	586
	16,403
Total of identified net assets	**27,208**
Shares of non-controlling interests	−8,162
Goodwill from the acquisition	20,065
Consideration transferred	**39,111**

The gross amount of trade receivables amounted to kEUR 7,172 at the time of acquisition.

Goodwill of kEUR 20,065 includes non-separable intangible assets, such as sales synergies that mainly result from the expansion of the portfolio, as well as cost synergies, particularly in the area of purchasing.

The non-controlling interests in the acquired company are measured at the fair value of the relevant share in the identifiable net assets of the acquired company and amounted to kEUR 8,162 at the time of acquisition.

The cash outflow as a result of the acquisition was as follows:

kEUR	
Cash outflow	39,111
Cash acquired	1,360
Actual cash outflow	**37,751**

V.Orlandi S.p.A. was assigned to the EMEA region.

The value of the call/put option for the remaining 30% of the shares in V.Orlandi S.p.A is dependent on future earnings figures and amounted to kEUR 7,901 at the time of acquisition.

Since the time of acquisition, V.Orlandi S.p.A. has contributed kEUR 18,305 to the Group's sales and kEUR 2,940 to the Group's result before tax.

Transaction costs of kEUR 632 were recognized as an expense and included in administrative expenses.

Acquisition of York Transport Equipment (Asia) Pte Ltd

On April 30, 2018, SAF-HOLLAND GmbH acquired all shares in the manufacturer of axle and suspension systems York Transport Equipment (Asia) Pte. Ltd., headquartered in Singapore. York Transport Equipment (Asia) Pte. Ltd. and its subsidiaries ("York Group") are considered one of the leading suppliers of trailer axle and suspension systems in India and distribute a full range of truck and trailer components throughout the entire APAC region.

Because SAF-HOLLAND GmbH holds the majority of voting rights, it has obtained control of York Transport Equipment (Asia) Pte. Ltd. as of the acquisition date.

The first-time consolidation of York Transport Equipment (Asia) Pte. Ltd. was carried out in accordance with IFRS 3 using the purchase method.

The purchase price of approximately EUR 35.6 million was paid in cash.

The following table shows the purchase price allocation and the amounts of the main groups of acquired assets and assumed liabilities at the time of acquisition:

kEUR	Fair value as of acquisition date
Brand	2,572
Other intangible assets	14,686
Property, plant and equipment	5,340
Inventories	13,289
Trade receivables	12,127
Other assets	1,813
Cash and cash equivalents	20,075
	69,902
Deferred tax liabilities	6,296
Interest bearing loans and borrowings	15,982
Trade payables	15,248
Other liabilities	2,675
Other provisions	85
Income tax liability	614
	40,900
Total of identified net assets	**29,002**
Goodwill from the acquisition	6,581
Consideration transferred	**35,583**

The gross amount of trade receivables amounted to kEUR 12,330 at the time of acquisition.

Goodwill of kEUR 6,581 is mainly attributable to synergies, such as sales synergies that mainly result from the expansion of the portfolio and cost synergies in the areas of research and development, purchasing, general administration and production.

The cash outflow as a result of the acquisition was as follows:

kEUR	
Cash outflow	35,583
Cash acquired	20,075
Actual cash outflow	**15,508**

The York Group was allocated for the most part to the APAC/China region.

In the period from the time of acquisition until December 31, 2018, the acquired business contributed kEUR 52,120 to the Group's sales and kEUR –385 to the Group's result before tax, including purchase price allocation effects and integration costs.

Transaction costs of kEUR 1,111 were recognized as an expense and included in administrative expenses.

Acquisition of Axscend Group Ltd.

With effect from July 24, 2018, SAF-HOLLAND GmbH has acquired 69.99 % of the shares in the English telematics and connectivity specialist Axscend Group Ltd. based in Canterbury, U.K. Axscend Group Ltd. is active in the area of hardware and software development and focuses on the digitization of trailer management with its product Trailer Master Connect.

As part of the acquisition, the parties were granted a call/put option for the acquisition/sale of the remaining 30.01 %, which can be exercised for the first time in the year 2022.

Because SAF-HOLLAND GmbH holds the majority of voting rights, it has obtained control of Axscend Ltd. as of the acquisition date.

The first-time consolidation of Axscend was carried out in accordance with IFRS 3 using the purchase method.

The preliminary purchase price of approximately EUR 5.3 million was paid in cash.

The following table shows the preliminary purchase price allocation and the amounts of the main groups of acquired assets and assumed liabilities at the time of acquisition:

kEUR	Fair value as of acquisition date
Brand	790
Other intangible assets	4,782
Property, plant and equipment	34
Other non-current assets	406
Inventories	215
Trade receivables	289
Other assets	109
Cash and cash equivalents	587
	7,212
Deferred tax liabilities	1,060
Trade payables	116
Other liabilities	786
	1,962
Total of identified net assets	**5,250**
Shares of non-controlling interests	–1,576
Goodwill from the acquisition	1,581
Consideration transferred	**5,255**

The gross amount of trade receivables amounted to kEUR 289 at the time of acquisition.

Preliminary goodwill of kEUR 1,581 includes non-separable intangible assets such as employee expertise and expected synergies from strengthening our position in the field of digitization.

The cash outflow as a result of the acquisition was as follows:

kEUR	
Cash outflow	5,255
Cash acquired	587
Actual cash outflow	4,668

Since the time of acquisition, Axscend Group Ltd. contributed kEUR 482 to the Group's sales and kEUR –76 to the Group's result before tax, including purchase price allocation effects and integration costs.

Transaction-related costs amounted to kEUR 232 and are included in administrative expenses.

Axscend Group Ltd. was assigned to the EMEA region.

Acquisition of V.Orlandi Australia Pty. Ltd.

On December 19, 2018, SAF-HOLLAND (Aust.) Pty. Ltd. acquired all shares in the Australian distributor of coupling systems for trucks, trailers and semi-trailers V.ORLANDI Australia Pty. Ltd. headquartered in Melbourne.

Because SAF-HOLLAND (Aust.) Pty. Ltd. holds the majority of voting rights, it obtained control of V.ORLANDI Australia Pty. Ltd. as of the acquisition date.

The first-time consolidation V.ORLANDI Australia Pty. Ltd. was carried out in accordance with IFRS 3 using the purchase method.

The preliminary purchase price of approximately EUR 0.9 million was paid in cash.

The following table shows the preliminary purchase price allocation and the amounts of the main groups of acquired assets and assumed liabilities at the time of acquisition:

kEUR	Fair value as of acquisition date
Property, plant and equipment	20
Inventories	1,229
Trade receivables	242
Cash and cash equivalents	136
	1,628
Interest bearing loans and borrowings	19
Trade payables	613
Other liabilities	1,159
	1,791
Total of identified net assets	**–163**
Goodwill from the acquisition	1,063
Consideration transferred	**900**

The gross amount of trade receivables amounted to kEUR 242 at the time of acquisition.

Preliminary goodwill of kEUR 1,063 is mainly attributable to synergies that result from the expansion of the portfolio, as well as cost synergies in the areas of purchasing and general administration.

The cash outflow as a result of the acquisition was as follows:

kEUR	
Cash outflow	900
Cash acquired	136
Actual cash outflow	**764**

Since the acquisition date was close to the reporting date, V. Orlandi Australia Pty. Ltd. did not make any material contributions to the Group's sales and result before tax.

Transaction costs of kEUR 28 were recognized as an expense and included in administrative expenses.

V.Orlandi Australia Pty. Ltd. was assigned to the APAC/CHINA region.

If the three acquisitions had been included in the consolidated financial statements as of January 1, 2018, Group's sales and Group's result before tax would have been EUR 1,336 million and EUR 64.9 million respectively in the past financial year.

NEWLY ESTABLISHED COMPANIES

In August, the newly established entity OOO V. Orlandi Rus, headquartered in Naberezhnye Chelny, Russia, commenced operations. In addition, SAF-HOLLAND (Shanghai) Investment Co., Ltd., China and SAF-HOLLAND (Yangzhou) Vehicle Parts Co., Ltd., China were established in October.

DECONSOLIDATIONS

SAF-HOLLAND Austria GmbH, Austria, was liquidated on December 29, 2018 and desconsolidated in the reporting year. The desconsolidation did not result in any gains or losses.

