2019

Annual Report

SAF-HOLLAND

Key Figures

RESULTS OF OPERATIONS

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018
Sales	1,284,155	1,300,555
Gross profit	201,741	199,263
Gross profit margin in %	15.7	15.3
EBIT	35,199	77,970
EBIT margin in %	2.7	6.0
Adjusted EBIT	79,816	89,578
Adjusted EBIT margin in %	6.2	6.9
Result for the period	10,297	48,115
Adjusted result for the period	49,756	55,507
Adjusted undiluted earnings per share in EUR	1.10	1.22
Adjusted diluted earnings per share in EUR	0.95	1.05
Dividend per share in EUR	0.00[1]	0.45

NET ASSETS

in EUR thousands

	12/31/2019	12/31/2018
Balance sheet total	979,244	977,416
Equity	318,007	318,072[2]
Equity ratio in %	32.5	32.5
Cash and cash equivalents	131,166	155,009
Net debt	251,667	213,615
Net working capital	164,381	172,468
Net working capital in % of sales	14.9	13.5

FINANCIAL POSITION

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018
Cash flow from operating activities before income tax paid	109,108	66,519
Cash conversion rate in %	136.7	74.2
Cash flow from operating activities	90,546	40,780
Cash flow from investing activities	–59,692	–39,586
Purchase of property, plant and equipment and intangible assets	–52,981	–40,786
Operating free cash flow	37,565	–6

EMPLOYEES

	Q1-Q4/2019	Q1-Q4/2018
Employees as of December 31	3,924	4,470
Employees (on average)	4,218	4,293
Sales per employee in kEUR	304.4	302.9

YIELD

in %

	Q1-Q4/2019	Q1-Q4/2018
Return on capital employed (ROCE)[3]	5.5	9.9[2]

[1] Proposal.

[2] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consolidated Financial Statements).

[3] ROCE = EBIT / (total assets - current liabilities).

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ABOUT THIS REPORT

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Portrait

SAF-HOLLAND Group is the largest independent listed supplier to the commercial vehicle market in Europe delivering mainly to the trailer markets. With sales of approximately EUR 1,280 million in 2019, the Company is one of the world's leading manufacturers and suppliers of chassis-related systems and components primarily for trailers, trucks, buses, and recreational vehicles. The product range comprises axle and suspension systems, fifth wheels, coupling systems, king-pins, and landing gear marketed under the brands SAF, Holland, Neway, KLL, V.Orlandi and York. SAF-HOLLAND is internationally positioned and present in almost all markets worldwide. Approximately 4,000 committed employees worldwide are already today working on the future of the transportation industry.

The Management introduces itself

GROUP MANAGEMENT BOARD

ALEXANDER GEIS
Chief Executive Officer (CEO)

Since February 26, 2019, CEO of SAF-HOLLAND. Since 1995 at SAF-HOLLAND, among others in sales and later responsible for the Aftermarket business. From 2016 to 2019 President EMEA and from 2018 to 2019 Chief Procurement Officer (CPO) in addition. MBA degree from the University of Maryland and degree in business administration.

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.

The Executive Committee comprises the members of the Group Management Board and the following Presidents:

CHRISTOPH GÜNTER
President EMEA

President EMEA of SAF-HOLLAND since October 1, 2019. Previously held executive positions as Vice President Sales & Marketing Trailer and Specialist OE EMEA at Knorr-Bremse Group. Double-degree in commerce and engineering (Diplom-Wirtschaftsingenieur) from today's Karlsruhe Institute of Technology.

KENT JONES
President Americas

President Americas at SAF-HOLLAND since September 9, 2019. Previously held executive positions at General Motors, Remy International and ZF Group. MBA degree from Purdue University.

MIKE GINOCCHIO
President APAC_I/China

President APAC_I/China since January 1, 2020. Has held several executive positions at SAF-HOLLAND since 1995. Bachelor of Science Mechanical Engineering, Marquette University, Milwaukee; Juris Doctor, Chicago Kent College of Law, Chicago

In discussion with
ALEXANDER GEIS & DR. MATTHIAS HEIDEN

«IN 2019 WE LAID THE CORNERSTONES FOR THE FUTURE SUCCESS OF THE COMPANY.»

Mr. Geis, you have been the CEO of the SAF-HOLLAND Group since the end of February 2019. What is your synopsis for the financial year 2019?
Geis: 2019 was a very demanding and challenging year with highs and lows. Naturally, my personal highlight was being appointed CEO of SAF-HOLLAND. It is a great honor for me to be able to actively shape the future development of SAF-HOLLAND, where I have served for over 25 years, in this new position.

In China we are now on an excellent footing in terms of production. After completing the program to consolidate our locations and the opening of the new plant in Yangzhou we are in close proximity to our customers. This has created an ideal environment to tap into the growth potential of the Chinese market for commercial vehicle components. In North America we were able to keep our share of the market for fifth wheels stable at over 50 percent. The development of the regional business for axle systems with integrated disc brake technology was very pleasing. Additional staff were recruited at the Warrenton location to address the growing demand. It is also noteworthy that we have opened new central logistics hubs, one in Aschaffenburg and one in Phoenix, Arizona, for our high-margin spare parts business.

The program FORWARD in the United States has returned the first positive results. We have set ourselves ambitious targets for this program, which we have laid out for a period of three years. One of the most important goals is to eradicate the remaining inefficiencies at our plants in the US. This will be realized within the framework of our global SAF-HOLLAND Operational Excellence RoadMap, which will be rolled out by the team led by our COO, Dr. André Philipp in the first six months of 2020.

Naturally, I am not satisfied with the fact that we were forced to adjust our revenue and EBIT-margin forecast for the year downwards at the end of September despite massive efforts on our part. However, the fantastic team helping me to exploit the full potential of our organization and continue on the course we have set makes me optimistic about the future.

Dr. Heiden, what does the balance sheet for 2019 tell us from your perspective, as CFO?
Dr. Heiden: As our most important sales markets steadily weaken – which is more accurately described as a return to normal after record demand in the prior year – and the associated pressure on margins this entails, we laid the cornerstones in 2019 for the future

success of the SAF-HOLLAND Group and, as communicated at the beginning of the year, focused on three core topics (the program FORWARD, the new start in China and net working capital management).

As the co-responsible assigned with responsibility for working capital management, I can say that we once again generated a significant positive free cash flow in the financial year thanks to the measures we have initiated. Can we now rest on our laurels? No way. I still see a lot of room for improvement in this regard, especially with a view to managing inventory and material flows.

I am relatively satisfied with the development of our profitability in the Americas and would like to highlight the performance of our Brazilian subsidiary, KLL, at this point. Their continuous working of the market and proximity to customers is paying off. This also applies to the integration activities within the Group. In addition, we have successfully driven forward the integration of our acquisitions. The first positive results can now be seen, particularly at our Indian subsidiary, York, which has won additional market share in India and thus expanded its lead over the competition despite an extremely adverse business environment. With a view to China, I can only agree with Mr. Geis.

«WE VIEW THE FORM OF AN SE AS PARTICULARLY SUITABLE TO UNDERSCORE OUR INTERNATIONAL ORIENTATION»

Dr. Matthias Heiden
CFO

Mr. Geis, there were a number of changes on the Group Management Board in 2019. In addition, you have created a new Executive Committee. How is the collaboration within corporate management going?
Geis: Yes, it is true, in addition to the change at the top of the organization, there were personnel changes on the Group Management Board with regard to the regions of China and the Americas. The present structure of management takes the same form as that planned for the future SAF-HOLLAND SE with its registered offices in Bessenbach. The Group Management Board will comprise the "C-level" functions: CEO (Chief Executive Officer), CFO (Chief Financial Officer) and COO (Chief Operating Officer) In addition, we also founded the Executive Committee. Along with the members of the Group Management Board, the members of this committee include the presidents of the regions: EMEA, Americas and APAC_I/China. The responsibilities of each member of the committee are now clearly defined. The collaboration continues to improve the better we get to know each other. We have pulled together as a team from the outset.

Mr. Geis, the new plant in China was opened in Yangzhou in November 2019. What expectations do you associate with this new start in China?
Geis: Now that the locations have been consolidated and the new plant in Yangzhou opened, the primary task lies in filling the location with new orders. At the same time, we must build up our

relationships to strategic customers. In addition, I anticipate that the operating losses will be significantly reduced in financial year 2020.

Mr. Geis, Yangzhou marks the first time that you have realized the smart factory concept. What does this buzzword mean exactly?
Geis: The term “Yangzhou Smart Factory” refers to state-of-the-art production where almost the entire plant is digitally networked. For example, our automated robotic welding line for axles is controlled by data from SAP.

In addition, we have invested a high single-digit million sum in a painting shop that automatically recognizes the part number and customer contract. It then independently chooses the correct painting program for the part. All parts are initially EDP-coated to ensure basic corrosion protection. To meet the customer’s desired color scheme, we also use powder coating and SAF-HOLLAND’s patented “Black Armour” process – all fully automated.

The axle assembly line follows the same principle of networked control as the welding line mentioned earlier and is fed all the data from SAP. As a result, no paper of any kind is needed on the line and all the data produced is recorded directly in our SAP system.

In Yangzhou, the youngest plant of the Group, we have installed state-of-the-art technology with a promising future. This not only makes us competitive. It also guarantees quality of the highest standard.

Mr. Geis, since March 2019 the program FORWARD has been running in the USA to leverage the potential to optimize the operation. Even though the program is laid out for three years – are you able to report on the initial results? And what are your expectations for 2020/2021?
Geis: I am satisfied with the results generated by the program FORWARD since its inception in March 2019. We have already realized a double-digit improvement in EBIT overall. The main factors in this regard were improved work-flows and processes at our facilities, the ability to pass on the previous year’s increases in the price of steel in keeping with the contracts, lower purchase prices for steel and other materials as well as much more profitable aftermarket business.

In 2020 the focus will be placed on the topic of operational excellence. My colleague, Dr. André Philipp – our Chief Operating Officer – will give the US team a strong boost by contributing his expertise directly on location. The successful implementation of the corresponding measures will be one of the key prerequisites for a sustained improvement in the profitability of our American business.

Dr. Heiden, after adjusting the forecast downwards at the end of September you announced an extensive program to reduce selling and administrative expenses. What does this entail specifically and what does it mean for the workforce?

Dr. Heiden: Generally, we look closely at all cost categories that are incurred under selling and general administrative expenses. With regard to general administrative expenses this mainly relates to personnel expenses and advertising and promotional costs. Under selling expenses, the main items are personnel expenses, travel expenses, office and operating needs as well as legal expenses and consulting fees. Clearly the largest savings potential lies in personnel expenses. The fact that declining sales – which we expect in financial year 2020 – will have implications for the headcount in both functional areas is obvious. In other regards, we have intensified the monitoring of other administrative expenses aside from labor and will place more focus on the discipline of the managers of the cost centers to keep within their cost targets. In addition to cost-savings measures, we will continue to focus on potentials resulting from improvements of processes and digitization.

«THE MAIN POINT IS TO BUILD ON OUR PRODUCT AND MARKET STRENGTHS AND CONSISTENTLY ADDRESS OUR WEAKNESSES.»

Alexander Geis
CEO

Mr. Geis, from a sales perspective there were multiple reasons to celebrate in 2019: Schwarzmüller and Kögel are two key customers that have placed major orders with you. What is the significance of these orders for SAF-HOLLAND?

Geis: Firstly, both orders are an expression of a long-standing successful and trusting cooperation. Our trailer axles are renowned for their longevity, ease of maintenance, low operating costs and consistent use of lightweight construction. In addition, SAF-HOLLAND offers a very broad service network.

The long-term contract with Kögel Trailer GmbH, by the way, was the largest single order in the history of SAF-HOLLAND. It comprises the supply of trailer axles and landing gear with a volume extending into the low hundred-million-euros. We are very proud of this. And this will help us run our plant in Bessenbach at full capacity.

Dr. Heiden, at the beginning of December you announced that there would be a change in the legal form of the company after 12 years of being listed on the exchange and that the registered offices would be relocated from Luxembourg to Germany. What are the reasons behind the move and what positive effects are you expecting from it?

Dr. Heiden: The issue of a change in legal form and the relocation of the headquarters has been an issue for me ever since I joined SAF-HOLLAND in March 2017. The legal form of a Luxembourg S.A. and the siting of the headquarters in Luxembourg originated in the days when the private equity investors in SAF-HOLLAND took the company public in 2007. At the time, this structure was intended by the vendor, mainly for tax reasons. However, in recent years it has proven to be a growing obstacle for us. After a detailed analysis, we decided last December to reorganize the company as a European company (Societas Europaea, SE) and thereafter to relocate the registered offices of the company to Germany.

We view the form of an SE as particularly suitable to underscore our international orientation. By relocating the headquarters to Germany, we intend to combine corporate management with the operative functions of the SAF-HOLLAND Group. The relocation should also reduce the complexity of the organizational structure of the Group and the associated costs. In addition, the system of corporate governance should be changed from a single-tier to a dualistic or two-tier system, consisting of the Executive Board as the executive and the Board of Directors charged with oversight. In the process the governance structure will be adjusted to match the actual organizational structure of the SAF-HOLLAND Group.

The resolution to change the legal form into a Luxembourg SE was passed by a large majority at the general shareholders' meeting on February 14, 2020. I hope for broad support from our shareholders at our Annual General Meeting, scheduled for May 20, 2020, at which the resolution to relocate the company will be voted on. In addition we are working intensively on simplifying the legal structure of the Group and tailoring it to the management structure.

Dr. Heiden, in the last two years you were extremely active in terms of new acquisitions. How have the new subsidiaries developed?
Dr. Heiden: As previously mentioned, the integration of our new subsidiaries is running according to schedule. In the meantime, V.Orlandi is an integral component of the SAF-HOLLAND Group. This is already evident, among other things, in the fact that we have been able to integrate the spare parts business of V.Orlandi in the SAF-HOLLAND network during the opening of our new central logistics hub in Aschaffenburg. At the beginning of the year we acquired the remaining 30 percent of the shares in V.Orlandi, making us the sole shareholder. In future, we will continue to focus on realizing the existing potential for cross-selling. The first successes in this regard can already be reported, such as in Australia, where we were able to create substantial added-value for the special application of a customer by combining products from SAF-HOLLAND, York and V.Orlandi.