OTHER CHANGES

In December 2018, SAF-HOLLAND GmbH increased its stake in Corpco Beijing Technology and Development Co., Ltd. from 80 % to 100 %. The purchase price for the outstanding shares in Corpco Beijing Technology and Development Co., Ltd. of kEUR 634 was paid in cash. The Acquisition of the remaining outstanding shares of 20 % of Corpco Beijing Technology and Development Co., Ltd. was accounted for as equity transaction.

4. SEGMENT INFORMATION

A new segmentation in corporate management and reporting was introduced on May 1, 2018 in the course of the York acquisition to better achieve the goals defined in the corporate strategy. India, which was previously part of the EMEA region, has been assigned to the APAC/China region as of the changeover date. As of May 1, 2018, corporate management and group reporting have been conducted through the "EMEA," "Americas" and "APAC/China" segments. The three regions cover both original equipment and spare parts business.

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 and effects from the valuation of options (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–Q4/2018	Q1–Q4/2017
Operating result	76,241	70,639
Share of net profit of investments accounted for using the equity method	1,729	2,086
EBIT	**77,970**	**72,725**
Additional depreciation and amortization from PPA	8,837[1]	5,277
Step up inventories from PPA	1,065	32
Valuation effects from call and put option	−7,256	–
Restructuring and transaction costs	8,962	13,175
Adjusted EBIT	**89,578**	**91,209**

[1] includes al loss from asset disposal of kEUR 847

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

kEUR				Q1–Q4/2018
			Regions	
	Americas[1]	EMEA[2]	APAC/China[3]	Consolidated
Sales	471,551	658,924	170,080	1,300,555
Cost of sales	−424,561	−529,190	−147,541	−1,101,292
Gross profit	**46,990**	**129,734**	**22,539**	**199,263**
Gross margin	10.0%	19.7%	13.3%	15.3%
Selling and administrative expenses, research and development costs, other income and expenses, share of net profit of investments accounted for using the equity method	−36,200	−66,770	−18,323	−121,293
Adjustments[4]	−2,312	8,454	5,466	11,608
Adjusted EBIT	**8,478**	**71,418**	**9,682**	**89,578**
Adjusted EBIT margin	**1.8%**	**10.8%**	**5.7%**	**6.9%**
Depreciation/amortization	−12,487	−13,553	−3,481	−29,521

[1] Includes Canada, the USA as well as Central and South America.
[2] Includes Europe, Middle East and Africa.
[3] Includes Asia/Pacific, India and China.
[4] Adjustments comprise depreciation and amortization expenses from PPA (incl. inventory step-up) in the amount of kEUR 9,902, restructuring and transaction costs in the amount of kEUR 8,962 as well as restructuring costs from call and put option in the amount of kEUR −7,256

kEUR				
				Q1–Q4/2017
			Regions	
	Americas[1]	**EMEA[2]**	**APAC/China[3]**	**Consolidated**
Sales	429,409	611,617	97,907	1,138,933
Cost of sales	–371,944	–483,769	–78,163	–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, and reversal of impairment	–56,154	–62,778	–13,400	–132,332
Adjustments[4]	14,768	2,754	962	18,484
Adjusted EBIT	**16,079**	**67,824**	**7,306**	**91,209**
Adjusted EBIT margin	**3.7%**	**11.1%**	**7.5%**	**8.0%**
Depreciation/amortization	–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 and Africa.
3 Includes Asia/Pacific, India 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.

Finance income and expenses are not allocated to the 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 North 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 shows information by geographic region:

kEUR	**12/31/2018**	**12/31/2017**
Non-current assets		
Americas	173,708	167,392
EMEA	235,815	166,382
APAC/China	39,024	17,876
Total	**448,547**	**351,650**

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

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 SALES

The following table presents the breakdown of sales by business unit that the Group has generated from contracts with customers:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Revenues from external customers		
OEM	988,726	861,310
Aftermarket	311,829	277,623
Total	**1,300,555**	**1,138,933**

The performance obligation is met through the delivery of axle and suspensions systems, fifth wheel couplings, kingpins, trailer couplings (OE products) and spare parts. Payment terms are usually 30 to 120 days following delivery.

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.

5.2 COST OF SALES

Cost of sales consists of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Cost of materials	904,303	747,946
Personnel expenses	134,782	122,070
Depreciation and amortization of property, plant, and equipment and intangible assets	16,098	13,763
Temporary employee expenses	13,249	8,845
Repair and maintenance expenses	11,401	10,648
FX-valuation expenses	5,973	2,797
Legal and consulting expenses	1,364	1,966
Travel expenses	1,308	1,224
Warranty expenses	1,131	7,099
Restructuring and transaction costs	4,114	11,066
Other	7,569	6,452
Total	**1,101,292**	**933,876**

In the 2018 financial year, cost of sales included inventory usage of kEUR 1,079,833 (previous year: kEUR 903,272).

5.3 OTHER INCOME AND EXPENSES

5.3.1 Other income

Other operating income consists of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Gain from disposal of property, plant and equipment	160	41
Claim for damages	–	500
Income from option valuation	8,090	–
FX-Valuation Expenses	1,033	–509
Other	1,208	1,582
Total	**10,491**	**1,614**

Other income mainly resulted from changes in the intrinsic value of the put option for the acquisition of the remaining shares in KLL Equipamentos para Transporte Ltda.

5.3.2 Selling expenses

The following overview shows the composition of selling expenses:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Personnel expenses	32,467	31,989
Expenses for advertising and sales promotion	8,956	8,944
Depreciation and amortization of property, plant and equipment and intangible assets	6,603	4,496
Expenses for distribution	4,018	3,714
Trade receivable allowance and write-off	1,208	2,181
Commissions	716	308
Restructuring and transaction costs	338	299
FX-Valuation	301	423
Other	6,679	9,725
Total	**61,286**	**62,079**

5.3.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Personnel expenses	21,510	28,722
Expenses for office and operating supplies	6,404	4,968
Depreciation and amortization of property, plant and equipment and intangible assets	4,544	4,126
Legal and consulting expenses	5,196	4,208
Travel costs	1,890	2,026
Restructuring and transaction costs	4,314	1,402
Other	7,963	8,090
Total	**51,821**	**53,542**

5.3.4 Research and development costs

Research and development costs consist of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Personnel expenses	10,919	11,199
Depreciation and amortization of property, plant and equipment and intangible assets	2,276	2,245
Testing costs	1,982	2,184
Restructuring and transaction costs	196	408
Other	4,199	4,375
Total	**19,572**	**20,411**

Development costs of kEUR 4,328 (previous year: kEUR 4,221) were capitalized in the financial year.

5.3.5 Other expenses

Other expenses mainly include the valuation effect from the put option for the acquisition of the remaining shares in V.Orlandi S.p.A.

5.3.6 Finance result

Finance income consists of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Unrealized foreign exchange gains on foreign currency loans and dividends	12	29
Realized foreign exchange gains on foreign currency loans and dividends	161	178
Finance income due to derivatives	679	376
Finance income due to pensions and other similar benefits	5	–
Interest income	367	367
Other	42	297
Total	**1,266**	**1,247**

Finance expenses consist of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Interest expenses due to interest bearing loans and bonds	–9,889[1]	–13,715[1]
Amortization of transaction costs	–592	–775
Finance expenses due to pensions and other similar benefits	–862	–1,121
Finance expenses due to derivatives	–862	–828
Unrealized foreign exchange losses on foreign currency loans and dividends	–25	–30
Other	–2,785	–1,291
Total	**–15,015**	**–17,760**

[1] Includes the non-cash interest expenses of kEUR 666 (previous year: kEUR 647) for the convertible bond.

The decrease in interest expenses due to interest-bearing loans and bonds mainly resulted from the redemption of a corporate bond issued in 2012. The bond had a nominal volume of EUR 75.0 million and an interest coupon of 7 %. The bond was redeemed on April 26, 2018.

The amortization of transaction costs of kEUR –592 (previous year: kEUR –775) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

Finance expenses related to derivatives in the past financial year resulted primarily from the fair value measurement of interest rate swaps as of the end of the year.