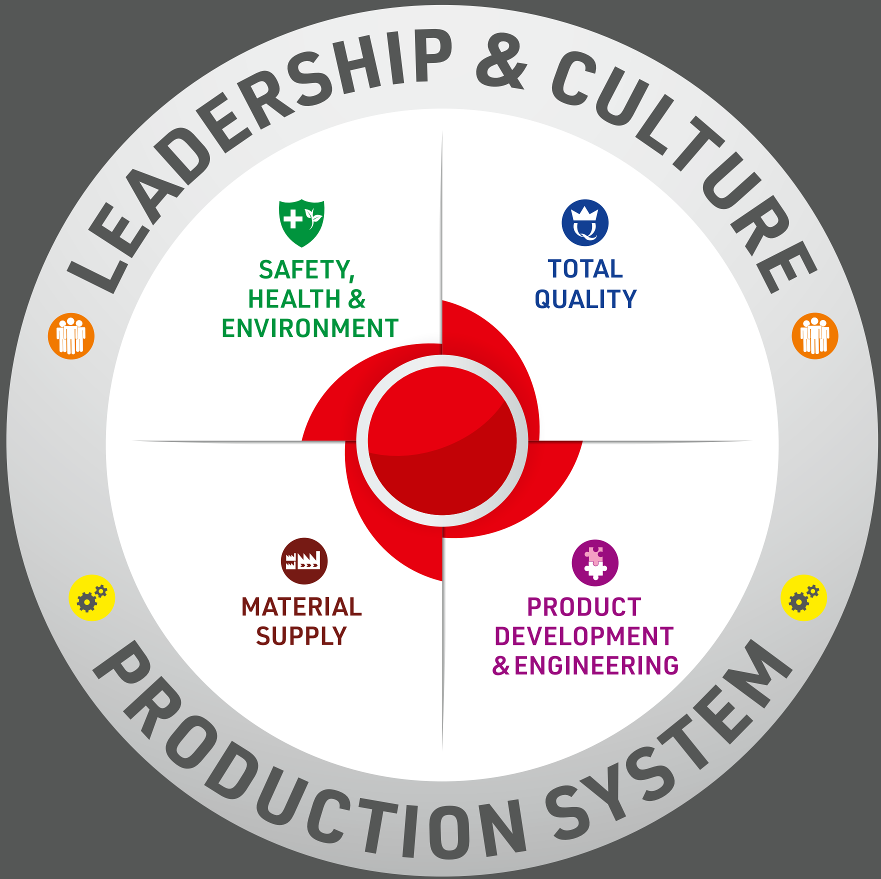
Our Indian subsidiary, York, was confronted by an extremely adverse market environment in 2019. The Indian market for trailer axles slumped, falling by roughly 60 percent. We used this situation to quickly adjust the cost structures in all departments. The first positive results have been apparent since the third quarter of 2019.

Our new British subsidiary, Axscend, which concentrates on the digitization of trailer management with its TrailerMaster product, was very successful in the financial year 2019 and was able to extend its share of the market in the UK. At present the Company is preparing to enter the market on continental Europe.

Mr. Geis, you have announced that you intend to build up the high-margin aftermarket business in your major markets. What do you mean by this exactly?
Geis: As is already well-known, the aftermarket business is the main source of the profits of the SAF-HOLLAND Group. Although this business only accounts for just one quarter of Group sales, its share of adjusted EBIT is much higher. This benefits us, particularly in times of an economic downturn. Last year we significantly expanded our capacity in Europe and North America by creating new central logistics hubs in Aschaffenburg and in Phoenix, Arizona, enabling us to improve our delivery performance once again. By integrating V.Orlandi in our SAF-HOLLAND network, we are able to consistently pursue our cross-selling strategy.

Mr. Geis, you also announced that you would release details of the corporate strategy 2025 in the course of the year 2020. Does this time plan still hold and can you outline its key features?
Geis: Without disclosing any secrets at this point, there is no need to make any major changes to the corporate strategy we have pursued to date. It has proven to be fundamentally correct and successful. The main point is to build on our product and market strengths and consistently address our weaknesses – operational excellence comes to mind here in particular. When we get this right, commercial success will automatically follow.

OPERATIONAL EXCELLENCE



In discussion with
DR. ANDRÉ PHILIPP

«PEOPLE ARE THE MOST EFFECTIVE LEVER.»

COO Dr. André Philipp
on operational excellence, maturity and the road ahead

Dr. Philipp, when you walk through the plants of SAF-HOLLAND as the COO – what catches your attention the most at present?
Dr. Philipp: Well, in my first year at SAF-HOLLAND, my attention during plant visits turned first and foremost to the operational basics. These consist of fundamentals, such as occupational safety, general cleanliness and orderliness, preventive maintenance of plant and machinery, simple and clever procedures for our staff, communication of key performance indicators.

These issues are extremely important and each plant displays its own degree of maturity in this regard. Developing a plant from its respective point of departure following the global operational excellence strategy is then the next step. And that is exactly what we are currently doing together at SAF-HOLLAND.

What do you mean by the term "Global Operational Excellence Strategy"?
Dr. Philipp: For me, operational excellence means aligning our company consistently to our overall strategy. This means continuously improving our processes and systems along the entire value chain. This places particular focus on such issues as "customer's expectations of us" and "improving efficiency".

The most important success factor in this program is to have motivated employees who align their actions with our corporate strategy and the goals we have collectively derived from the strategy, people who perceive opportunities for improvements and think about solving problems, which they then realize in the team. For machines – whether new or old – do not make the real difference for the success of an organization. It is always people who make the difference! This requires a culture of continuous improvement. Employee understanding and support for operational excellence needs time and it doesn't develop at all facilities at the same speed.

Why not?
Dr. Philipp: Because there are natural differences between regions and locations, for example, our employees have different experiences and levels of expertise. This culminates in differing degrees of maturity between the respective plants. Let me make an analogy and compare the development process of a production plant with that of a person, broken down into 7-year intervals.

At first, plants are established and are "born", so to speak. Examples are our new greenfield plant in Yangzhou in China or our new logistics hub in Phoenix, Arizona, USA.

«TOGETHER WE WANT TO LEVERAGE THE GLOBAL OPERATING POTENTIAL THAT LIES UNTAPPED WITHIN OUR GROUP OF PLANTS.»

This is followed by the first years in life when you have to learn the fundamentals and develop initial values. The motto here is "robust implementation of processes".

Other plants are in a young adult or adult stage, such as our German plants. They have already gathered a lot of experience, both internally and externally, addressing customer issues.

Due to the different degrees of maturity, the speed at which each individual plant can ramp up the Operational Excellence Strategy will be different. However, the final goal is the same for all plants!

How do you then set the goals for each plant in terms of operational excellence?
Dr. Philipp: We are now in the final stages of developing our global SAF-HOLLAND Operational Excellence RoadMap. This includes planning a number of higher-level themes, such as occupational safety, quality, lean methods, personal development. There are audit maps for each of these themes, which we call "check-sheets", with a number of excellence ratings. As a result, each plant can see whereabouts on the scale it currently stands in terms of the requirements. This gives the directors and officers in charge of the plants a specific guideline at hand with clearly defined goals in front of them towards which they can guide their team and the plant to reach the next level on the excellence scale.

Sounds a bit like school grades.
Dr. Philipp: That metaphor is not quite right. Sure, we make comparison between the plants possible. To this extent it is like a grade. But we have consciously involved our locations when developing this system. I am convinced that a program in which we involve our employees from the very beginning will be more widely accepted than when we simply roll out a program from headquarters without any regional input. And it is precisely such acceptance that is critical for its success! This is the only way to ensure a mutual learning process and development. The issue is not just to change processes and systems, but to make a positive change to the culture of our organization. To this end we must also enable our employees. At this point I would once again like to stress that if this change is to be sustained and successful over the long term, we need the conviction and full support of all employees. A change in the culture is not a walk in the park. But the necessary extra effort is certainly worth the while.

To keep us in the picture: What does the road ahead have in store?
Dr. Philipp: As already mentioned, we first identify the point of departure for each respective plant. The road ahead and the global targets for 2025 are already given. The speed and the lane that the plant then chooses to take, depends on the degree of maturity of the respective organization and, to some extent, on local circumstances. However, by 2025 we all want to have arrived at the destination! To get there, we need our global Operational Excellence Strategy and our RoadMap!

What benefits do you hope from such an Operational Excellence System?
Dr. Philipp: Together we want to leverage the global operating potential that lies untapped in our plants. With this values-based system, we create a uniform language across all plants. Employees can swap notes between plants. They profit from the same production processes and from the regulated and safe work procedures. And most important of all: Our customers profit from this as well – in the form of better product quality and our ability to meet orders.

When does it start?
Dr. Philipp: We are currently conducting test runs with four different roadmaps. The complete “SAF-HOLLAND Global Operational Excellence RoadMap” should be rolled out in the first six months of 2020. The road ahead will remain very exciting and eventful for the whole team. I am very much looking forward to it!

Dr. Philipp, many thanks for the interview!

WE MAKE TRAILERS MORE EFFICIENT – AT ALL LEVELS

The logistics industry is in motion – and we are too. Fuel efficiency is an important issue for all players in the transport sector. After all this affects both costs and CO_2 emissions. With our innovations, trailers need less fuel. We focus on digitization, electric drive trains and autonomous vehicles.

Digitization: How fleet managers can leverage their data with TrailerMaster

One thing is clear for Christoph Günter: SAF-HOLLAND is still in the lead when it comes to innovation. As the President of the EMEA region, he knows the issues that are discussed by the logistics sector: "Digitization, e-mobility and autonomous driving – these are the megatrends in the transport industry which we at SAF-HOLLAND align ourselves with. Our innovations make a decisive contribution towards making commercial vehicles more intelligent and efficient."

Our digitization solutions, for example. Whoever keeps a good view of his assets digitally, can use them efficiently. For this reason, we provide fleet managers complete transparency

Christoph Günter

President EMEA

Christoph Günter has been President EMEA at SAF-HOLLAND since October 1, 2019. With a double-degree in commerce and engineering (Diplom-Wirtschaftsingenieur), he has many years of experience in the commercial vehicles sector. His past assignments include MAN Nutzfahrzeuge AG and the Knorr-Bremse Group, where he was most recently appointed Vice President Sales & Marketing Trailers and Specialist OE EMEA for the commercial vehicles segment. Christoph Günter is an expert in sales & marketing, R&D, as well as business development and has leadership experience in intercultural environments. He reports directly to Alexander Geis.

with regards to the location and condition of their trailers. The TrailerMaster information system from our British subsidiary, Axscend, provides the relevant operating data in real time, such as the trailer's GPS position, its tour history, the condition of its brakes, tire pressure, lights and load.

Axscend has already successfully established itself in the logistics sector of its British home market. Roughly 5,000 vehicles are already equipped with TrailerMaster there. No wonder, logistics operators benefit twice over from this reliable system. Firstly, they meet regulatory requirements for documenting

TrailerMaster:
Launched at the IAA
Commercial Vehicles 2018

WHAT INNOVATIVE CUSTOMERS HAVE TO SAY ABOUT TRAILERMASTER

"We are all about safety. Thanks to Axscend, we have reduced our on-road tire instances by picking up pressure variances. And since every tire blow-out also causes a lot of indirect damage and downtime, we have definitely saved money using Axscend. There are really all sorts of additional benefits that we are uncovering because of the data that has become available. And we can turn this data into information now."

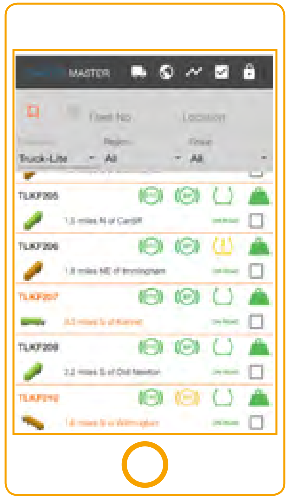
Dave Rowlands
Technical Services Director
Wincanton Group

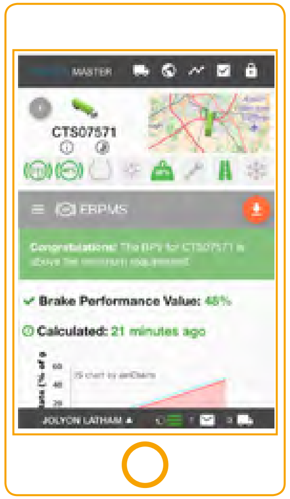
"TrailerMater is a great asset to us and myself as a fleet manager to keep a 24/7 watch on the crucial safety and compliance issues faced by us in transport. I am able to easily see the health of my trailer fleet's brake efficiency, tyre pressures, the load state of the trailer and when is next due its timed safety inspection or annual test. The various different warning email alert systems are also a great way of keeping all key personnel informed of any issues that may arise to assist us in speedy rectification."

Dan Wren
Fleet Engineer
Sparks Transport

"Our core purpose is to be the safest and most respected transportation service provider in the world and the Axscend system supports our business in achieving exactly that. The real time safety and telematics features of Axscend deliver performance improvement in safety, downtime and therefore cost."

David Mackreth
Operations Director – Group Haulage Operations
Pentalver Group





A view inside the TrailerMaster app: The fleet manager is informed of the condition of the fleet in real time

braking performance. In this way, they no longer need to conduct brake tests of a loaded trailer in the workshop multiple times a year. Moreover, they can better plan maintenance and repairs and thus increase the time their trailers spend on the road. The investment therefore pays for itself in a short amount of time.

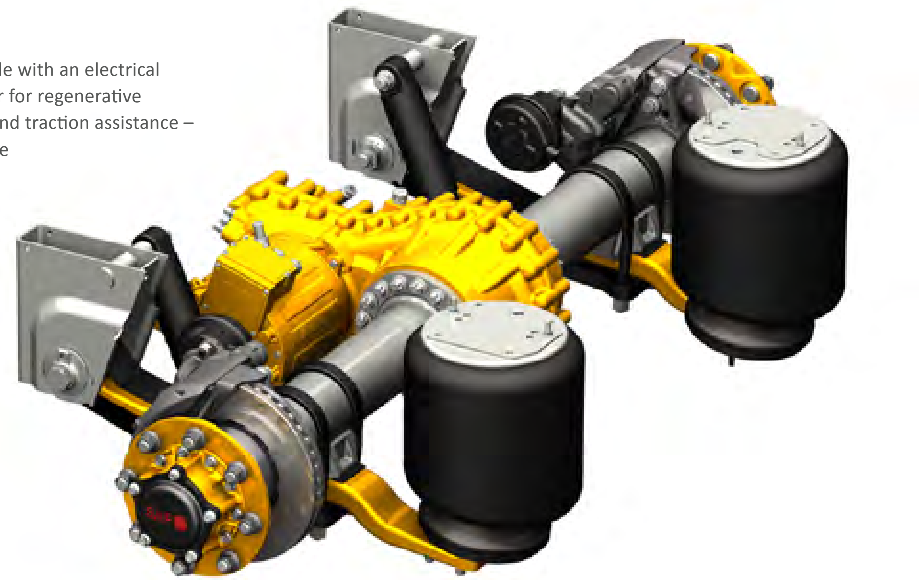
These clear benefits have aroused the interest of our customers internationally: Since presenting TrailerMaster at IAA Commercial Vehicles in 2018, we have received countless queries from all regions of the globe.

What's more: TrailerMaster is open for further technical innovations. For example, additional sensors can be integrated in the system with which the condition of other trailer components can be monitored. Under the term "SmartAxle" we are working on a number of issues, such as real-time monitoring of axles, which is a prerequisite for autonomous vehicles.

Electric drive trains: when it comes to innovation, we are all charged up

We developed the TRAK product series to make the trailer axle part of the drivetrain. Our hydraulically driven axle, SAF INTRA CD TRAK went into series production in 2018. This system uses the energy provided by existing hydraulic components, such as those found on dump-trucks, to power motors located directly on the axle. The axle therefore generates additional torque to assist the tractor unit on steep slopes or on difficult terrain.

At present we are continuing to work on taking the concept of powered axles further using electrical energy. The principle remains the same: When the trailer axle assists the drivetrain without requiring any fuel, this not only improves torque but also the CO_2 footprint of the semitrailer. For the energy source, we are looking at the momentum of the unit itself – i.e. recuperation. Recuperation or regenerative braking means using the braking system to generate power. The kinetic energy is no longer converted into heat by the brakes but is used by a generator to generate electricity. This power is stored and used later directly in the trailer, to power the cooling system, for instance, or to drive an electric motor. A positive side-effect of regenerative braking is that the generator slows down the



Trailer axle with an electrical generator for regenerative braking and traction assistance – our TRAKe

axle, thus relieving the load on brake drums and brake disks, which then correspondingly last longer.

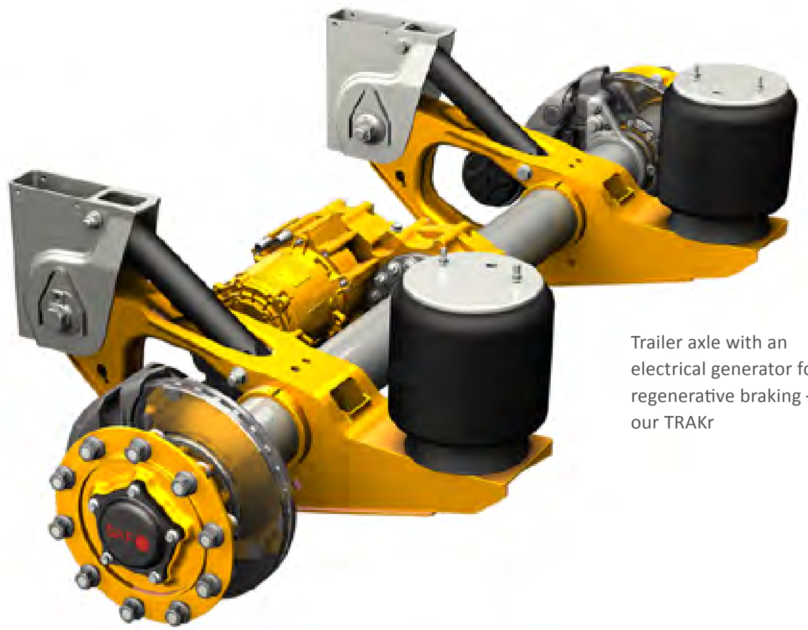
At present, two axle systems, TRAKr and TRAKe are in the test phase. Both systems complement the classical axle by adding a centrally situated electric motor. In the TRAKr system, this motor acts solely as a generator to recuperate energy during braking that can then be used to power electrical appliances on the trailer. In the TRAKe system, the power generated by the system can be used to power the electrical motor itself, contributing to the motion of the trailer.

Both solutions take load off the combustion motor in the tractor unit, thereby making an active contribution to reducing CO_2 emissions. At the same time logistics companies operating in urban environments profit from the systems. TRAKr allows a trailer with an electrically-powered cooling system and refrigerated goods to be parked in an urban area, for the system can function without a running combustion motor. Similarly, TRAKe allows deliveries to be made by night, as the electric motor has enough power to drive the complete semitrailer at slow speed without making any noise.

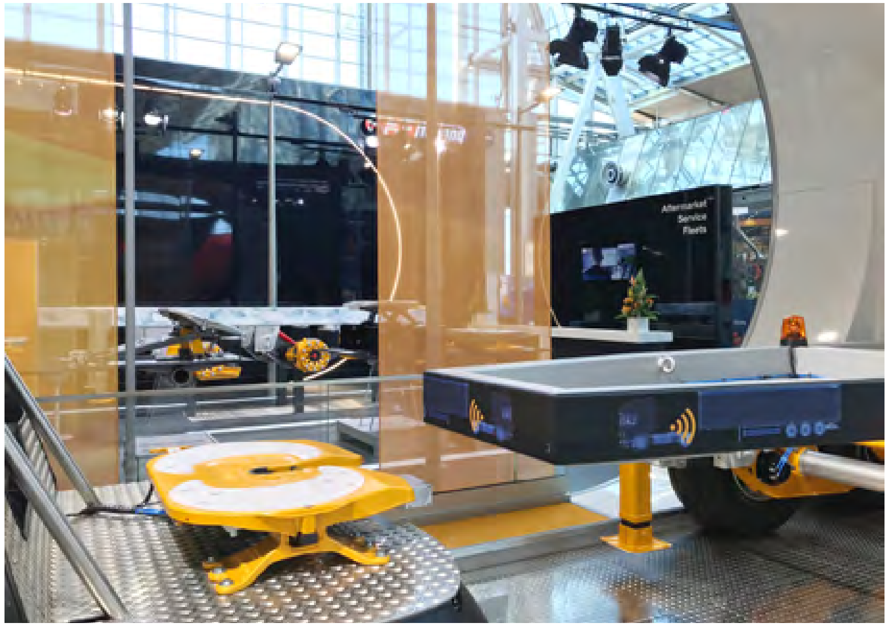
This all sounds simple. But to ensure that these high-voltage systems function reliably and free of maintenance requires extensive testing. Furthermore, the e-axle must function seamlessly in combination with electrical components – such as the cooling or the hydraulics. For this reason, we cooperate with trailer manufacturers, system suppliers and customers when it comes to testing.

TRAKr has already successfully passed a number of test-drives on a test track. In addition to intensive consultation with partners on integrating further components, such as the battery system and the controls, we also consulted agencies for obtaining the requisite approvals. We intend to have completed the concept phase by the end of 2020.

TRAKe will also be part of an integrated system including battery storage and a cooling system that we are developing in cooperation with the trailer manufacturer, LOHR Industrie: After development is completed, we will



Trailer axle with an electrical generator for regenerative braking – our TRAKr distribute AXEAL (AXle Electric Assist Lohr) globally within the framework of a 10-year co-operation agreement. The e-axle is being tested by the South African transport company, KDG Logistics, among others. They have been won over by the commercial and ecological potential of the e-axle: "There is no excuse for a transport company to have high emissions," says Abdool Kamdar, Chief Innovation Officer at KDG Logistics. "I am happy that the management of SAF-HOLLAND displays so much interest in this project. Not least because society is demanding more transparency and responsibility from the transport sector in light of its external impact."



Automatic coupling presented right in front of the audience at IAA Commercial Vehicles 2018

Autonomous vehicles:
We teach trailers to couple

Coupling takes time and money. In harbors, cargo centers or distribution hubs, drivers are occupied around the clock with coupling tractor units to trailers. This labor-intensive and repetitive process demands speed, efficiency and safety.

An exciting field for automatic coupling solutions. Motto: autonomous driving. Within the framework of our SHAC project (SAF-HOLLAND Automatic Coupling) we already completed a proof-of-concept study in October 2018 and presented this at IAA Commercial Vehicles.

In close cooperation with our development partners, we are working on the development of a pilot vehicle which will then be thoroughly tested in cooperation with truck manufacturers. The ambitious goal: Automated coupling systems should also be used outside of closed perimeter logistic hubs on public roads. Due to the fact that the highest safety standards of the ASIL (automated safety integrity level) level D apply, we expect the test phase to last until 2025, before the system is ready for market.

THE ROAD TO PROFITABLE GROWTH

The markets in North, South and Central America are of key importance for us. For this reason, we have a number of plants in the US, Canada, Mexico and Brazil, coupled with a professional logistics chain and a strong local aftermarket network.

To meet the high demand for our products – such as axle systems with integrated disc brake technology – and operate profitably at the same time, we started the program FORWARD on March 1, 2019. This program is designed to exploit any potential for optimizing the operations of the North American facilities within the next three years. The focus of the program is placed on:

— Production and supply chains
— Rationalization of the product portfolio
— Aftermarket business
— Material purchasing

The program FORWARD pursues the goal of raising our operating profit and adding value for customers. Kent Jones, President Americas at SAF-HOLLAND, is convinced of the approach: “The program FORWARD is very finely structured and has been consciously

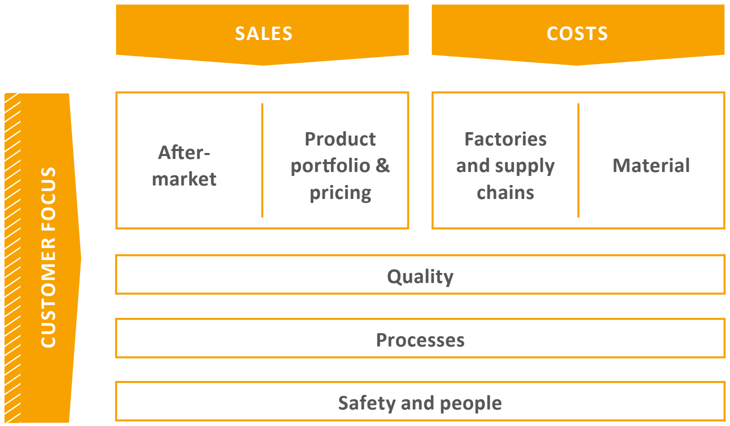
Kent Jones
President Americas

Kent Jones has been managing business in the US, Canada, Mexico and Brazil, as the President of the Americas region since September 9, 2019. As an engineering graduate with an additional MBA, he is a proven expert in the supplier industry for commercial vehicles. Over the course of his career he has worked for General Motors, Remy International and the ZF Group. He has experience in the fields of sales and marketing, operational excellence, restructuring and business development. Kent Jones reports to Alexander Geis.

made transparent by means of weekly progress reports. Each of the four program modules has been assigned to a vice president and the staff are aware of the significance of the program. I am certain that we will continue to enhance our competitiveness and profitability sustainably over this three-year journey."

«I AM CERTAIN THAT WE WILL CONTINUE TO ENHANCE OUR COMPETITIVENESS AND PROFITABILITY SUSTAINABLY.»

Kent Jones
President Americas



Our online retailers: The PODplus project team has performed wonders

Order spare parts online – with PODplus
Our aftermarket business in North America will soon have one more distribution channel in its pouch. The new e-Commerce shop, PODplus, is aimed at the growing segment of buyers who prefer online shopping over other distribution channels. The full range of spare parts will soon be available on the website, pod.safholland.com.

A highly motivated project team has spent a number of months making PODplus as user-friendly as possible. Customer interviews, website analyses and expert input have all led to the same conclusion: less is more. Customers want a user interface that is as intuitive as possible where they can find and purchase the product they are looking for within seconds. They are interested in:

- the current availability of the products
- accompanying information, such as instructions for repairs
- the ability to configure individual parts into a customized product
- being able to view the shipping status and their purchase history.

«WHEN ONE SOLUTION SOLVES A NUMBER OF PROBLEMS AT ONE TIME, THEN IT MUST BE THE CORRECT SOLUTION.»

Carl Mesker
Vice President Sales Americas

These customer needs were given the highest priority when programming the shop functions and designing the user interface. The software integration was a particular challenge requiring significant teamwork, for example when it came to migrating to a new digital assets management system, standardizing the materials master data and completing the information required by the SAP digital database. Numerous departments and staff were involved in the creation of PODplus: from IT, engineering, customer service and purchasing right through to marketing, and staff from the US and Europe were on the project team to establish PODplus.

A critical issue for all online sales is: how long will it take for the product to actually reach the customer? In this regard we are able to rely on our professional logistics chain with warehouses in three different countries that already provides excellent service to our aftermarket business in the Americas. We can now serve customers in the west of the US even more rapidly and reliably than before as we opened our new parts warehouse in Phoenix, Arizona, in September 2019.

Carl Mesker, Vice President Sales Americas, is proud of his project team: “When one solution solves a number of problems at one go, then it must be the correct solution. Our PODplus e-commerce site is one such solution. When I show our beta version to customers, the two most common questions are: “When can I use it?” and “Can I place an order with it now?”

The wait will soon be over. The online shop will become available to customers in the US and in Canada in the first quarter of 2020. Thanks to its architecture, it can also soon go online in a number of other markets served by SAF-HOLLAND.

SAF P89™ disc brake: Developed specially for the North American market

Disc brakes win over the trailer market in North America
SAF-HOLLAND has decades of experience with brake technologies and is the global leader in disc brakes for trailers, millions of which are used worldwide. The North American trailer markets traditionally rely on drum brakes. However, when it comes to new trailers, the on-highway-fleets are ordering more SAF disc brakes. We developed the P89™ disc brake system especially for the demanding requirements of North America.