Other finance expenses stemmed mainly from the accrued interest on the liabilities for the acquisition of the remaining shares in KLL Equipamentos para Transporte Ltda. and V.Orlandi S.p.A. resulting from the put options and unrealized currency losses in the repayment of intra-company foreign currency loans.

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

5.3.7 Expenses for employee benefits

Expenses for employee benefits consist of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Wages and salaries	–176,872	–167,408
Social insurance contributions	–25,279	–23,977
Pension expenses	4,015	–1,173
Termination benefits	–1,542	–1,422
Total	**–199,678**	**–193,980**

Social insurance contributions include expenses from defined contribution plans in the amount of von kEUR 8,370 (previous year: kEUR 8,051).

5.3.8 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–Q4/2018	Q1–Q4/2017	Q1–Q4/2018	Q1–Q4/2017	Q1–Q4/2018	Q1–Q4/2017
Cost of sales	–14,285	–12,877	–1,813	–886	**–16,098**	**–13,763**
Selling expenses	–1,094	–1,084	–5,509	–3,412	**–6,603**	**–4,496**
Administrative expenses	–1,727	–1,546	–2,817	–2,580	**–4,544**	**–4,126**
Research and development costs	–983	–981	–1,293	–1,264	**–2,276**	**–2,245**
Total	**–18,089**	**–16,488**	**–11,432**	**–8,142**	**–29,521**	**–24,630**

Depreciation and amortization of property, plant and equipment and intangible assets arising from purchase price allocation amounted to kEUR 7,990 (previous year: kEUR 5,309).

5.4 INCOME TAXES

Income taxes primarily consist of the following:

kEUR	Q1–Q4/2018	Q1–Q4/2017
Current income taxes	–16,969	–20,987
Deferred income taxes	863	5,735
Income tax reported in the result for the period	**–16,106**	**–15,252**

The effective income tax rate for the Group for the year ended December 31, 2018 is 25.08 % (previous year: 27.13 %). The following table reconciles the actual versus the expected income taxes for the Group using the Group's corporate income tax rate of 26.80 % (previous year: 29.40 %). The Group tax rate is the weighted tax rates in the EMEA, 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 region. The tax rate for the Americas region was equivalent to the US tax rate of 25.00 %, which consists of a federal tax rate of 21.00 % and a state tax rate of 4.00 %. 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 26.80 % deviate from the reported income tax expenses as follows:

kEUR	12/31/2018	12/31/2017
Result before income tax	**64,221**	**56,212**
Income tax based on Group's income tax rate of 26.80 % (previous year: 29.40 %)	–17,211	–16,526
Unused tax loss carry-forwards	–1,891	–6,527
Use of previously not recognized tax loss carry-forwards	1,999	103
Non-deductible operating expenses	–1,307	–1,521
Tax-Exempt income	1,639	4,289
Differences in tax rates	30	2,171
Income taxes resulting from previous year	2,722	–1,852
Other	99	63
Effects from changes in foreign tax legislation	–2,186	4,548
Income tax based on effective income tax rate of 25.08 % (previous year: 27.13 %)	**–16,106**	**–15,252**

The development of deferred income taxes in the items tax loss carryforwards and interest carryforwards was impacted by direct and indirect follow-on effects from US tax reform. The development of deferred income taxes as of the reporting date was as follows:

kEUR	12/31/2018	12/31/2017
Inventories	1,918	1,683
Pensions and other similar benefits	6,679	7,742
Other financial liabilities	208	156
Other provisions	2,279	1,815
Tax loss carry-forwards	1,017	802
Interest carry-forwards	12,114	10,684
Other	4,365	4,823
Deferred income tax assets	**28,580**	**27,705**
Intangible assets	–39,371	–29,181
Property, plant and equipment	–10,518	–9,099
Inventories	–14	–
Investments accounted for using the equity method	–394	–299
Other assets	–233	–301
Interest bearing loans and bonds	–2,921	–2,123
Other	–3,108	–1,962
Deferred income tax liabilities	**–56,559**	**–42,965**

As of the reporting date, deferred tax assets and liabilities of kEUR 6,152 (previous year: kEUR 2,364) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 22,428 (previous year: kEUR 25,341) and deferred tax liabilities of kEUR 50,407 (previous year: kEUR 40,601).

The Group has tax loss carryforwards of kEUR 52,222 (previous year: kEUR 58,196) 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 48,483 (previous year: kEUR 54,934) 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	12/31/2018	12/31/2017
Due Date		
Infinite	39,424	46,835
Within 5 years	8,416	7,469
Within 10 years	643	630
Total	**48,483**	**54,934**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 54,274 (previous year: kEUR 47,292), 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 2018, deferred income taxes amounting to kEUR −45 (previous year: kEUR −3,111) 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 −6.0 million (previous year: EUR −1.1 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
Historical costs								
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	–
Transfer	–	−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**
Additions from initial consolidation	27,351	7,671	85	6,488	–	993	42,661	29,290
Additions	–	6	4,328	8	–	3,038	7,380	–
Disposals	114	–	–	2	–	565	681	–
Transfers	–	48	–	–	–	−496	−448	–
Foreign currency translation	2,334	444	616	772	–	208	4,302	1,486
As of 12/31/2018	**137,620**	**29,522**	**23,334**	**41,276**	**3,494**	**40,828**	**276,075**	**114,433**
Accumulated amortization								
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	–
Transfer	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**
Additions from initial consolidation	–	–	–	–	–	753	753	–
Additions	5,218	957	1,843	84	175	3,155	11,432	–
Disposals	114	–	–	–	–	551	665	–
Transfer	–	–	–	–	–	−415	−415	–
Foreign currency translation	678	193	151	−18	–	156	1,160	430
As of 12/31/2018	**41,504**	**20,224**	**5,215**	**1,059**	**2,228**	**24,560**	**94,790**	**29,953**
Carrying amount 12/31/2017	**72,327**	**2,279**	**15,084**	**33,017**	**1,441**	**16,188**	**140,336**	**54,134**
Carrying amount 12/31/2018	**96,116**	**9,298**	**18,119**	**40,217**	**1,266**	**16,268**	**181,285**	**84,480**

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

kEUR	2018		2017	
	Carrying amount	Useful Life	Carrying amount	Useful Life
Customer relationship "OEM"	26,445	28	27,416	29
Customer relationship "5th-Wheel"	11,072	20	11,632	21
SAP-Software	7,242	4.5	10,043	5.5

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 rate before tax	
	2018	2017
Americas	11.18%	14.91%
EMEA	9.33%	11.69%
APAC/CHINA	14.00%	18.20%

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", "Holland", "York" and "Orlandi" to the cash-generating units was done on the basis of the primary geographical use of these brands. The impairment test of the SAF and Orlandi brand was performed on the basis of the EMEA cash-generating unit. The impairment test of the Holland brand was performed on the basis of the Americas cash-generating unit. The impairment test of the York brand was performed on the basis of the APAC/China cash-generating unit. The carrying amounts are as follows:

kEUR	Americas		EMEA		APAC/China		Total	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Goodwill	25,500	24,519	45,109	23,442	13,871	6,173	84,480	54,134
Brand	12,742	12,372	24,558	20,644	2,917	1	40,217	33,017

In addition, 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 12/31/2016	**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**
Additions from initial consolidation	8,821	14,578	3,094	91	**26,584**
Additions	1,974	14,639	2,978	13,815	**33,406**
Disposals	3,903	16,081	1,322	48	**21,354**
Transfers	133	3,091	205	−2,982	**447**
Foreign currency translation	257	1,071	198	212	**1,738**
As of 12/31/2018	**96,126**	**168,405**	**31,790**	**18,355**	**314,676**
Accumulated depreciation					
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**
Additions from initial consolidation	1,882	9,886	2,471	–	**14,239**
Additions	3,397	12,109	2,583	–	**18,089**
Disposals	2,691	14,861	1,171	–	**18,723**
Transfers	−111	535	−10		**414**
Foreign currency translation	194	912	199	–	**1,305**
As of 12/31/2018	**28,472**	**99,200**	**23,741**	**–**	**151,413**
Carrying amount 12/31/2017	**63,043**	**60,488**	**6,968**	**7,267**	**137,766**
Carrying amount 12/31/2018	**67,654**	**69,205**	**8,049**	**18,355**	**163,263**

The carrying amount of technical and operating and office equipment held under finance leases as of December 31, 2018 is kEUR 336 (previous year: kEUR 96). There were additions to technical equipment held under finance leases in the reporting year amounting to kEUR 228 (previous year: kEUR 0). Depreciation during the financial year amounted to kEUR 117 (previous year: kEUR 21). The present value of minimum lease payments amounted to kEUR 229 (previous year: kEUR 55). Undiscounted minimum lease payments amounted to kEUR 255 (previous year: kEUR 76).

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	34.09
Joint ventures		
SAF-HOLLAND Nippon, Ltd.	Japan	50.0

Details about the Group's associate 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.	
	12/31/2018	**12/31/2017**
Current assets	53,492	54,569
Non-current assets	8,486	8,842
Current liabilities	–12,525	–12,185
Non-current liabilities	–5,908	–9,071
Sales	45,245	39,058
Net profit of the financial year from continuing operations	4,887	6,011
Total comprehensive income	**4,887**	**6,011**
Group's share in total comprehensive income	1,666	2,049
Other equity holders	3,221	3,962

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

	12/31/2018	12/31/2017
Net assets of the associate	43,545	42,149
Equity interest of the Group	34.09 %	34.09 %
Other adjustments	806	715
Carrying amount of the investment in Castmetal FWI S.A.	15,651	15,154

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 1,214 (previous year: kEUR 1,178) 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

	12/31/2018	12/31/2017
Group's share in profit or loss	63	37
Group's share in total comprehensive income	63	37
Aggregate carrying amount of Group's share in this company	1,182	1,080

6.4 OTHER NON-CURRENT ASSETS

kEUR

	12/31/2018	12/31/2017
VAT reimbursement claims	1,223	1,126
Claims from reinsurance	799	733
Insurance premiums	94	155
Other	570	1,166
Total	**2,686**	**3,180**

6.5 INVENTORIES

kEUR	12/31/2018	12/31/2017
Raw materials	69,739	52,868
Work in progress	43,510	36,895
Finished and trading goods	54,187	36,083
Goods in transit	11,932	7,899
Total	**179,368**	**133,745**

Cost of sales includes impairment of inventories of kEUR 1,608 (previous year: kEUR 1,147). The inventory impairment is recorded in a separate impairment account and netted against the gross amount of inventory.

kEUR	Allowance account
As of 12/31/2016	**7,919**
Charge for the year	1,235
Utilized	1,022
Released	88
Foreign currency translation	–576
As of 12/31/2017	**7,468**
Additions from initial consolidation	1,176
Charge for the year	2,305
Utilized	1,457
Released	697
Foreign currency translation	–132
As of 12/31/2018	**8,663**

6.6 TRADE RECEIVABLES

Trade receivables are non-interest-bearing and usually have a term between 30 and 120 days.

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 12/31/2018	138,875	102,383	2,166	17,850	4,952	1,607	1,459	4,350	4,108
Trade receivables as of 12/31/2017	135,662	100,860	1,837	19,708	4,370	1,141	326	4,622	2,798

Impairment of trade receivables is recorded in a separate impairment account and netted against the gross amount of trade receivables.

kEUR	Allowance account
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**
Effects from the adoption of IFRS 9	471
Additions from initial consolidation	526
Disposal from consolidation group	30
Charge for the year	3,241
Utilized	2,982
Released	994
Foreign currency translation	−293
As of 12/31/2018	**6,143**

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 41,536 as of the reporting date (previous year: kEUR 26,950) 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	12/31/2018	12/31/2017
VAT receivables	9,211	2,778
Prepaid expenses	4,937	3,376
Insurance premiums	342	322
Creditors with a debit balance	124	125
Deposits within the framework of factoring	2,187	519
Other	8,348	4,704
Total	**25,149**	**11,824**

The increase in “Other Current Assets” has to be seen against the backdrop of the acquisitions done during the past fiscal year. Due to acquisitions “Other Current Assets” increased by EUR 3.7 million.

VAT Receivables were higher as of the closing date. The significant increase of the overall factoring volume resulted into an increase in the deposits for factoring. The deposits for factoring are paid by the factor once the customer payment is received. The increase in the line “Other” primarily resulted from deposits made for the acquisition of machines as well as from claims against a supplier.

6.8 OTHER SHORT-TERM INVESTMENTS

The previous year’s other short-term investments resulted from a short-term deposit of liquid funds.

6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2018	12/31/2017
Cash on hand, cash at banks and checks	154,865	278,737
Short-term deposits	144	38
Total	**155,009**	**278,775**

6.10 EQUITY

Subscribed share capital

The Company’s subscribed share capital has remained unchanged compared to the previous year and amounted to EUR 453,943.02 as of the reporting date (previous year: EUR 453,943.02). Subscribed share capital is fully paid-in and consists of 45,394,302 (previous year: 45,394,302) ordinary shares with a nominal value of EUR 0.01 per share.

Authorized share capital

As of the reporting 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 c apital 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, 2018, the share premium was unchanged at kEUR 269,044 (previous year: kEUR 269,044).

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, 2018, 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 48,151 (previous year: kEUR 42,887).

A dividend of EUR 0.45 per share will be proposed for the 2018 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 available net income attributable to equity holders of the parent company of 42.4 %, which is within the targeted range. A dividend of EUR 0.45 per share was paid in the previous year, and the total dividend distribution amounted to kEUR 20,427.

An amount of kEUR 832 was reclassified from accumulated other comprehensive income to retained earnings resulting from the settlement of two pension plans in 2017.

Accumulated other comprehensive income

kEUR	Before tax amount		Tax income		Net of tax amount	
	Q1-Q4/2018	Q1–Q4/2017	Q1-Q4/2018	Q1–Q4/2017	Q1-Q4/2018	Q1–Q4/2017
Exchange differences on translation of foreign operations	2,219	–24,651	–	–	2,219	–24,651
Revaluation defined benefit plan	946	2,443	–45	–3,111	901	–668
Total	**3,165**	**–22,208**	**–45**	**–3,111**	**3,120**	**–25,319**

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR –18,466 (previous year: kEUR –20,685).

The total amount of the remeasurement of defined benefit plans included in accumulated other comprehensive income after taxes is kEUR –17,716 (previous year: kEUR –18,617).

6.11 PENSIONS AND OTHER SIMILAR OBLIGATIONS

Germany

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 from a direct pension commitment to an indirect pension commitment in the form of a reinsured employee benefit fund. The conversion did not alter the benefits granted to employees. 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 799 (previous year: kEUR 733) is recognized under other non-current assets in accordance with IAS 19.

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

USA

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.

The post-employment medical benefit plan is granted on a voluntary basis by SAF-HOLLAND Inc. and offers reimbursement of medical treatments for up to three years for eligible employees. In August 2018, a sub-plan of the post-employment medical plan was terminated. The gain from the settlement of this plan amounted to kEUR 4,724.

Canada

SAF-Holland Canada Ltd. operates a pension plan in Canada that is still open to new entrants. 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 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)	
	2018	2017	2018	2017	2018	2017	2018	2017
Balance as of the beginning of the period	**98,610**	**108,447**	**64,575**	**70,122**	**99**	**–**	**34,134**	**38,325**
Additions from initial consolidation	**1,191**	**–**	**105**	**–**	**–**	**–**	**1,086**	**–**
Beginning Balance	**99,801**	**108,447**	**64,680**	**70,122**	**99**	**–**	**35,220**	**38,325**
Current service cost	709	1,000	–	–	–	–	709	1,000
Past service cost[1]	−4,724	−183	–	–	–	–	−4,724	−183
Settlement	–	356	–	–	–	–	–	356
Interest expenses	3,074	3,551	–	–	3	–	3,077	3,551
Interest income	–	–	2,215	2,430	–	–	−2,215	−2,430
Other	–	–	–	–	–	–	–	–
Components of defined benefit costs recognized in the Consolidated Statements of income	**−941**	**4,724**	**2,215**	**2,430**	**3**	**–**	**−3,153**	**2,294**
Actuarial gains/losses	−6,617	3,674	−5,673	6,216	–	–	−944	−2,542
Effects of asset ceiling	–	–	–	–	−2	99	−2	99
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**−6,617**	**3,674**	**−5,673**	**6,216**	**−2**	**99**	**−946**	**−2,443**
Employer Contributions	–	–	923	998	–	–	−923	−998
Benefits paid	−4,368	−8,055	−3,948	−7,653	–	–	−420	−402
Foreign currency translation effects	2,443	−10,180	1,710	−7,538	−4	–	729	−2,642
Other reconciling items	**−1,925**	**−18,235**	**−1,315**	**−14,193**	**−4**	**–**	**−614**	**−4,042**
Balance as of the end of the period	**90,318**	**98,610**	**59,907**	**64,575**	**96**	**99**	**30,507**	**34,134**
thereof:								
Germany	14,697	14,974	11	11	–	–	14,686	14,963
USA	57,950	60,765	46,939	50,573	–	–	11,011	10,192
Canada	12,805	13,916	12,854	13,991	96	99	47	24
Other countries	1,459	–	103	–	–	–	1,356	
Post-employment medical	3,407	8,955	–	–	–	–	3,407	8,955
Actual return on plan assets	**–**	**–**	**−3,458**	**8,646**	**–**	**–**	**–**	**–**