Our customers profit in multiple ways from this technology:

- disc brakes reduce the braking distance
- brake performance remains constant in heavy braking situations, such as during long downhill stretches or frequent stopping
- disc brakes need less frequent maintenance than drum brakes – and maintenance only takes half as long
- P89™ is lighter than comparable drum brake systems
- P89™ can be tailored to the customer’s specific needs

These advantages of the P89™ have been warmly received on the North American market: Customer demand has been enormous since the product launch in 2018. For this reason we have also massively increased our production capacity with additional automation and improvements in processes.

In
4 of 5
cases, premature wearing is due to the wrong tire pressure.

Pretty clever: the optimal tire pressure is maintained at all times with Tire Pilot Plus™

More efficient driving with optimum tire pressure

Tires are a key cost factor in fleet management: Only fuel plays a greater role in the cost of materials. Unfortunately, tires do not get the attention they deserve. If a tire wears down prematurely, in four out of five cases it is faulty tire pressure that is the cause. In fact, the majority of all truck fleets operate at tire pressures outside of the recommended range. This is not only bad for the tires, but also for fuel consumption, repair times, road safety and the environment.

After acquiring a majority stake in the tire pressure specialist, PressureGuard, we are now able to offer integrated solutions for this problem. At the heart of our range of offerings is our Tire Pilot Plus™ tire pressure system. This holds the pressure of each tire constantly within the range recommended by the tire manufacturers – even if the ambient air temperature changes during the trip. This mechanically driven pneumatic system functions maintenance free and results in cost-savings from the first day of operation, with the investment amortizing rapidly.

In October 2019 we presented an intelligent product refinement to Tire Pilot Plus™: SMARTe Tire Pilot™. This system contains an electro-pneumatic control module with intelligent air pressure sensors that measure the axle load. It automatically adjusts the tire pressure and is therefore a perfect example of SMART STEEL. The electronic system stores the specifications from the tire manufacturer and creates the optimal tire footprint for the specific load – this conserves the tire's tread life and reduces rolling resistance. In addition, the system can recognize the maximum load and thus help to prevent overloading. A corresponding alarm can be transmitted directly to the driver via Bluetooth™. The driver is also informed of minor or major changes in tire pressure so that he can arrange service or repair stops. Other advantages: Safe and reliable tire performance, greater fuel efficiency, reduction in CO_2 and lower maintenance costs for both tires and trailers. SMARTe Tire Pilot™ will become available over the course of 2020.

SMAR-te TIRE PILOT™

Permanent monitoring and consistent tire pressure within the recommended parameters reduces tire wear and tear and results in a significant reduction in fuel consumption.

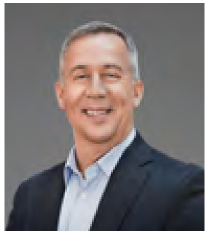
ONE REGION, MANY DIFFERENT MARKETS

APAC_I/China

With a geographic region that extends from Japan and Korea to all of Southeast Asia, Australia and New Zealand and to India, the APAC_I/China region of SAF-HOLLAND is a particularly challenging region whose markets, customers, products and environmental factors are as diverse as their geography.

In Australia, we manufacture locally yet, at the same time, import a number of products from our US, Canadian, German and Chinese production plants. We have been active in Australia and New Zealand selling SAF-HOLLAND products for a long time already. Our subsidiary, SAF-HOLLAND Australia was founded in 1957. Holland fifth-wheels enjoy great brand recognition and can be regularly found in Australia's legendary road trains. The market for heavy-duty trucks in Australia and New Zealand includes locally-produced vehicles as well as imports from the US, Europe, Japan and, more recently, China.

One of the key strengths of SAF-HOLLAND lies in its ability to adapt: With our broad range of fifth-wheels and suspension systems, we cover the various requirements of these vehicles.



Mike Ginocchio

President APAC_I/China

Mike Ginocchio has been President of the APAC_I/China region since January 1, 2020. He has held several executive positions at SAF-HOLLAND since 1995. Mike Ginocchio holds a Bachelor of Science degree in Mechanical Engineering from Marquette University, Milwaukee and a Juris Doctor from the Chicago Kent College of Law, Chicago.

Although the production volume is lower than in the European, North American and Asian markets, there is a wide variety in the number of trailer designs and combinations in Australia and New Zealand. It is possible to drive 100 km and not see two identical types of trailer. This means that tailored solutions are called for. Our engineers and teams of technicians work closely together on a daily basis to develop unique solutions for the expected loads, routes and environments. There is also great interest in technical innovations. Our highly developed INTRA suspensions with integrated disc brakes, tire pressure control system and EBS braking technology are our most popular products. At the same time, our customers are interested in telematics, e-axles and the digital solutions from SAF-HOLLAND. The growing mining segment in Western Australia opens up numerous business opportunities for the axle and suspension product lines of our York brand for heavy duty trucks.

MEETING DIVERSE NEEDS

SAF-HOLLAND offers the right products for every market

The acquisition of the York Group has made India one of the largest markets in the Asia Pacific region. The strong local presence and excellent reputation of the York brand are unparalleled on the Indian market and make the company the market leader for axles and couplers. York is well positioned throughout India with an extensive network of more than 200 service points. The integration of York products in the global product portfolio of SAF-HOLLAND has also resulted in rapidly growing export opportunities, including a strong presence in South Africa with its

THE GROWING MINING SEGMENT IN WESTERN AUSTRALIA OPENS UP NUMEROUS BUSINESS OPPORTUNITIES FOR AXLE AND SUSPENSION PRODUCT LINES.

18-ton axle load:
York heavy duty axles
in operation

York production
line in Pune

TECHNICAL INNOVATIONS AND THE USE OF NEW TECHNOLOGIES OPENS UP EXCITING OPPORTUNITIES IN INDIA AND SOUTHEAST ASIA.

standard products. By contrast, in Indonesia and Western Australia its heavy duty products are in demand. In the meantime, York exports its products also to the Middle East, South America and Europe. The growth in the export markets and increasing local Indian market interest in air suspension systems and disc brake technology has provided an offset to the current downturn of the domestic market in India. As soon as the Indian market brightens, we will be able to continue expanding our presence on this important market.

The markets in Indonesia, Malaysia, Singapore and Thailand are dominated by fierce competition with both local and international manufacturers. Low costs, fast throughput, adaptability and a rapid response to product requirements are the keys to success in these markets. SAF-HOLLAND now has a fully integrated engineering team in the Asia-Pacific region that cooperatively works together on solutions for all its markets. In the past we were not able to seize all the opportunities that arose on account of different time zones or communication channels. The new independence and cooperation, on the other hand, has already culminated in numerous product developments and sales success stories. Similar to India, Southeast Asia is also seeing an increase in technical innovations and the use of new technologies, which opens up even more exciting opportunities for our regional sales and engineering teams.

The factory of the future

One of the most exciting developments within SAF-HOLLAND is currently happening in China: the start of production at our new ultra-modern factory in Yangzhou. This factory is much more than "just" a new location. The most modern and largest factory of the Group is also the technological flagship and motor of all our business in the region.

The new location in Yangzhou was designed from the ground up and literally on green fields. No wonder, then, that this plant is completely state-of-the-art. No other plant in the Group has such a high degree of automation. This means that we can manufacture a significantly higher volume with fewer workers at Yangzhou than in the other plants.

Our prime customer requirement for Yangzhou and for all other plants in the SAF-HOLLAND Group is that "Quality may not be anything other than excellent." The quality of the first axles and landing legs coming off the assembly line at Yangzhou is being tested in close cooperation with selected customers. Serial production will only commence once this critical validation phase has been completed.

SAF-HOLLAND's engagement in China has a long tradition. We have maintained local production for the important Chinese commercial vehicles market there for over 20 years. The new plant in the east of the People's Republic of China is situated strategically to be close to key existing and future customers. Yangzhou will be the new center for our activities in China and the entire region: We now combine all of our Chinese activities in here that were formerly spread over a number of locations in China. This shortens the distances involved, improves the cost situation and raises our efficiency.

State-of-the-art technology: our technological flagship in China

A plant in numbers

116,000
cable meters laid

6,150
tons of steel used

42,000
square meter
of floor area

8
months in construction

Setting a new benchmark in efficiency and automation the plant in Yangzhou can commence operations

In Yangzhou we will locally design and manufacture unique product offerings tailored for our Chinese customers and significantly increase our market share of this important market. At the same time, Yangzhou will promote business throughout the entire Asian region. Thanks to the strategic location of the Yangzhou plant, the distribution routes to all SAF-HOLLAND markets in the region are short.

We perceive diverse opportunities and benefits with the products, efficiency gains and synergies that lie waiting in the highly competitive yet rapidly expanding Chinese market for premium technologies and high quality products. With its high degree of automation and efficiency, Yangzhou will allow us to manufacture products at competitive terms and conditions for price-sensitive markets and to expand our product portfolio for all markets in the region.

YANGZHOU WILL PROMOTE BUSINESS THROUGHOUT THE ENTIRE ASIAN REGION.

_To our shareholders

LETTER FROM THE CEO

Alexander Geis
Chief Executive Officer (CEO)

DEAR SHAREHOLDERS,

The year 2019 was a particularly challenging one for your SAF-HOLLAND. It was characterized by a new beginning at the top of the company, a sudden slump in the market during the middle of the third quarter and non-recurring expenses related to our plant consolidation in China. These last two factors led to a sharp adjustment in our guidance for the year at the end of September. Improved procedures and processes at our plants, our global market presence and the aftermarket business all helped to stabilize earnings.

We reached the revised targets for both Group sales and the adjusted EBIT margin: Group sales of EUR 1,284 million lie within the target corridor of between EUR 1,260 million and EUR 1,300 million. Likewise, the adjusted EBIT margin of 6.2 per cent lies within the target range of between 6.0 per cent and 6.5 per cent.

The bottom line result for the year of EUR 10.3 million translates into undiluted earnings per share of EUR 0.20. The Group Management Board and the Board of Directors will propose to the Annual General Meeting on May 20, 2020 not to pay a dividend for the financial year 2019. With this proposal we want to sustainably safeguard our solid financial profile.

The outbreak of the novel coronavirus SARS-CoV-2 (COVID-19) presents the management team and all employees with a new special challenge. We have used recent weeks since the outbreak in China to test our contingency plans and have initiated suitable measures to keep operations running smoothly at our locations. A global crisis response team is advising the Group Management Board on the current situation and prepares the materials needed by management for its decision-making. It also coordinates and monitors communications and operative measures. In addition, the health of our staff, suppliers and customers as well as their families has top priority.

Regardless of the challenging framework conditions, we are working intensively on implementing measures to rapidly and sustainably improve our profitability.

In this regard, our activities in China should be mentioned first and foremost. We have concluded our plant consolidation in China and put our new plant in Yangzhou into operation. This gives us a best-in-class facility that will provide us with the foundation for future growth in the Asian region and substantiate our aspiration as a premium manufacturer. Correspondingly, we should significantly reduce operating losses this year. Moreover, our job now is to expand and intensify our relationships to strategic customers and optimize the group-wide production network in order to get this location running to full capacity.

In the USA, we have seen the first positive results from program FORWARD over the past year. This year is all about the issue of "operational excellence". Dr. André Philipp, our Chief Operating Officer, will implement the SAF-HOLLAND Operational Excellence Roadmap he drew up with his team. The objective is to leverage the profit potentials that lie unexploited throughout the entire plant network.

With regard to selling and administrative expenses, we set up a comprehensive cost-cutting programme in response to the adjusted guidance released at the end of September 2019. This will be rigorously pursued at all locations in the current year. The results to date are very promising.

Moreover, with the recently signed supplementary collective agreement, we have laid the groundwork required to secure jobs for the long-term at the largest location of the Group in Bessenbach, Germany, and simultaneously significantly improve our competitiveness.

Dear shareholders, in addition to such operating issues, the refinancing of the SAF-HOLLAND Group will be given our attention this year. The successful placement of a promissory note loan ("Schuldscheindarlehen") with a volume of EUR 250 million is another important element in the consistent implementation of our strategy and provides us with additional flexibility and planning security for the coming years.

Sustainability is another key aspect of our journey on the road ahead. Sustainability must be a natural component when it comes to allocating capital resources. For this reason, we have become a signatory to the United Nations Global Compact and are promoting the implementation of its principles in the fields of human rights, working standards, environmental protection and combatting corruption.

At the extraordinary general meeting held on February 14, 2020, you unanimously passed a resolution to convert your SAF-HOLLAND into a European Company (Societas Europaea, SE). I would like to take this opportunity to express my heartfelt thanks for this move. Subject to your approval at the extraordinary general meeting scheduled for May 20, 2020, we will move our registered office to Germany over the course of the year. By transferring the registered office, the plan of the spatial consolidation of the registered office of SAF-HOLLAND SE, as the holding company, with the operating functions of SAF-HOLLAND GmbH will be concluded. Together with the change in legal form and transfer of the registered office, we are planning to simplify the legal structure of the Group. These measures will make it easier to manage the SAF-HOLLAND Group overall and reduce our administrative burden.

I would also like to thank you for your faith and trust in sticking with us through difficult waters. You can rest assured that we will do our utmost in the coming year to offer you a compelling perspective for the future: we possess a fundamentally stable business model that is geared towards sustainability, competitive production solutions and promising innovations. The digitization of our business is also advancing steadily.

Finally, in the name of the Group Management Board I would like to thank all of our employees, for whom the past year was most certainly not an easy one. The willingness of each individual to perform at their best and their motivation to work for SAF-HOLLAND make me optimistic that we will bring your company back on track.

Sincerely yours,

Alexander Geis
Chief Executive Officer (CEO)

REPORT OF THE BOARD OF DIRECTORS

Dr. Martin Kleinschmitt
Chair of the Board of Directors

DEAR SHAREHOLDERS,

The year 2019 was characterized by a number of changes. I would like to begin with the change in the Chair of the Board of Directors. I would like to thank Martina Merz on behalf of the full Board of Directors and the management for her services as Chair of the Board. At great personal effort, she has made a decisive contribution towards driving forward the professionalization of the Board.

In terms of the issues we addressed, we on the Board of Directors once again focused on enabling the company for the next phase of its development and were able to set the course to be taken in many respects. Important in this regard was appointing Alexander Geis to the position of CEO, followed by the appointment of other members of the management team. Decisive progress was made on the issue of "Operational Excellence" with our new COO, André Philipp, who we were able to win for this position at the end of the previous financial year. In addition to the regional focus on business in the US, we also placed our focus on restarting business in China. For this region too, the Board of Directors was heavily involved in finding the right executives: We appointed Kent Jones as the new President Americas, Christoph Günter as the new President EMEA and decided at the end of the year to combine the APAC region with China under the joint management of Mike Ginocchio.

Within the framework of a structured process, the Board of Directors has started to work intensively on the development of "Strategy 2025" since summer 2019 in cooperation with management. This includes the development of a new organizational model and central *enablers* in the fields of leadership, processes, performance, innovation, product strategy and digitalization.

With the resolution on the plan to convert SAF-HOLLAND S.A. into a European Company (SE) and the ensuing migration of the registered offices to Germany, we intend to combine group management with the operative functions of the SAF-HOLLAND Group and reduce the complexity of the Group's structure. We are convinced that after voting in favor of the change in legal form, our shareholders will also support the migration of the registered offices.

I am optimistic that we have taken the right steps for the sustained success of the company for the future, even if we are currently facing a number of headwinds and have not yet completed all the current tasks. We will continue to focus intensely on the steady development of the company to secure the company's success in the long term in light of the challenges posed by the global economy and changing technology.

COOPERATION BETWEEN THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT BOARD

The Board of Directors conscientiously carried out its duties in the 2019 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. A spotlight was placed on the development of orders, sales and earnings as well as status reports on central corporate programmes and initiatives. In addition, the Board of Directors and the Group Management Board closely consulted each other on the strategic direction of the SAF-HOLLAND Group. Market developments, alongside the risk position, risk management, compliance and the Group's financial situation were discussed and analyzed together. In addition, the Board of Directors addressed 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 review by the Board of Directors. The Group Management Board also reported in writing or verbally in the intervals between the meetings. In particular, the Chair of the Board of Directors and the CEO and CFO fostered a regular and intensive exchange.

KEY TOPICS OF DISCUSSIONS

A major topic of discussions in 2019 was the composition of the management team. Starting with the appointment of Alexander Geis as the new CEO and an intensive onboarding phase, efforts moved to a search for a replacement for the positions he had previously filled, President EMEA and Head of Global Sourcing, which was successfully concluded with the appointment of Christoph Günther. The extended management team was completed with the appointment of Kent Jones as the new President Americas and the combination of the APAC region and China under the leadership of the former President APAC, Mike Ginocchio.

The composition of the Board of Directors based on our profile of competencies was also on our agenda, especially in light of the change at the Chair of the Board. In response we conducted an intensive search for a second financial expert. With Ingrid Jägering – CFO of LEONI AG, a listed company – we found an independent candidate in November to fill the important function of Chair of the Audit Committee.

In terms of operations, focus was placed on the performance of the Americas region, whose progress we could track within the framework of the program FORWARD, and the consolidation of various locations in China in one new plant in Yangzhou. We called on our management to report to us at regular intervals on the measures related to "Operational Excellence", occupational health and safety and environmental management.

Key governance issues that we addressed in the year were the future composition of the Board of Directors taking account of the competence profile, the continuing professionalization of our work on the Board and the succession planning for the Group Management Board. Moreover, we have revised the Articles of Association and the Rules of Procedure for the Group Management Board and the Board of Directors.

Members of the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) and their appointments to the Boards of other companies

Member	Year of birth	Nationality	First appointment	Term expires on	Main professional activity	Members on other boards: (a) Boards of listed companies (b) Boards of unlisted companies (c) Boards of group companies
Dr. Martin Kleinschmitt	1960	GER	04/2013	04/2023	Partner Noerr LLP Member of the Management Board Noerr Consulting AG	(a) No mandate (b) — SAF HOLLAND GmbH (Germany) — G&H Bankensoftware AG (Germany) (c) No mandate
Martina Merz	1963	GER	04/2014	04/2023	CEO thyssenkrupp AG	(a) — Deutsche Lufthansa AG (Germany) — VOLVO AB (Sweden) — Imerys SA (France, until 05/2020) (b) No mandate (c) No mandate
Anja Kleyboldt	1969	GER	04/2012	04/2021	Head of Business Unit Industry Arnold AG	(a) No mandate (b) — SAF HOLLAND GmbH (Germany) (c) No mandate
Jack Gisinger	1948	US	04/2017	04/2021 (Withdrawal 04/2020)	Independent advisor	No mandate
Carsten Reinhardt	1967	GER	04/2017	04/2020	Independent senior advisor	(a) — Garrett Motion Inc. (USA) (b) — Grundfos Holding A/S (Denmark) — Tegimus Holding GmbH (Germany) — Beinbauer Automotive GmbH & Co. KG (Germany) — WEZAG GmbH (Germany) — Michigan Capital Advisors (USA) — Braemar Energy Ventures (USA) (c) No mandate
Ingrid Jägering	1966	GER	10/2019	04/2020	CFO LEONI AG	(a) No mandate (b) — HENSOLDT Holding (Germany) (c) No mandate

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held ten meetings in the 2019 financial year, of which five were face-to-face meetings and five held as conference calls. The committees met 19 times in total. When resolutions had to be passed urgently between meetings, this was done via circular resolutions. In sum, attendance came to roughly 94 percent.

Detailed summary of the attendance of the individual members of the Board of Directors at the meetings of the BoD and its committees:

Attendance summary

Member	Board of Directors	Nomination Committee	Audit Committee	Remuneration Committee	Special Committee North America	Total ratio
Dr. Martin Kleinschmitt	10/10	2/2	3/3	3/3	6/6	100%
Martina Merz	7/10	8/8	3/3	3/3		88%
Anja Kleyboldt	10/10	7/8		2/3	6/6	93%
Jack Gisinger	10/10	8/8		3/3		100%
Carsten Reinhardt	10/10		3/3	2/3	6/6	95%
Ingrid Jägering [1]	1/2		1/1			67%
Total ratio	**92%**	**96%**	**100%**	**87%**	**100%**	**94%**

[1] Nominated in October 2019. Consequently, it was not possible to arrange attendance at the meeting of the BoD in December at such short notice.

Alexander Geis was appointed the new CEO of SAF-HOLLAND at the meeting held on March 20, 2019. He took over from Detlef Borghardt, who stepped down from the office. Another key item on the agenda addressed the annual and consolidated financial statements, the group management report and the independent auditor’s report for the financial year 2018. The Board of Directors approved the financial statements after examining them thoroughly. The Board of Directors also approved the agenda for the 2019 Annual General Meeting, which included the proposal for the reappointment of PriceWaterhouseCoopers Société Coopérative (PwC) as the external auditor for the 2019 financial year. By approving the annual and consolidated financial statements we followed the recommendation of the Audit Committee. The same applied to the audit of the corporate social responsibility report and the non-financial statement. We ratified the Declaration of Conformity with the Recommendations of the German Corporate Governance Code, which our Luxembourg-based company has adopted voluntarily. We approved a new remuneration system for the Board of Directors, which, in the spirit of good governance, refrains from including any variable components and is less complex. Market conformity of the structure of the system and amounts involved was ensured by means of external benchmarking. The remuneration is commensurate to the tasks involved and the situation of the company.

The meeting on May 6, 2019 was held as a conference call and primarily addressed the first quarterly report, which was approved by the Board of Directors accordingly.

The main items on the agenda at the meeting held on May 17, 2019 were business development in North America and China, the status of "Operational Excellence" across the entire Group resolutions on the program FORWARD, M&A matters and the competence profile for members of the Board of Directors. In addition, a project to develop a new organizational model was initiated and its scope approved. Other key items involved the regular reporting on risks and compliance.

At the meeting on August 5, 2019, which was held as a conference call, the Board primarily addressed the second quarterly report, which was approved by the Board of Directors accordingly. At an extraordinary meeting, which was held as a conference call on August 14, 2019, Kent Jones was appointed the new President Americas.

At the meeting on August 28, 2019, the Board of Directors focused on a business update and a status update on the issue of "Operational Excellence" and occupational health and safety. In addition, the strategy process was initiated and a discussion held on market developments and trends. A report was given on non-financial risks and a refinancing measure was approved.

At an extraordinary meeting convened as a conference call on September 23, 2019, Martina Merz resigned from her position as Chair of the Board of Directors. During this conference call and a conference call held on September 29, the future composition of the Board of Directors was discussed, touching, in particular, on the competence profile, independence and other requirements of good corporate governance.

A key item on the agenda of the meeting held on November 5/6, 2019 was the appointment of Ingrid Jägering to the Board of Directors and as Chair of the Audit Committee. The appointment is valid until the date on which the Annual General Meeting is held in 2020. Dr. Martin Kleinschmitt, who had taken over the Chair in his capacity as Deputy Chair, was elected the new Chair of the Board of Directors and Martina Merz was elected Deputy Chair. Other matters concerned the report on the third quarter, the future composition of the committees and the succession planning for the Group Management Board. The President Americas Kent Jones reported on the performance of the region, the discussion on strategy was continued and a report given on the results of the global employee survey.

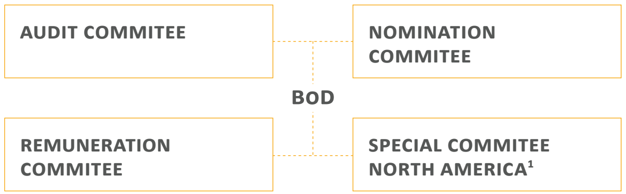
The final meeting of the year took place on December 6, 2019. As is customary, the focus was on the budget for the upcoming year, mid-term planning and the performance targets for the Group Management Board. Among the other most important resolutions were the decision to combine the APAC and China regions, with Mike Ginocchio as President, and the preparations for the conversion of SAF-HOLLAND S.A. into a European Company (SE) followed by its planned migration to Germany. Furthermore, the new President EMEA and Head of Global Sourcing reported on the performance of the region. The Board also ratified a number of amendments to the service contracts with management to meet the requirements of good corporate governance and also to set the qualitative performance goals for management.

In accordance with the recommendations of the latest German Corporate Governance Code, the Board of Directors holds a part of its face-to-face meetings without the members of management attending.

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. Reference is made to page 93 of the corporate governance section for information on the composition of the individual committees.

Committees of the Boards of Directors as of December 31, 2019



[1] Special committees are established in accordance with business needs.

Audit Committee

The Audit Committee met three times in the reporting year. The matters primarily addressed by the committee were the audit of the financial statements, the recommendation for the election of the independent auditor, accounting standards, such as IFRS 16, and their implications, the Code of Conduct, the Human Rights Policy, various governance issues, risk management, the findings of internal audits, compliance and tax issues, and financing matters. The content of these meetings was presented to the Board of Directors and submitted for the Board's approval when required. The independent auditor attended the meeting at which the independent auditor's report was explained. In addition, the Chair of the Audit Committee regularly contacted the independent auditor, also outside of the meetings. The independent auditor reported to the Audit Committee immediately on any significant audit findings and events that came to his attention during the execution of the audit. Furthermore, he informed the Audit Committee of any circumstances that he became aware of during the execution of the audit indicating non-compliance with the Declaration of Conformity on the German Corporate Governance Code issued by the management board and Board of Directors. The Chair of the Audit Committee was in regular exchange with the Group's Director Corporate Audit Services over the course of the financial year. Two financial experts have been appointed to the Audit Committee.

Remuneration Committee

The Remuneration Committee met three times in 2019 by means of conference calls. Among other matters, the committee ratified and reviewed the remuneration and remuneration system for the Group Management Board. Also, the services of an external advisor specialized in remuneration matters were used to perform this task. In addition, the Committee discussed amendments to the service contracts with the members of the Group Management Board due to various changes in the field of corporate governance and formulated corresponding recommendations for the Board of Directors (e.g. a cap on severance payments, offsetting severance payments against the compensation for post-contractual non-competition obligations).

Nomination Committee

The Nomination Committee held a total of eight conference calls in the year. It mainly focused on the composition of the Group Management Board and the Board of Directors. As a result, new appointees were made to the positions of CEO, President EMEA, Head of Global Sourcing, President Americas and President China in 2019. In addition, the committee addressed the competence profile and successor candidates to the Board of Directors. In accordance with a resolution of the Board of Directors, the Nomination Committee has been combined with the Remuneration Committee from January 2020 onwards on account of the amount of overlap between the two functions.

North America Special Committee

The limited-term North America Special Committee convened in six conference calls in financial year 2019. The core activities included close monitoring of the program FORWARD, the operative performance of the region and its “Operational Excellence”, the development of commodity prices, various strategic initiatives and issues as well as the onboarding of the new President Americas. In December 2019 the Board of Directors decided to discontinue the activities of the North America Special Committee effective at the end of year 2019.

CORPORATE GOVERNANCE

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) is a Luxembourg-based European Company (Societas Europaea, SE), which is listed solely in Germany. As such, SAF-HOLLAND SE (previously 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 SE (previously 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 2019 reporting year, the Board of Directors intensely focused on the issue of corporate governance. The 2019 Declaration of Conformity on the recommendations of the German Corporate Governance Code was submitted by the Board of Directors of SAF HOLLAND on March 20, 2019. The current Declaration of Conformity was published on March 10, 2020 and is available on the company’s homepage.

The Chair of the Board of Directors also conducted individual discussions with investors on corporate governance issues.

There were no conflicts of interest facing any member of the Board of Directors in the financial year.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTS REVIEW MEETING

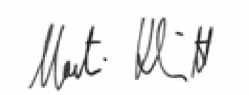
PricewaterhouseCoopers Société Coopérative (PwC) audited the consolidated financial statements for the year ending December 31, 2019, prepared by SAF-HOLLAND SE (previously SAF-HOLLAND S.A.). The auditor issued an unqualified audit opinion and found that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, financial performance 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. After preparation by 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 16, 2020. The independent auditor attended the preparatory meeting of the Audit Committee. He presented the key audit findings and responded to questions posed by members of the committee. The Board of Directors approved both PwC’s audit findings and the consolidated financial statements as submitted to the Board. The Board of Directors follows the Group Management Board’s proposal for the appropriation of retained earnings and recommends proposing to pay no dividend for the 2019 financial year to the Annual General Meeting on May 20, 2020.

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 2019 financial year.