[1] Past service cost reflects the impact of the negative plan amendment eliminating eligibility for active participants in the selfinsured Non-Bargained Salaried. Office and Supervisory Medical Benefit plan recognized as of August 29, 2018 using a discount rate of 3.93 % as of August 31, 2018.

The net balance from defined benefit plans in the amount of kEUR 30,507 (previous year: kEUR 34,134) is fully recorded in the line item pensions and other similar benefits. The net interest expense amounted to kEUR 862 (previous year: kEUR 1,121).

The actuarial gains (–) and losses (+) included in the revaluation resulted from:

kEUR

	12/31/2018	12/31/2017
Experience-based losses/gains related to defined benefit obligation	–970	–6,216
Experience-based losses/gains related to plan assets	5,673	–123
Changes in demographic assumptions	46	–703
Changes in financial assumptions	–5,693	4,500
Total	**–944**	**–2,542**

Actuarial assumptions

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.

kEUR

	12/31/2018	12/31/2017
Discount rate		
Germany pension plan	2.00	1.90
USA pension plan	4.15	3.49
Canada pension plan	4.01	3.45
USA post employment medical plan	4.01	3.35
Future salary increases	–	
Germany pension plan	0.00/2.00[1]	0.00/2.00[1]
USA pension plan	3.50	3.50
Canada pension plan	–[3]	–[3]
USA post employment medical plan	N/A	N/A
Future pension increases	–	
Germany pension plan	2.00	2.00
USA pension plan	–[2]	–[2]
Canada pension plan	–[3]	–[3]
USA post employment medical plan	N/A	N/A
Turnover rates	–	
Germany pension plan	4.60	4.60
USA pension plan	2.88	2.88
Canada pension plan	–	–
USA post employment medical plan	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 2018G (previous year: 2005G)
USA	RP-2014 mortality table with MP-2016 generational projection
Canada	RP-2014Priv mortality table with CPM-8 generational projection

Healthcare cost inflation:

kEUR

	12/31/2018	12/31/2017
Initial rate (health care cost trend rate assumed for next year)	6.50	6.75
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2024	2024

Sensitivity analyses

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

	12/31/2018		12/31/2017	
	Increase	Decrease	Increase	Decrease
Total	**−7,699**	**8,920**	**−8,927**	**10,274**
thereof:				
Germany	−1,707	2,085	−1,874	2,177
USA	−4,609	5,296	−5,611	6,489
Canada	−1,297	1,443	−1,442	1,608
Other countries	−86	96	–	–

A 1 percentage point change in the assumed trend in health-care costs would have the following effects:

kEUR

	12/31/2018		12/31/2017	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	9	−8	86	−73
Effect on the defined benefit obligation	215	−198	857	−746

Future cash flows

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

kEUR					2018
	2019	2020–2023	2024–2028	2029 ff.	Total
Germany	499	2,104	2,856	15,895	**21,354**
USA	4,030	15,748	19,664	64,078	**103,520**
Canada	501	2,345	3,620	16,826	**23,292**
Other Countries	80	356	2,323	–	**2,759**
Total	**5,110**	**20,553**	**28,463**	**96,799**	**150,925**

kEUR					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**

The weighted average duration of pension plans is described below:

in years	12/31/2018	12/31/2017
Germany	17	18
USA	12	12
Canada	10	11
Other countries	9	–

The employer contributions to defined benefit plans expected for the 2019 financial year amount to kEUR 1,322.

Breakdown of plan assets

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

	12/31/2018		12/31/2017	
	%	kEUR	%	kEUR
Equities	62.17 %	37.241	63.00 %	40.682
Bonds	33.27 %	19.934	31.00 %	20.018
Cash and money market	1.44 %	862	1.00 %	646
Real estate	2.93 %	1.755	3.00 %	1.937
Insurance	0.19 %	115	2.00 %	1.292
Total	**100.00 %**	**59.907**	**100.00 %**	**64.575**

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.

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 31/12/2016	**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 31/12/2017	**9,827**	**314**	**151**	**1,629**	**345**	**4,516**	**756**	**17,538**
Additions from initial consolidation	–	–	–	–	–	–	180	**180**
Additions	7,657	382	2	5	202	334	1,649	**10,231**
Utilized	6,938	314	–	71	349	1,733	25	**9,430**
Release	6	–	4	322	–	663	244	**1,239**
Foreign currency translation	277	23	−6	63	4	44	−89	**316**
As of 12/31/2018	**10,817**	**405**	**143**	**1,304**	**202**	**2,498**	**2,227**	**17,596**
Thereof in 2018								
Current	6,686	30	39	460	202	1,280	1,295	**9,992**
Non-current	4,131	375	104	844	–	1,218	932	**7,604**
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**

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 reporting date amounts to 392,737 and consists of the following:

	Performance Share Unit Plan				
	2014–2017	2015–2018	2016–2019	2017–2020	2018–2021
Share units outstanding at the beginning of the period	120,670	117,699	108,799	113,759	–
Share units granted during the period	–	–	–	–	89,001
Share units forfeited during the period	–	9,277	9,800	11,530	5,914
Share units exercised during the period	120,670	–	–	–	–
Share units expired during the period	–	–	–	–	–
Share units outstanding at the end of the period	**–**	**108,422**	**98,999**	**102,229**	**83,087**
Share units exercisable at the end of the period	–	108,422	–	–	–

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 reporting 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			
	2015–2018	2016–2019	2017–2020	2018–2021
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	11.20	11.20	11.20	11.20
Expected volatility	n/a	34.53 %	28.72 %	29.73 %
Risk free interest rate	−0.73 %	−0.73 %	−0.66 %	−0.56 %
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, 2018, provisions for these performance plans amounted to EUR 2.5 million (previous year: EUR 4.5 million). Expenses for the period in the amount of EUR 0.3 million (previous year: EUR 2.1 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	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Interest bearing bank loans	12,196	12,369	–	–	**12,196**	**12,369**
Convertible bond	98,653	97,990	–	–	**98,653**	**97,990**
Bond	–	–	–	75,000	**–**	**75,000**
Promissory note loan	200,000	200,000	–	–	**200,000**	**200,000**
Financing costs	–1,045	–1,138	–393	–498	**–1,438**	**–1,636**
Accrued interests	3	–	771	4,268	**774**	**4,268**
Other loans	54,652	52,063	3,558	2,551	**58,210**	**54,614**
Total	**364,459**	**361,284**	**3,936**	**81,321**	**368,395**	**442,605**

On April 26, 2018, the corporate bond with a nominal volume of EUR 75.0 million issued in 2012 became due and was redeemed from existing cash.

On October 2, 2018, a new syndicated loan was signed with a greater syndicate of banks, replacing the existing funding and providing the Group with long-term funding at more favorable interest rates until October 2025. The newly concluded loan agreement includes a revolving credit line of EUR 200 million that can be drawn on in various currencies. If necessary, there is an option to extend the credit line by an additional EUR 100 million. This refinancing has increased the available credit line to EUR 208 million (December 31, 2017: approx. EUR 156 million).

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

kEUR					12/31/2018
	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
Revolving credit line	5,216	200,000	–	–	194,784
Other Facilities	6,980	8,016	155,009	–	156,045
Total	**12,196**	**208,016**	**155,009**	**–**	**350,829**

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

The calculation of total liquidity includes 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 129,115 (previous year: kEUR 114,219) 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 16,271 (previous year: kEUR 15,910) reflect primarily the value of the put options for the outstanding shares of KLL Equipamentos para Transporte Ltda and V.Orlandi S.p.A.

6.16 OTHER LIABILITIES

kEUR	Current		Non-current	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Liabilities for salaries and social security contributions	12,677	12,235	–	–
Other taxes	5,801	4,795	–	–
Anniversary obligations	157	265	626	575
Liabilities from factoring	4,811	1,396	–	–
Other	3,491	3,164	–	20
Total	**26,937**	**21,855**	**626**	**595**

7. OTHER DISCLOSURES

7.1 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

kEUR

							12/31/2018
			Amounts recognized in balance sheet according to IFRS 9				
	Measurement category in accordance with IFRS 9	**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	FAAC	155,009	155,009	–	–	–	155,009
Trade receivables	FAAC	138,875	138,875	–	–	–	138,875
Other financial assets							
Derivates without a hedging relationship	FAHfT	135	–	–	135	–	135
Other financial assets	FAAC	2,679	2,679	–	–	–	2,679
Liabilities							
Trade payables	FLAC	129,115	129,115	–	–	–	129,115
Interest bearing loans and bonds	FLAC	368,395	368,395	–	–	–	377,425
Finance lease liabilities	n/a	229	–	–	–	229	229
Other financial liabilities							
Derivates without a hedging relationship	FLtPL	776	–		776		776
Other financial liabilities	FLHfT	16,271	–	–	16,271	–	16,271
Of which aggregated by measurement category in accordance with IFRS 9							
Financial assets measured at amortized cost	FAAC	296,563	296,563	–	–	–	296,563
Financial liabilities measured at amortized cost	FLAC	497,510	497,510	–		–	506,540
Financial assets held for trading	FAHfT	135	–	–	135	–	135
Financial liabilities held for trading	FLHfT	16,271	–	–	16,271	–	16,271
Financial liabilities at fair value through profit and loss	FLtPL	776			776		776

kEUR

							12/31/2017
			Amounts recognized in balance sheet according to IFRS 9				
	Measurement category in accordance with IFRS 9	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	FAAC	278,775	278,775	–	–	–	278,775
Trade receivables	FAAC	135,662	135,662	–	–	–	135,662
Other financial assets							
Other financial assets	FAAC	940	940	–	–	–	940
Other short-term investments	FAAC	58,306	58,306				58,306
Liabilities							
Trade payables	FLAC	114,219	114,219	–	–	–	114,219
Interest bearing loans and bonds	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 measurement category in accordance with IFRS 9							
Financial assets measured at amortized cost	FAAC	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

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

kEUR	12/31/2018			
	Level 1	Level 2	Level 3	Total
Convertible bond	–	108,757	–	**108,757**
Promissory note loan	–	196,480	–	**196,480**
Interest bearing loans and borrowings	–	72,188	–	**72,188**
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	7,366	**7,366**
Put-Option for the remaining shares in V.ORLANDI S.p.A.	–	–	8,905	**8,905**
Derivative financial assets	–	135	–	**135**
Derivative financial liabilities	–	776	–	**776**

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**

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 reporting 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, 2018, only derivatives of kEUR – 641 (previous year: kEUR – 655) and other financial liabilities from the valuation of the put options to acquire the remaining shares in KLL Equipamentos para Transporte Ltda. and V.Orlandi S.p.A. in the amount of kEUR 16,271 (previous year: kEUR 15,910) were measured at fair value. The fair value of the other liability from the valuation of the put options is determined on the basis of forecasted earnings. Since this information is not based on observable market data, the put options have been assigned to level three of the measurement hierarchy.

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), and

Level 3: Information on assets and liabilities that is not based on observable market data.

The net result according to the valuation category is as follows:

kEUR						12/31/2018
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Financial assets measured at amortized cost	180	–	–	–	–441	**–261**
Financial assets held for trading	–	–	–862	–	–	**–862**
Financial liabilities measured at amortized cost	–10,481	–	–	–485	–	**–10,966**
Financial liabilities held for trading	–	–	679	–	–	**679**
Total	**–10,301**	**-**	**–183**	**–485**	**–441**	**–11,410**

kEUR						12/31/2017
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Financial assets measured at amortized cost	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**

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 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				12/31/2018
	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	**368,395**	3,936	272,099	92,360
Finance lease liabilities	**229**	191	38	–
Trade payables	**129,115**	129,115	–	–
Other financial liabilities				
Other financial liabilities	**16,271**	–	7,366	8,905
Derivates without a hedging relationship	**776**	776	–	–
Financial liabilities	**514,786**	**134,018**	**279,503**	**101,265**

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**

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									12/31/2018
	Cash flow 2019			Cash flow 2020			Cash flow 2021 – 2028		
	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	−3,803	−1,418	−3,936	−3,246	−1,321	−140,500	−13,847	−563	−159,300
Finance lease liabilities	−146	–	−191	−44	–	−38	–	–	–
Other financial liabilities									
Derivates without a hedging relationship	−776	–	–	–	–	–	–	–	–

kEUR									12/31/2017
	Cash flow 2018			Cash flow 2019			Cash flow 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	–	–	–

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							12/31/2018
	01/01/2018	Cash flows	Foreign exchange movement	Interest effect	Conversion	Mergers & Aquisitions	12/31/2018
Interest bearing bank loans	12,369	−280	107	–	–	–	12,196
Bond	75,000	−75,000	–	–	–	–	–
Convertible Bond	97,990	–	–	663	–	–	98,653
Promissory note loan	200,000	–	–	–	–	–	200,000
Other Loans	54,615	−15,531	−336	–	–	19,462	58,210
Leasing	55	− 23	–	–	–	197	229

kEUR							12/31/2017
	01/01/2017	Cash flows	Foreign exchange movement	Interest effect	Conversion	Mergers & Aquisitions	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

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 subsequent credit risk that arises is covered by individual and collective impairment on receivables carried on the balance sheet. The expected credit loss is automatically determined by Euler Hermes Deutschland AG's software "Smart Reserve" as of each reporting date. In addition to customer creditworthiness, impairment quotas also consider criteria such as the geographic region, number of days overdue and macroeconomic factors.

The measurement reflects the probability-weighted result taking into account interest rate effects and appropriate and dependable information of past events, current circumstances and expected future economic conditions available as of the reporting date. Letters of credit and other forms of credit collateral are considered components of trade receivables and included in the calculation of the need for impairment.

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 in 2015 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, 2018 had been 100 base points lower (higher), the result would have been kEUR 295 (previous year: kEUR 419) 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. The Group uses foreign exchange forward contracts to hedge a portion of the remaining transaction risks. The foreign exchange forward contracts are not designated as hedging instruments to hedge cash flows. The period for which the foreign exchange forward contracts are entered into corresponds to the period in which the underlying business transaction is subject to foreign currency risk, which is usually up to a period of 12 months. 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 reporting date amounted to kEUR −4,548 (previous year: kEUR −13,069). Of this amount, kEUR −4,522 (previous year: kEUR −13,069) was 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.

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2018	5 %	5,097	5,044
	−5 %	−5,097	−5,044
2017	5 %	3,760	4,223
	−5 %	−3,760	−4,223

7.2 EARNINGS PER SHARE

		Q1–Q4/2018	Q1–Q4/2017
Result for the period (attributable to the shareholders of the parent company)	**kEUR**	**48,151**	**42,887**
Weighted average number of shares outstanding	thousands	45,394	45,361
Basic earnings per share	**EUR**	**1.06**	**0.95**
Diluted earnings per share	**EUR**	**0.92**	**0.82**

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 0.14 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	Dilutive financial instruments used for the calculation
	2018	2018
Result for the period		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	48,151	48,151
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,191	1,191
Numerator for diluted earnings	**49,342**	**49,342**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,394	45,394
Convertible bond	8,348	8,348
Denominator for potentially diluted earnings per share	**53,742**	
thereof to be included for dilution (adjusted weighted average)		**53,742**
Basic earnings per share (EUR)		**1.06**
Diluted earnings per share (EUR)		**0.92**

kEUR	Overall potentially dilutive financial instruments	Dilutive financial instruments used for the calculation
	2017	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**

The calculation of potentially dilutive shares which are included in the determination of diluted earnings per share is shown in the following table:

Convertible bond

	Par value (EUR)	Number	Days	Weighted number
01/01/2018 – 04/25/2018	0.01	8,264,395	115	950,405,425
04/26/2018 – 12/31/2018	0.01	8,386,799	245	2,054,765,755
Total			**360**	**3,005,171,180**
Average		**8,347,698**		

	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**		

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.