Luxembourg, March 16, 2020

On behalf of the Board of Directors



Dr. Martin Kleinschmitt
Chair of the Board of Directors

SAF-HOLLAND ON THE CAPITAL MARKET

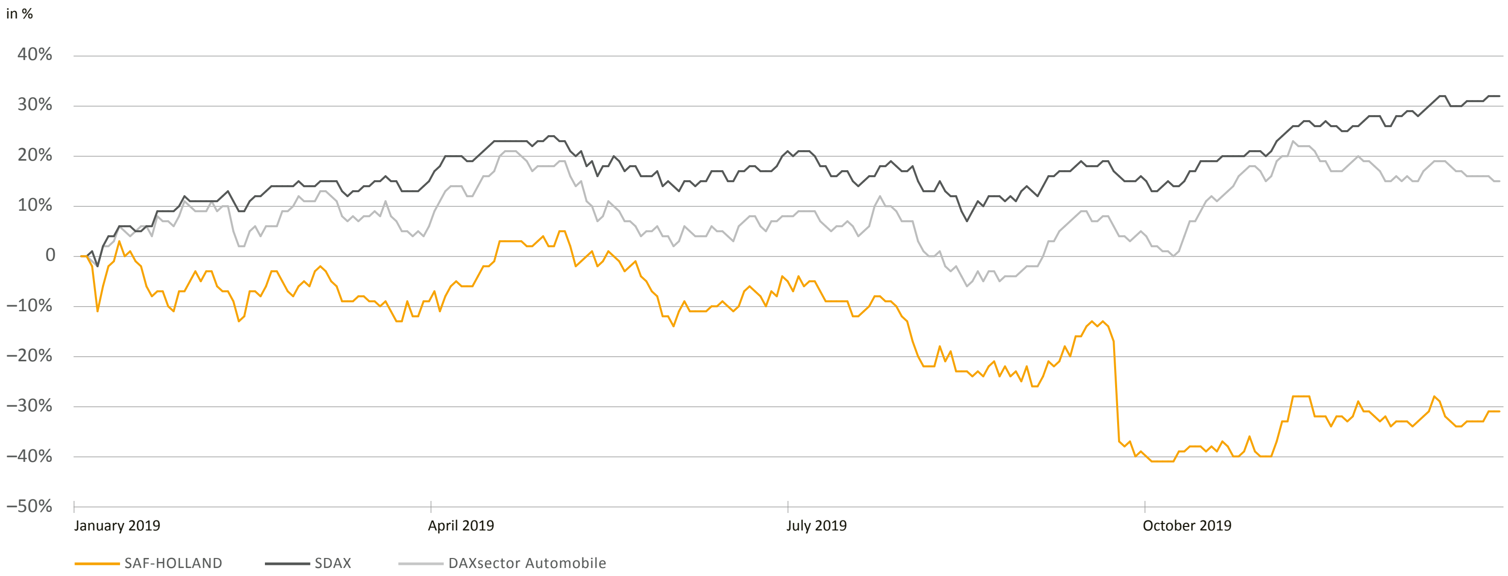
OVERVIEW OF STOCK MARKET AND SHARE PRICE PERFORMANCE

BENCHMARK INDEX PERFORMS SIGNIFICANTLY BETTER THAN THE SAF-HOLLAND SHARE

The agreement of a phase one trade deal between the USA and China, the waning likelihood of a hard Brexit, the robust growth of the US economy, low inflation rates worldwide and the continuing expansive monetary policies of the most important central banks were all factors driving the boom phase on stock exchanges in 2019. By contrast, the weakening economic data and a number of profit warnings in the second half of the year led to a temporary fall in share prices. In comparison to the end of 2018, the DAX rose by 25.5 per cent. The SDAX even grew by 31.6 per cent in a year-on-year comparison.

In the first months of 2019, shares of German automobile manufacturers and automotive suppliers profited from the hope of a settlement to the trade dispute between the USA and China. Over the later course of the year, a sharp downturn in demand for passenger cars and profit warnings issued by a number of car makers and automotive suppliers dampened share prices. In the fourth quarter, the general market boom rippled through to the automobile sector. In sum, the relevant benchmark index, the DAXsector Automobile Performance Index (CXPA) rose by 15.5 per cent over the year 2019.

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



With a fall of 31.2 per cent to EUR 7.40 (previous year: EUR 10.76), the SAF-HOLLAND share performed significantly worse in 2019 than the DAX-sector Automobile Performance Index. The main factor behind the slide was the large adjustment made to the EBITDA margin guidance for the 2019 financial year issued on September 23, 2019.

TRADING VOLUME IN SAF-HOLLAND SHARES CONTINUES TO GROW

The average daily trading volume in SAF-HOLLAND shares on all German stock exchanges – a key investment criterion, particularly for institutional investors – continued to grow in the year 2019. The most significant trading venue for SAF-HOLLAND shares remains the Xetra trading platform, which accounted for 40.2 per cent of the volume traded in the year 2019 (previous year: 34.1 per cent). On average, 178,593 shares were traded on Xetra on a daily basis (previous year: 149,800 shares), corresponding to an increase in trading volume of 19.2 per cent. In euro terms, SAF-HOLLAND shares with a total value of EUR 1.6 million traded hands on the exchanges each day on average (previous year: EUR 2.2 million).

POSITION IN THE INDEX RANKING

Based on the year-end share price, the free float market capitalization of SAF-HOLLAND on December 30, 2019 came to EUR 335.9 million (previous year: EUR 508.4 million). As a result, the company was ranked 158th (previous year: 131st) by market capitalization on December 30, 2019 in the index ranking issued by Deutsche Börse AG, which forms the basis of the composition of the MDAX and SDAX. Ranked by turnover, SAF-HOLLAND was ranked 133rd (previous year: 126th).

INVESTOR RELATIONS AND CAPITAL MARKET ACTIVITIES

IN CONSTANT CONTACT WITH ALL STAKEHOLDERS

Within the scope of its investor relations activities, SAF-HOLLAND provides comprehensive, timely and transparent information on the current business developments, strategic objectives, their implementation and the latest trends in the truck and trailer markets. Issues relevant to the market, such as new technologies and increasing digitization in the international truck and trailer markets are addressed regularly.

The members of the Group Management Board and the Investor Relations team are available for market participants to contact via a range of channels: face-to-face meetings during roadshows, investor conferences as well as conference calls. Other major channels for exchanging views are afforded by the annual analyst and investor conference hosted in Frankfurt am Main as well as the investors and analysts earnings calls held to publish the quarterly results. Participation in investor conferences and hosting roadshows in London, Paris and Frankfurt am Main as well as the eastern seaboard of the USA, among others, were on the agenda in 2019.

Furthermore, SAF-HOLLAND offers investors and analysts the opportunity to visit the German plants in Bessenbach.

Further detailed and up-to-date information on SAF-HOLLAND's shares and convertible bonds is published on the Investor Relations website at https://corporate.safholland.com/en/investor-relations. At this site you can find the latest financial news and reports of the company, presentations and podcasts of telephone conferences as well as an overview of the latest consensus estimates of the analysts currently monitoring the SAF-HOLLAND share.

LARGE NUMBER OF ANALYSTS ENSURE COMPREHENSIVE COVERAGE OF THE SAF-HOLLAND SHARE

The SAF-HOLLAND share is regularly monitored and analyzed by a large number of analysts at national and international banks. At the end of 2019 a total of eleven analysts were monitoring the share of SAF-HOLLAND. Of these, two analysts recommended either buying the stock or believed that SAF-HOLLAND shares would outperform the overall market. There were six recommendations to hold the share or rating it neutral. Four analysts issued a sell or reduce recommendation. The analysts' price targets ranged between EUR 6.00 and EUR 12.00. The average price target was approximately EUR 7.74.

Analyst Ratings as of December 31, 2019

Bank	Ratings
Bankhaus Lampe	Hold
Berenberg Bank	Buy
Commerzbank	Reduce
Deutsche Bank	Hold
Hauck & Aufhäuser	Buy
HSBC	Hold
Kepler Cheuvreux	Reduce
MainFirst Bank	Neutral
Oddo BHF	Neutral
Pareto Securities	Sell
Quirin Privatbank	Sell
Warburg Research	Hold

The latest analyst ratings are available on the Investor Relations website at https://corporate.safholland.com/en/investor-relations/share/share/consensus.

STABLE SHAREHOLDER STRUCTURE

According to the definition of Deutsche Börse AG, 100 per cent 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 largest shareholders at present consist of investment management companies in the Netherlands, Switzerland, the USA, Germany and Spain.

Based on the voting rights notifications, six institutional investors held more than 3 per cent in the share capital of SAF-HOLLAND as of December 31, 2019:

Name of the shareholder	Country of domicile	% share of notified voting rights
Times Square Capital	USA	5.19%
NN Group N.V.	Netherlands	5.16%
Kempen Oranje Participaties	Netherlands	5.07%
Nordea 1 SICAV	Luxembourg	5.06%
Union Investment Privatfonds	Germany	5.04%
Bestinver Gestion	Spain	4.47%

In the 2019 reporting year, the structure of shareholders holding over 5 per cent of the voting rights did not change in comparison to December 31, 2018. The members of the Group Management Board and Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) together held a total of 0.1 per cent of the outstanding shares.

INTRODUCTION OF AN ADDITIONAL THRESHOLD OF THREE PER CENT FOR VOTING RIGHTS NOTIFICATIONS

In an effort to harmonize with the corresponding provisions of the German Securities Trading Act (Section 33 (1) WpHG), the Extraordinary General Meeting of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) (the "Company") decided on April 25, 2019, by way of an amendment to Article 18 (1) sentence 1 of the company's Articles of Association, that company shareholders who reach, exceed or fall below the voting rights' threshold of 3 per cent are required to promptly file a voting rights notification with the company. The statutory reporting obligations pursuant to Article 8 et seq. of the Transparency Act of the Grand Duchy of Luxembourg (Law of 11 January 2008 on transparency requirements for issuers), as amended, continue to apply.

2019 ANNUAL GENERAL MEETING RESOLVES DIVIDEND OF EUR 0.45 PER SHARE

In accordance with a proposal from the Board of Directors, the Annual General Meeting of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) passed a resolution on April 25, 2019 to distribute a dividend of EUR 0.45 per share (previous year: EUR 0.45) for the 2018 financial year. Relative to the net result of the Group for the year of EUR 48.1 million, this corresponds to a pay-out ratio of 42.4 per cent. As a result, SAF-HOLLAND is continuing its sustainable dividend policy of distributing between 40 and 50 per cent of the net result of the Group to its shareholders. Based on SAF-HOLLAND's closing share price for the 2018 financial year, the dividend yield amounted to 4.0 per cent (previous year: 2.5 per cent). All the information on the Annual General Meetings and extraordinary general meetings is published in the internet on the investor relations section of the SAF-HOLLAND website at https://corporate.safholland.com/en/investor-relations.

Key share information

WKN/ISIN	A0MU70/LU0307018795
Ticker symbol	SFQ
Number of shares	45,394,302 shares
Designated Sponsors	Commerzbank AG, HSBC Trinkaus & Burkhardt AG
Annual high/low[1]	EUR 11.55 / EUR 6.30
Closing share price[1]	EUR 7.40
Market capitalization	EUR 335.9 million

[1] XETRA closing price.

SUMMARY OF CORPORATE BONDS AND COMPANY RATINGS

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 per cent and mature on September 12, 2020. The first conversions into SAF-HOLLAND SE (previously 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 SE (previously SAF-HOLLAND S.A.) shareholders, which the 2019 Annual General Meeting passed by resolution, the conversion price and conversion ratio were adjusted in accordance with the bond's terms and conditions. As of April 26, 2019, the adjusted conversion price has been EUR 11.7345 (previously: EUR 11.9235) and the adjusted conversion ratio has been 8,521.8799 (previously: 8,386.7992).

The price of the convertible bond declined steeply in 2019, in step with the development of SAF-HOLLAND's share price. After ending the 2018 financial year at a closing price of 105.3 per cent, the bond closed on December 30, 2019, at 94.8 per cent.

The convertible bond prices, key figures and the terms and conditions of the bonds can be found on the Investor Relations website at https://corporate.safholland.com/en/investor-relations/share-bonds/bonds/convertible-bond.

COMPANY RATING OF BBB WITH STABLE OUTLOOK REAFFIRMED

On May 20, 2019, the rating agency Euler Hermes reaffirmed SAF-HOLLAND's BBB investment grade rating with a stable outlook for the next twelve months. In its rating, Euler Hermes Rating emphasized the sustainable growth prospects from the increasing global transport volumes and the Group's leading market positions in the markets for axles and suspension systems for trailers in the EMEA and Indian regions as well as fifth wheels in the Americas region and the less cyclical high-margin spare parts business that is experiencing secular growth. The acquisition of V.Orlandi S.p.A. in Italy, York Transport Equipment in India, Axscend Ltd. in the UK, PressureGuard in the USA and the Stara Group in Finland were viewed favourably. At the same time, a slight increase in market risks reflects the high dependency on the cyclical commercial vehicle sector and the intensity of competition. Euler Hermes Rating continues to rate the financial risk of SAF-HOLLAND as low overall, with reference to its earnings power, high internal financing potential and very good financial flexibility.

_Combined Management Report

BACKGROUND OF THE GROUP

COMPANY PROFILE

SAF-HOLLAND is one of the world's leading manufacturers and suppliers of chassis-related assemblies and components primarily for trailers, heavy-duty trucks, buses and recreational vehicles.

The product range primarily consists of 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`s Product Brands

Trailer axles and suspension systems

Towing and lifting technology

Suspensions for vocat-ional trucks and buses

Air suspensions for trucks and buses and axles and suspension systems for trailers in South America

Air suspensions for trucks and buses in China

Cuppling systems for trucks, semi-trailers, trailers and special applications

Trailer axles and suspension systems

SAF-HOLLAND ORIGINAL PARTS

is the aftermarket brand for our premium products development and tested to meet the most stringent requirements.

SAUER QUALITY PARTS UND GOLD LINE QUALITY PARTS

are the aftermarket brands for our quality products developed and tested as the indistry standard.

SAF-HOLLAND sells its products to original equipment manufacturers (OEMs) on six continents. The Group's aftermarket business supplies spare parts to the service networks of Original Equipment Suppliers (OES), as well as to end customers and service centers through its extensive global distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is globally positioned in almost all markets worldwide.