Other non-cash transaction mainly included the valuation effect from the remeasurement of the liabilities resulting from the put options as of the reporting date.

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 reporting date, the following future minimum lease payments exist as a result of operating lease contracts:

kEUR	12/31/2018	12/31/2017
Remaining term of up to 1 year	5,348	5,509
Remaining term of more than 1 year and up to 5 years	10,467	7,477
Remaining term of more than 5 years	4,401	2,313
Total	**20,215**	**15,299**
Operate lease payments for the reporting period	9,161	8,670

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	12/31/2018		12/31/2017	
	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	199	191	39	32
Remaining term of more than 1 year and up to 5 years	56	38	37	23
Total	**255**	**229**	**76**	**55**

7.5 CONTINGENT LIABILITIES

Legal disputes

In the reporting year and as of the reporting 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 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.	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	100.0
OOO SAF-HOLLAND Russland	Russia	100.0
SAF-HOLLAND India Pvt. Ltd.	India	100.0
V.ORLANDI S.p.A.	Italy	70.0
V.Orlandi Australia PTY Ltd.	Australia	100.0
V. Orlandi Rus LLC	Russia	70.0
York Transport Equipment (Asia) Pte. Ltd.	Singapore	100.0
York Transport Equipment Pty. Ltd.	Australia	100.0
York Transport Equipment (India) Pvt. Ltd.	India	100.0
York Sales (Thailand) Co. Ltd.	Thailand	100.0
YTE Special Products Pte. Ltd.	Singapore	100.0
York Transport Equipment (Shanghai) Co. Ltd.	China	100.0
Qingdao YTE Special Products Pte. Ltd.	China	100.0
YTE Transport Equipment (SA) (Pty) Ltd.	South Africa	100.0
Rednet Pte. Ltd.	Singapore	100.0
PT York Engineering Ltd.	Indonesia	100.0
Axscend Group Ltd.	Great Britain	69.99
Axcend Ltd.	Great Britain	69.99
SAF-HOLLAND (Shanghai) Investment Co., Ltd.	China	100.0
SAF-Holland (Yangzhou) Vehicle Parts Co., Ltd.	China	100.0

Associates and joint ventures	Country of incorporation	% Equity interest
SAF-HOLLAND Nippon, Ltd.	Japan	50.0
Castmetal FWI S.A.	Luxembourg	34.09

The table below shows the composition of the Management Board and the Board of Directors of SAF-HOLLAND S.A. as of the reporting date:

Management Board

Detlef Borghardt	Chief Executive Officer (CEO), President Region APAC/China
Dr. Matthias Heiden	Chief Financial Officer (CFO)
Steffen Schewerda	President Region Americas
Alexander Geis	President Region EMEA
Guoxin Mao	President China

Board of Directors

Martina Merz	Chairman of the Board of Directors
Dr. Martin Kleinschmitt	Deputy Chairman of the Board of Directors
Detlef Borghardt	Member of the Board of Directors
Jack Gisinger	Member of the Board of Directors
Anja Kleyboldt	Member of the Board of Directors
Carsten Reinhardt	Member of the Board of Directors

The terms of office and other positions held by the members of the Board of Directors and the Management Board are described in the chapter “Mandates of the Board of Directors and Management Board” in this annual report.

As of December 31, 2018, 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 0.1).

As of the reporting date, an amount of kEUR 1,865 has been accrued for appreciation rights granted to the members of the Management Board (previous year: kEUR 3,019); thereof kEUR 227 (previous year: kEUR 1,182) was recognized in profit and loss in 2018. Of the total accrual, an amount of kEUR 931 (previous year: kEUR 1,125) 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 2,853 (previous year: kEUR 2,516). 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 280 (previous year: kEUR 279) 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-Q4/2018	Q1-Q4/2017	Q1-Q4/2018	Q1-Q4/2017
Joint ventures	1,233	721	–	–
Associates	–	–	35,214	29,211
Total	**1,233**	**721**	**35,214**	**29,211**

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Joint ventures	167	426	–	1
Associates		–	1,294	1,278
Total	**167**	**426**	**1,294**	**1,279**

Outstanding balances as of December 31, 2018 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, 2018 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 is 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	12/31/2018	12/31/2017
Interest bearing loans and bonds	368,395	442,605
Other short-term investments	–	−58,306
Cash and cash equivalents	−155,009	−278,775
Net debt	**213,386**	**105,524**
Equity attributable to equity holders of the parent	**321,480**	**298,842**
Equity and net debt	**534,866**	**404,366**

According to a financial covenant under the financing agreement signed on October 2, 2018, 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, backup obligations from guarantees, and option liabilities or any other financial instruments issued by financial institutions.

7.8 AUDITORS' FEES

The following expenses were incurred in the 2018 financial year for services provided by the auditors and their related companies:

kEUR	Q1-Q4/2018	Q1-Q4/2017
Auditing of financial statements	634	537
Tax accountancy services	6	3
Other services	184	45
Total	**824**	**585**

7.9 EVENTS AFTER THE BALANCE SHEET DATE

Acquisition of Pressure Guard LLC
On January 9, 2019, SAF-HOLLAND Inc. acquired 51% of the shares in the US manufacturer of tire pressure management systems, PressureGuard LLC, based in Nashville, Tennessee. As part of the acquisition, the parties were granted a call/put option for the purchase/sale of the remaining 49% of the shares.

The call option is exercisable from July 1, 2022 through July 1, 2025. The exercise period of the put option begins one year later on July 1, 2023 and also ends on July 1, 2025. The other liability resulting from the put option is accounted for in accordance with IFRS 9. Because of the voting rights majority, SAF-HOLLAND Inc. has obtained control of Pressure Guard LLC as of the acquisition date.

The first-time consolidation of PressureGuard LLC will be carried out in accordance with IFRS 3 using the purchase method.

The preliminary purchase price of EUR 1.1 million was paid in cash.

It was not possible to carry out a preliminary purchase price allocation for the acquired assets and liabilities as of the acquisition date due to the short period of time between the acquisition and the publication of this interim report.

Acquisition of the business operations of Oy Arne Stara AB
With effect from February 1, 2019, SAF-HOLLAND GmbH has acquired the business operations of the Finnish Stara Group from the owner family. The Stara Group has previously been the distribution partner of SAF-HOLLAND GmbH, focusing primarily on axle and suspension systems for trailers in Finland and Sweden.

The acquisition was completed in two steps. First, SAF-HOLLAND GmbH acquired all shares in Stara Parts Oy located in Finland and Trailax AB located in Sweden from the Finnish company Oy Arne Stara AB. In a second step, Stara Parts acquired the business operations of Oy Arne Stara AB.

Because of the voting rights majority, SAF-HOLLAND GmbH has obtained control of Stara Parts Oy and Trailax AB as of the acquisition date.

The preliminary purchase price was EUR 12.5 million.

It was not possible to carry out a preliminary purchase price allocation for the acquired assets and liabilities as of the acquisition date due to the short period of time between the acquisition and the publication of this interim report.

New segmentation in corporate management
On January 1, 2019, a new segmentation in corporate management and reporting was introduced in order to better achieve the goals defined in the corporate strategy. The APAC/China region will be divided into the regions “APAC” and “China.” As of January 1, 2019, corporate management and group reporting have been conducted through the “EMEA,” “Americas,” “APAC” and “China” segments. The four regions cover both original equipment and spare parts business.

Personnel changes on the Management Board
As of February 28, 2018, Arne Jörn, who at that time was the Chief Operating Officer (COO), resigned from the Company. Dr. André Philipp was appointed his successor and assumed his position in the SAF-HOLLAND Group effective January 1, 2019.

Also effective January 1, 2019, SAF-HOLLAND combined all global purchasing activities and appointed Alexander Geis as the Group’s Chief Procurement Officer (CPO), in addition to his role as President Region EMEA.

In addition, Mike Ginocchio, who was previously Vice President of the APAC/China region, was appointed President of the APAC/India region and as a new member of the Management Board effective January 1, 2019.

Furthermore, SAF-HOLLAND S.A. and Detlef Borghardt mutually agreed on termination of his activities for the SAF-HOLLAND Group effective as of February 26, 2019. Detlef Borghardt will hand over his CEO functions immediately to Alexander Geis. As a member of the Management Board he has been responsible for the EMEA region and global procurement before.

No other material events have occurred subsequent to the reporting date.

Luxembourg, March 19, 2019

Martina Merz Chair of the Board of Directors	**Dr. Martin Kleinschmitt** Deputy Chairman of the Board of Directors

SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

INCOME STATEMENT OF SAF-HOLLAND S.A.[1]

kEUR	Q1–Q4/2018	Q1–Q4/2017
Income from financial non-current assets	25,817	27,578
Income from financial current assets	–	565
Other Income	632	–
Total income	**26,449**	**28,143**
Other external expenses	–2,270	–1,921
Personnel expenses	–55	–44
Other operating expenses	–553	–557
Interest and other financial expenses	–2,651	–6,252
Other taxes	–4	–8
Result before tax	**20,916**	**19,361**
Income tax	–	–
Result for the period	**20,916**	19,361

[1] Figures according to Luxembourg GAAP.

BALANCE SHEET OF SAF-HOLLAND S.A.[1]

kEUR	12/31/2018	12/31/2017
Assets		
Non-current assets	**387,606**	**455,393**
Shares in affiliated undertakings	313,238	313,238
Amounts owed by affiliated undertakings	74,364	142,151
Other long-term assets	3	4
Current assets	**21,856**	**32,114**
Amounts owed by affiliated undertakings	21,000	31,355
Cash at bank, cash in postal cheque accounts, cheques and cash on hand	523	175
Prepayments	333	584
Total assets	**409,462**	**487,507**
Equity and liabilities		
Equity attributable to equity holders of the parent	**308,625**	**308,135**
Subscribed share capital	454	454
Share premium	276,855	276,855
Legal reserve	45	45
Other reserve	720	720
Profit brought forward	9,634	10,700
Profit for the financial year	20,916	19,361
Non-current liabilities	**99,800**	**99,800**
Bonds	99,800	99,800
Current liabilities	**1,037**	**79,572**
Bonds	305	78,903
Trade payables	403	452
Tax and social security debts	329	217
Total equity and liabilities	**409,462**	**487,507**

[1] Figures according to Luxembourg GAAP.

MANDATES OF THE BOARD OF DIRECTORS/ GROUP MANAGEMENT BOARD

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, AB Volvo, Gothenburg, Sweden
- Member of the Board of Directors, Imerys SA, Paris, France

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, until February 25, 2019)
- 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)

Alexander Geis
— Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO), (from February 25, 2019), Chief Procurement Officer (CPO), (from January 1, 2019), President Region EMEA

Dr Matthias Heiden
— Managing Director, Chief Financial Officer (CFO), SAF-HOLLAND GmbH

Dr. André Philipp
— Managing Director, Chief Operating Officer (COO), SAF-Holland GmbH (from January 1, 2019)

Steffen Schewerda
— Managing Director, SAF-HOLLAND GmbH, President Region Americas

Guoxin Mao
— President Region China

Mike Ginocchio
— President Region APAC (from January 1, 2019)

Arne Jörn
— Managing Director, Chief Operating Officer, SAF-HOLLAND GmbH (between October 2016 and February 28, 2018)

AUDIT REPORT

To the Shareholders of
SAF-Holland S.A.

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 2018;
— 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 the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF 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 Company and its controlled undertakings, if applicable, 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 financial statements, goodwill is recorded in the balance sheet within “Goodwill” as a total amount of 84.5 million EUR (8.6 % of the balance-sheet total or 25.4 % of equity). The Group’s data pertaining to “Goodwill” 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 Group 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 cost of capital 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 dependent on the assumptions of those charged with governance about the future payment flows of the respective group of cash-generating units, the discount rate applied, the growth rate and other assumptions, and is therefore subject to considerable uncertainty. Due to the subjectivity and complexity of the assessment, this area was of particular importance during our audit.	During our audit, we took into account, amongst other things, the methodical approach to carrying out the impairment test applied by the Group. 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 discount rate applied can have a significant effect on the recoverable amount, we paid attention to the parameters used to determine the discount rate applied and considered the appropriateness of the calculation method. To take forecasting uncertainties and the impact of changes in the discount rate into account, we considered the sensitivity analyses produced by the Group and performed our own sensitivity analyses for all groups of cash-generating units. We evaluated the adequacy and completeness of the disclosures of the goodwill impairment testing by the group in the notes.

Key audit matter	How our audit addressed the Key audit matter
Business acquisitions In the financial year 2018, the Company has acquired a 70 % interest in V. Orlandi S. p. A., Flero, Italy and a 69. 9 % interest in Axscend Group Ltd., Canterbury, UK. In addition, the total interest in York Transport Equipment (Asia) Pte. Ltd based in Singapore, Singapore has been acquired. The total consideration for the three acquisitions amounted to 80.0 million EUR. The purchased assets and liabilities have been recorded at market value at the date of acquisition, taking into consideration various assumptions of those charged with governance. Taking into account the proportion of acquired net assets of 51.8 million EUR attributed to the Group, the aggregated goodwill arising from the three transactions amounts to 28.2 million EUR. The result of this assessment is heavily depending on the assumptions of those charged with governance about the future payment flows of the acquired businesses, the discount rates applied, the growth rates and other assumptions, and is therefore subject to considerable uncertainty. Due to the complexity of the valuation of the acquisitions and the material impact of the business acquisitions on the financial position and financial performance of the Group, this area has been of particular importance during our audit.	During our audit, we have evaluated the accounting treatment of the business acquisitions. This includes, in the first instance, the examination and the understanding of the underlying contractual agreements. Associated therewith, we have reconciled the considerations paid for the acquired interests with the provided payment evidence. The Group has engaged external experts to measure the assets and liabilities and calculate the respective goodwill (purchase price allocation) of the above-mentioned acquisitions. We have validated the reports provided by the experts with respect to their usability. In particular, we have corroborated the relevance and suitability of the assessments and conclusions reached by the experts with audit evidence. We validated the methods and assumptions used by the experts. In addition, we have gained an understanding of the relevance, completeness and accuracy of the input data, which forms the basis of the purchase price allocation. We evaluated the adequacy and completeness of the disclosures of the three business acquisitions in the notes.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, 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.

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.

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, 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 26 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 years.

Other matter

The Corporate Governance Statement includes, when applicable, 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, 19 March 2019
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 19, 2019
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

FAAC
Financial assets at amortized cost

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).

Restructuring and transaction expenses
Restructuring and transaction costs are defined as expenses that have occured outside the normal course of the business. These expenses include – besides other – expenses associated with the purchase of entities, restructuring measures within the group and severance payments for executives. The definition of restructuring and integration expenses used differs from the one defined in IAS 37.

R&D ratio
R&D 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)
DRS —— Deutsche Rechnungslegungsstandards (German Accounting Standards)

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

H
HGB —— Handelsgesetzbuch (Commercial Code)

I
IAS —— International Accounting Standards
IASB —— International Accounting Standards Board
ICW —— in conjunction with
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 25, 2019
Annual General Meeting 2019

May 9, 2019
Report on Q1 2019 results

August 8, 2019
Report on Half-year 2019 results

November 7, 2019
Report on Q3 2019 results

CONTACT INFORMATION

SAF-HOLLAND Group
Hauptstraße 26
63856 Bessenbach
Germany

www.safholland.com

Michael Schickling
michael.schickling@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

Klaus Breitenbach
klaus.breitenbach@safholland.de
Phone: +49 (0) 6095 301-565
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 21, 2019
Date of publication: March 22, 2019
Editorial office: Michael Schickling, SAF-HOLLAND Group,
Alexander Pöschl, SAF-HOLLAND Group, Klaus Breitenbach,
SAF-HOLLAND Group, Bessenbach
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