ORGANIZATIONAL STRUCTURE OF THE GROUP

We conducted our operating business in the 2019 financial year in four regions, which also constitute the reportable segments in the sense of IFRSs:

- EMEA
- Americas
- APAC
- China

The regions cover both original equipment business and the aftermarket business with spare parts. Each segment is fully responsible for its own results and controls all the necessary resources. Interdepartmental functions such as Corporate Finance, Corporate Accounting and Controlling, Internal Audit, Legal Affairs and Compliance, Human Resources, IT, Corporate Social Responsibility as well as Investor Relations and Corporate Communications are all organized centrally at Group headquarters. The same generally applies to the sphere of responsibility of the Chief Operating Officer.

LEGAL STRUCTURE OF THE GROUP

SAF-HOLLAND S.A.[1]

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 % OOO SAF-HOLLAND Russland
- 100 % SAF-HOLLAND do Brasil Ltda.
  - 57,5 % KLL Equipamentos para Transporte Ltda.
- 70 % V.ORLANDI S.p.A.[2]
  - 100 % Orlandi Rus LLC
- 100 % SAF-HOLLAND South Africa (Pty.) Ltd.
- 100 % SAF (Xiamen) Axle Co., 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) Pty Ltd, India
  - 100 % SAF-Holland (Thailand) Co. Ltd, Thailand
  - 100 % YTE Special Products Pte Ltd, Singapore
    - 100% York Transport Equipment (Shanghai) Co. Ltd, China
    - 100% Qingdao YTE Special Proucts Co Ltd, China
  - 100 % YTE Transport Equipment (SA) (Pty) Ltd, South Africa
  - 100 % PT York Engineering, Indonesia
- 100 % Corpco Beijing Technology and Development Co., Ltd., 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 Suomi Oy
- 100 % SAF-Holland Sverige AB
- 100 % **SAF-HOLLAND Inc.**
  - 100 % SAF-HOLLAND Canada, Ltd.
  - 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
    - 100 % V.Orlandi Australia Pty. Ltd.
  - 100 % SAF-HOLLAND (Malaysia) SDN BHD
  - 100 % SAF-HOLLAND Verkehrstechnik GmbH
  - 100 % SAF-HOLLAND International de Mexico 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.
  - 51 % PressureGuard LLC

[1] Since February 21, 2020 SAF-HOLLAND SE
[2] SAF-HOLLAND GmbH acquired the remaining 30% stake in V.ORLANDI S.p.A. in January 2020.

SAF-HOLLAND SE (previously 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 and majority shareholdings.

In addition, 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 moulding for various industrial applications. This joint venture supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market.

CHANGES TO THE PORTFOLIO

Effective January 9, 2019, SAF-HOLLAND acquired 51 per cent of the shares in PressureGuard, a producer of tire pressure management systems. A purchase option for the remaining outstanding shares in the company was agreed with the previous owner, Servitech Industries, Inc. This option can be exercised at a later date.

Effective February 1, 2019, SAF-HOLLAND acquired all of the shares in the Stara Group, based in Finland. In this context, SAF-HOLLAND acquired the business operations of the two former entities, B Stara Parts Oy, Finland, and Trailax Aktiebolag, Sweden, from the previous family owners.

Further information on these transactions can be found in the section on “Significant events” on page 56 and in the comments in the notes to the consolidated financial statements commencing on page 103.

BUSINESS MODEL

Our core competence lies in engineering chassis-related assemblies and components for the truck and trailer industry. Our focus is on the issues of importance to our customers: safety, efficiency, weight-reduction and environmental impact. Our lightweight solutions enable us to offer significant weight-savings and therefore make a noticeable contribution to lower the CO_2 emissions of the truck and trailer combination.

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.

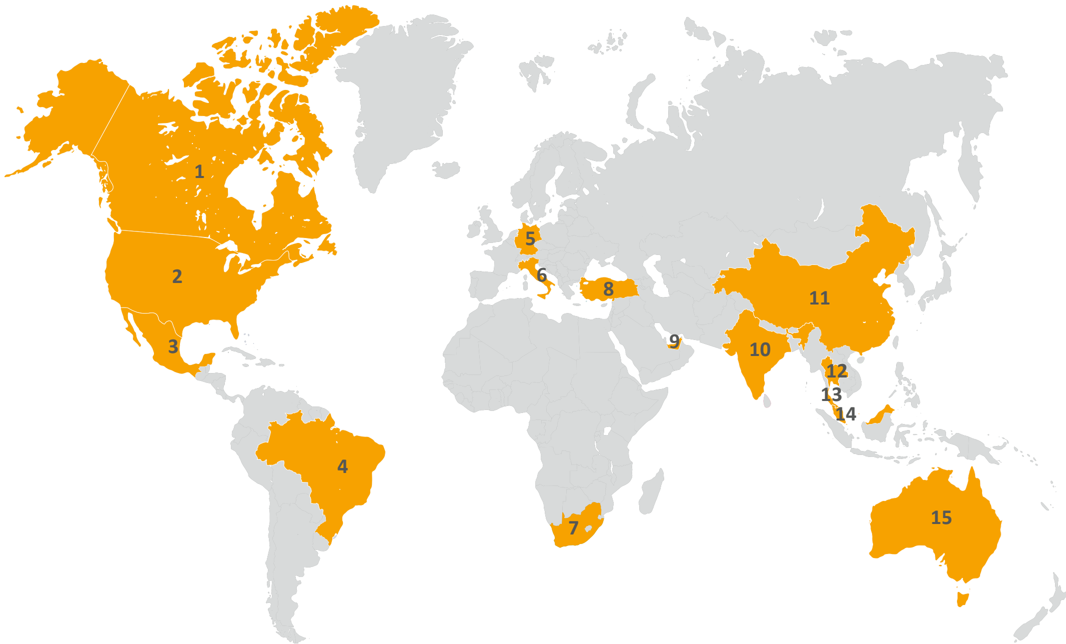
SAF-HOLLAND generates slightly more than 60 per cent of Group sales with OEM customers in the trailer industry. Although orders are placed by the trailer manufacturers, the fleet operators play an important role before orders are placed. In most cases, they determine the trailer specifications and thus decide on the supplier. By fostering constant exchange with fleet operators, SAF-HOLLAND ensures 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 just over 14 per cent of Group sales.

Apart from the original equipment business, another key component of the company's business model is the aftermarket business, which represents almost 25 per cent 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 the Indian trailer axle manufacturer, 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 entry barrier to 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. This contributes to the resilience of SAF-HOLLAND's business model.

LOCATIONS AND DIVISION OF LABOUR WITHIN THE GROUP

SAF-HOLLAND maintains a presence on all of the major truck and trailer markets worldwide. The company has 24 manufacturing facilities on 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, Turkey, South Africa, India, Australia and Singapore. The major development activities take place at two locations: Bessenbach (Germany) and Muskegon (USA).

SAF-HOLLAND`s Production Sites



1 | Canada
Woodstock

2 | USA
Cincinnati
Dumas North
Dumas South
Nashville
Warrenton North
Warrenton South
Wylie

3 | Mexico
Queretaro City

4 | Brasil
Alvorado

5 | Germany
Bessenbach-Frauengrund
Bessenbach-Keilberg
Singen

6 | Italy
Flero
Nave

7 | South Africa
Johannesburg

8 | Turkey
Düzce

9 | United Arab Emirates
Dubai

10 | India
Pune

11 | China
Yangzhou

12 | Thailand
Bangkok

13 | Malaysia
Kuala Lumpur

14 | Singapore
Singapore

15 | Australia
Melton

SALES MARKETS AND MARKET SHARE

The business development of the SAF-HOLLAND Group is significantly influenced by the production of trailers and heavy-duty trucks in Europe, North and South America, China and India. More information can be found in the business report under the section on the industry-specific environment.

SAF-HOLLAND's core markets – Europe and North America – are largely dominated by oligopolistic competitive structures. In nearly all product segments the three largest suppliers together account for roughly 80-90 per cent of the market volume. In these markets, SAF-HOLLAND is one of the three leading suppliers in two of the relevant product segments, trailer axles and fifth wheels. In Europe, SAF-HOLLAND is the market leader in axles and suspension systems for trailers. In North America SAF-HOLLAND occupies a leading position in fifth wheels, landing gear and kingpins.

ECONOMIC AND REGULATORY FACTORS

One of the key factors influencing SAF-HOLLAND's business is the development of global transportation volumes. Globally, the volume of freight transport is rising constantly. This is driven by the global mega-trends: growth of the global population, advancing urbanization and globalization of the economy. Thus the expansion of road networks in emerging markets enables exceptionally strong growth in the transportation of goods. The demographic and economic developments like a growing middle class in these countries is leading to higher transport volumes and therefore higher demand for tractors, trailers and buses, from which SAF-HOLLAND benefits.

Regulatory requirements can also play a key role. These are aimed at reducing the fuel consumption and emissions of commercial vehicles as well as the loads on the roads, fueling demand for weight-reduced components – a development that benefits SAF-HOLLAND who today, with a high share of lightweight components, sells some of the lightest components on the market. In addition, new legal requirements can lead to more stringent safety requirements. For example, the maximum load of a semi-trailer is being limited in an increasing number of countries. In these cases, lightweight components from the product portfolio of SAF-HOLLAND allow manufacturers to meet the new weight restrictions. More stringent legal requirements can also boost demand for disc brake technology. In addition to greater economy, disc brakes offer technical advantages in comparison to customary drum brakes. For example, disc brakes reduce the braking distance compared to drum brakes. For SAF-HOLLAND, the world's largest manufacturer of disc-braked trailer axles this opens up promising opportunities, as the products can contribute to meeting more stringent safety standards.

ALTERNATIVE PERFORMANCE MEASURES AND MANAGEMENT INDICATORS

ALTERNATIVE PERFORMANCE MEASURES

In addition to the key figures defined or specified in the 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. These financial ratios should therefore be seen in addition to rather than as a substitute 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/en/investor-relations/alternative-performance-measures.

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 margin (ratio of earnings before interest and taxes, adjusted for depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocations as well as restructuring and transaction costs to sales)
- Net working capital ratio (ratio of current assets less cash and cash equivalents, current non-interest-bearing liabilities and other current and non-current provisions to the fourth quarter's sales extrapolated for the full year)

SAF-HOLLAND budgets, calculates and monitors sales, adjusted EBIT margin and net working capital ratio at both the Group and segment levels.

Other important financial performance indicators taken into account in corporate management include

- Adjusted gross margin (ratio of adjusted gross profit to sales)
- Diluted earnings per share
- Investment ratio (ratio of investments in property, plant and equipment and intangible assets to sales)
- Leverage ratio (ratio of net debt to EBITDA)
- Equity ratio (ratio of equity to total assets)
- Liquidity (the sum of cash and cash equivalents, other short-term investments and available lines of credit)
- 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 Outstanding (DIO)

NON-FINANCIAL PERFORMANCE INDICATORS

SAF-HOLLAND also makes use of non-financial performance indicators in its decision-making. These indicators include, above all, data on its reliability at meeting customer orders, quality, unit sales volume, customer structure and satisfaction and market share development. The measured indicators are recorded separately for each region and product group. This not only allows developments to be identified at an early stage but also to be addressed with targeted countermeasures.

SAF-HOLLAND also considers sustainability indicators 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" beginning on page 84 and in the 2019 Sustainability Report, which will be published on April 16, 2020.

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 by analyzing budget deviations and making 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 by the respective Group companies on a daily basis and serve as an indicator of the utilization of capacity to be expected and the likely development of sales and earnings.

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

STRATEGY

GROWTH STRATEGY 2020: TRANSFORMATION TO A GLOBAL PLAYER

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 heavy-duty 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 has transitioned 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.

Another strategic objective is to expand the aftermarket business across all regions.

RESEARCH & DEVELOPMENT

INNOVATIVE SOLUTIONS SECURE TECHNOLOGICAL LEADERSHIP

SAF-HOLLAND is one of the technological leaders on the commercial vehicles market. Its research and development activities are of great strategic significance for the Group and make a decisive contribution towards securing its competitive position for the long-term.

Research and development costs in the 2019 financial year amounted to EUR 20.8 million and were virtually unchanged year-on-year (previous year: EUR 19.6 million). In addition, capitalized development costs amounted to EUR 4.9 million (previous year: EUR 4.3 million). Relative to Group sales, the R&D ratio comes to 2.0 per cent (previous year: 1.8 per cent). As of December 31, 2019, the Group employed 177 people (previous year: 199) worldwide in the areas of development, design and testing.

The requirements of the commercial vehicles markets and customer needs differ widely between the various regions. In addition to developing new products, another key focus of development activity lies on adapting existing solutions to meet regional requirements. The developers and engineers of SAF-HOLLAND are located in all of the relevant regions around the globe. Close proximity to our customers ensures that the specific market expertise obtained by the local entities flows directly into the development of our products.

Multi-year overview of research and development

	2019	2018	2017	2016	2015
R&D expenses including capitalized development costs (in EUR millions)	25.7	23.9	24.6	23.4	24.6
R&D ratio (expenses as a percentage of sales)	2.0	1.8	2.2	2.2	2.3
Number of employees in the areas of development, design and testing	177	199	175	192	191

OPTIMIZING THE CUSTOMERS' TOTAL COST OF OWNERSHIP

The objective of SAF-HOLLAND's 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. Key areas of focus for the development activities are safety, longevity, lightweight construction and digitization. The safety and quality of SAF-HOLLAND products has the utmost priority for SAF-HOLLAND. Day-to-day quality inspections commencing in the development phase already are of fundamental importance. The zero-defect strategy at SAF-HOLLAND is a key factor in the development of long-lived products, with measures being implemented in the product development phase to minimize product defects. To reduce weight, SAF-HOLLAND develops lightweight components. Consistent use of lightweight construction leads to lower fuel consumption and lower CO_2 emissions during the operating phase of the product life cycle. SAF-HOLLAND thereby empowers its customers to reach their own sustainability goals. At the same time, lightweight components contribute towards vehicles fulfilling the regulatory stipulations concerning the total weight of vehicles.

The integration of sensors and electronics in mechanical products such as axles, suspension systems and fifth wheels is just one of the avenues pursued by the SAF-HOLLAND digitization strategy SMART STEEL – ENGINEER. BUILD. CONNECT. In addition, networking intelligent systems and analyzing the data collected by them is another key focus of our development activities. The aim is, for example, to monitor the wear and tear of components such as brake pads and brake discs and avoid damage to the trailer. Maintenance intervals can be optimized and idle time minimized. Fleet operators can also access accurate, real-time information about the position of the trailer, its loading and condition of the load allowing them to further optimize their route and service scheduling.

SAF TIRE PILOT PLUS™ AND SMAR-te TIRE PILOT™ – INTELLIGENT TIRE PRESSURE SENSORS REFINED

SAF Tire Pilot Plus™ is an innovative product that manages tire pressure, which is a critical factor in both fuel consumption and tire abrasion. Over time, air will always leak through the tire carcass. For this reason, the tire pressure needs to be regularly checked. Tire pressure that is too low results in higher fuel consumption and can lead to damage to the tire. SAF Tire Pilot Plus™ permanently monitors the tire pressure and, if pressure falls, independently inflates the tire during the trip. The SAF Tire Pilot Plus™ prolongs the running life of the tire and avoids downtime from tire damage. In addition, it reduces fuel consumption. This offers fleet operators economic benefits, greater safety and environmental protection as CO_2 emissions are reduced.

The latest development of SAF Tire Pilot Plus™ for the American market is SMAR-te Tire Pilot™. This system, which was launched on the market in October 2019 contains an electro-pneumatic control module with intelligent air pressure sensors. The system automatically adjusts the tire pressure for the respective axle load and can even recognize the maximum permitted load and warn of overloading. The driver always keeps an eye on the tire pressure and can stop for repairs and maintenance if pressure falls.

SAF TRAKr AND SAF TRAKe – LOW NOISE AND EMISSION-FREE TRAILER OPERATION

The electrification of drivetrains not only holds great potential for passenger cars and commercial vehicles but also for trailers. SAF-HOLLAND has developed two electric trailer axles for this purpose: SAF TRAKr and SAF TRAKe. SAF TRAKr functions as a generator during vehicle braking to recuperate the braking energy. The power generated can be used to charge batteries and run peripheral devices. One such application is trailers with cooling units. SAF TRAKr offers the advantage of being able to cool the trailer at all times, independently of the diesel generator on the tractor unit. No exhaust is created and noise emissions are significantly lower. The power afforded by the system ranges between 30 and 50 kilowatts. The SAF TRAKe has a maximum power output of 120 kW and can temporarily assist the main drivetrain of the tractor. SAF TRAKe can be used whenever greater traction is required, such as on hill climbs or during acceleration. This traction assistance from electric axles allows the semitrailer to also operate solely on electric power for short periods. This is an advantage in inner cities where residents should be protected from noise and CO_2 emissions.

Car transport trailers equipped with electric axles can benefit particularly from the electric drive. They provide traction assistance for heavy transporters and allow low-noise, low-emission loading and unloading of the trailers. In May 2019 SAF-HOLLAND signed a strategic partnership with LOHR Industrie S.A., the global leader in the car-transporter market, for electrical trailer axles. The jointly developed electric trailer axle AXEAL (AXle Electric Assist Lohr) works completely independently of the tractor's main drivetrain and supports it during acceleration and braking with energy recuperation. By providing traction assistance, the tractor operates at a more optimal duty point thereby consuming up to 15 per cent less fuel while improving ride comfort. The central mechanical system includes a differential, a reduction gear and a power take-off that can be used at rest to drive a peripheral system, such as a hydraulic pump.

LARGE NUMBER OF PATENTS PENDING INDICATES INNOVATIVE STRENGTHS

The innovative strengths of SAF-HOLLAND are also evident in the large number of priority applications in the year 2019. A priority application is the term describing the initial filing of a patent or patent family at a patent office. A number of partial or supplemental applications usually accompanies these. In the 2019 financial year, 24 priority applications were submitted (previous year: 38). Of this total, SAF-HOLLAND GmbH submitted 16 and SAF-HOLLAND Inc. eight.

Number of priority applications

	2019	2018	2017	2016	2015
Number of priority applications	24	38	50	36	30

ECONOMIC BACKGROUND AND BUSINESS DEVELOPMENT

ECONOMY AND INDUSTRY ENVIRONMENT

MACROECONOMIC ENVIRONMENT: A RISE IN RISKS SLOWS DOWN GLOBAL ECONOMIC GROWTH

As a result of a deterioration in the relationship between the United States and its trading partners (China in particular), a rise in political tensions and the uncertainty of a possible no-deal Brexit, the global economy grew by only 2.9 per cent (previous year 3.7 per cent). In the USA, gross domestic product (GDP) rose by 2.3 per cent (previous year: 2.9 per cent). With an increase in GDP of 1.2 per cent (previous year: 1.9 per cent), the eurozone economy grew solidly in 2019. Economic development in the emerging markets was mixed. While China, an important emerging market for SAF-HOLLAND, continued its economic boom with growth of 6.2 per cent, economic growth in India, came to a halt with growth of 5.2 per cent compared to previous year (7.3 per cent.), due to a slowdown in domestic demand and a decline in credit growth.

Economic development in key markets

in %

	2018	2019
Euro zone	1.9	1.2
Germany	1.5	0.6
United States	2.9	2.3
Brazil	1.1	1.1
Russia	1.6	1.3
China	6.6	6.2
India	7.3	5.3
World	3.7	2.9

Source: Commerzbank, Economic Briefing, March 2020

SECTOR DEVELOPMENT: DISPARATE DEVELOPMENTS BETWEEN THE TRUCK AND TRAILER MARKETS

Developments of the global commercial vehicle markets varied widely in 2019, also due to the uncertainties about the future global economy. While trailer production in North America managed to grow, significantly fewer units were manufactured in Europe, China and India. At the same time, the order intake for trucks and trailers in North America fell in comparison to the very strong intake recorded in the previous year. In the meantime, the order backlog lies substantially below the record levels set at the end of 2018.

TRUCK REGISTRATIONS IN EUROPE MATCH THE LEVEL OF THE PREVIOUS YEAR

According to the European Automobile Manufacturers Association, ACEA, the number of new registrations for heavy-duty trucks (over 16 tons) in the European Union in 2019 matched the level of the previous year (+0.1 per cent).

The high volume markets of Germany (up 1.9 per cent) and France (up 2.1 per cent) developed positively.

In Russia, new registrations of heavy and medium trucks increased by almost 5 per cent.

PRODUCTION ON THE NORTH AMERICAN TRUCK MARKET AT HIGH LEVELS

After a very strong year in 2018, the production of Class-8 trucks continued to rise in 2019. A key driver of the rise in production was the high order backlog at the end of the year 2018.According to ACT, production grew by approximately 6 per cent in 2019 to roughly 343,000 units. However, it should be considered that production declined in the fourth quarter significantly (-20 per cent) after rising strongly by roughly 15 per cent in the first nine months. By the end of 2019, the order backlog had decreased to 124,000 trucks (end of 2018: 297,000 trucks).

SOUTH AMERICAN TRUCK AND TRAILER MARKET CONTINUES ON THE ROAD TO RECOVERY

The South American market for trailers and heavy-duty trucks continued in 2019 on the course of recovery that started in 2017. Driven by an improvement in the Brazilian economy (GDP +1.1 per cent), heavy-duty truck production jumped by almost 13 per cent, according to LMC, and trailers by roughly 23 per cent.. 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.

TRAILER PRODUCTION IN EUROPE BELOW THE LEVEL OF THE PREVIOUS YEAR

After the historic peak in 2018, slightly weaker economic growth and sustained uncertainty about a possible no-deal Brexit, production of trailers fell by roughly 7 per cent compared to 2018. Overall, the European trailer market developed better than originally expected. This compares with the forecast from the market research institute CLEAR International Consulting (CLEAR), which, at the beginning of the year, had still projected a production decline of approximately 10 per cent.

TRAILER MARKET IN NORTH AMERICA CONTINUES ON AN UPWARDS TREND

Due to the solid economy, the reduction in the high order backlog and, in particular, the continuing trend towards disc brakes, the production of trailers continued to increase in 2019. According to ACT, slightly more than 365,000 trailers were manufactured in 2019, which corresponds to growth of approximately 3 per cent.

DECLINING DEMAND FOR TRAILERS IN CHINA

In light of the deteriorating trade conflict between China and the USA and the resulting uncertainty about the future economic development of China, production of trailers dropped by roughly 20 per cent in 2019. The premium segment, which is most relevant for the business development of SAF-HOLLAND (consisting of disc brake technology and air suspension systems in response to more stringent legal requirements), was unable to shield itself from the negative market trend and also recorded a significant drop in demand.

LOWER ECONOMIC GROWTH AND LEGISLATION AFFECT THE INDIAN MARKET

The Indian market has gained greater importance for SAF-HOLLAND since the acquisition of the Indian market leader in trailer axles, York Transport Equipment (Asia) Pte. Ltd. The easing of economic growth, the later introduction of the AIS113 standard (including stricter regulations on the use of components in commercial vehicles) and introduction of a uniform national tax for goods transport led in 2019 to a reduction in the production of trailers of roughly 65 per cent.

TARGETS VS. PERFORMANCE

REVISED TARGETS REACHED

The Group sales of SAF-HOLLAND come to EUR 1,284 million – a decline in sales of 1.3 per cent – and was thus within the target corridor announced in the ad hoc announcement of September 23, 2019 and the nine-month report for the 2019 financial year, which forecast Group sales in a range between EUR 1,260 million and EUR 1,300 million – a decline of 0 per cent to 3 per cent. The original forecast from February 2019 was based on the assumption of sales growth of 4 to 5 per cent. However, this had to be adjusted downwards to reflect the dimming prospects for the macro-economy, particularly in Europe, China and India, and the global trade disputes which had an impact on the development of the truck and trailer market.

The adjusted EBIT margin of SAF-HOLLAND of 6.2 per cent lies within the revised range of between 6.0 per cent and 6.5 per cent forecast in the ad hoc announcement of September 23, 2019 and in the nine-month report for the 2019 financial year. In the original forecast from February 2019, the Group Management Board anticipated an adjusted EBIT margin in the middle of the range between 7 and 8 per cent.

The investment volume of EUR 53.0 million did not meet the adjusted volume of between EUR 58 million and EUR 63 million announced in September 2019. This was due to very strict investment monitoring by the Group Management Board and use of existing internal resources. Originally, SAF-HOLLAND had projected an investment volume of between EUR 68 million and EUR 70 million. The capex volume translates into a ratio of 4.1 per cent.

SIGNIFICANT EVENTS IN THE 2019 FINANCIAL YEAR

NEW SEGMENTATION IN CORPORATE MANAGEMENT

Commencing January 1, 2019 a new segmentation was introduced for management and reporting purposes, to reflect the growing significance of the individual regions and the management approach. The APAC / China region was 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.

ACQUISITION OF A MAJORITY STAKE IN THE TRAILER TIRE PRESSURE MANAGEMENT SPECIALIST PRESSUREGUARD

Effective January 9, 2019, SAF-HOLLAND acquired 51 per cent of the shares in PressureGuard, a producer of tire pressure management systems. A purchase option for the remaining outstanding shares in the company was agreed with the previous owner, Servitech Industries, Inc. This option may be exercised at a later date. The purchase price for the acquired stake was in the low single-digit million euro range.

SAF-HOLLAND sees great potential in PressureGuard's proven tire pressure management technology with which it can offer its fleet operator customers in North America an even more extensive suite of axle and suspension solutions. By employing this solution, SAF-HOLLAND not only expands its system competence, but also extends its value-added. This one-source strategy offers fleet operators a central point of contact and ensures a fully engineered system design that addresses any compatibility issues up front. Furthermore, this approach simplifies the warranties and after-sale support needed by today's fleet operators.

ACQUISITION OF THE STARA GROUP

Effective February 1, 2019, SAF-HOLLAND acquired all of the shares in the Stara Group, based in Finland. In this context, SAF-HOLLAND acquired the operations of the two former entities, B Stara Parts Oy, Finland, and Trailax Aktiebolag, Sweden, from the previous family owners. The purchase price lay in the low double-digit million euros.

The Stara Group had already functioned as the distribution partner of SAF-HOLLAND in Finland and Sweden beforehand and focused primarily on axles and suspension systems for trailers. In addition, from its three locations the Group possesses a competitive aftermarket network in the region.

With this acquisition, SAF-HOLLAND will reinforce the presence of its brand in Northern Europe. With the wider and more intensive coverage of the Finnish and Swedish markets with its distribution and service companies, the Group is also striving to improve its market position and expand the cross-selling activities of its brands.

CHANGE IN THE COMPANY'S TOP MANAGEMENT SAF-HOLLAND APPOINTS ALEXANDER GEIS AS THE NEW CEO

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) came to a mutual agreement with Detlef Borghardt on February 25, 2019 by which he stepped down from his position at SAF-HOLLAND effective February 26, 2019.

Alexander Geis, who was already responsible for the EMEA region and global sourcing on the Group Management Board, was appointed the new CEO on February 26, 2019.

SAF-HOLLAND AND THE SCHWARZMÜLLER GROUP SIGN A FIVE-YEAR CONTRACT FOR TRAILER AXLES

In mid-April 2019 SAF-HOLLAND announced that it had concluded a contract with the Austrian trailer specialist, Wilhelm Schwarzmüller GmbH, for the supply of trailer axles with the contract volume reaching into the lower three-digit million euros. The contract has an unusually long term of five years. SAF-HOLLAND will supply over 75 per cent of total volume put to tender by the Schwarzmüller Group.

SAF-HOLLAND RECEIVES THE LARGEST SINGLE ORDER IN ITS HISTORY FROM KÖGEL TRAILER GMBH

At the end of April 2019, SAF-HOLLAND received another major order for trailer axles and landing gear. SAF-HOLLAND and the Humbaur Group's Kögel Trailer GmbH, one of the leading trailer manufacturers in Europe, concluded a multi-year contract for the delivery of trailer axles and landing gear with an envisaged contract volume in the low three-digit million range.

ANNUAL GENERAL MEETING APPROVES DIVIDEND PAYMENT OF EUR 0.45 PER SHARE AND EXTRAORDINARY GENERAL MEETING APPROVES THE INTRODUCTION OF AN ADDITIONAL THRESHOLD FOR VOTING RIGHTS NOTIFICATIONS (3 PER CENT)

The 13th Annual General Meeting of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) on April 25, 2019 in Luxembourg was met by strong interest from SAF-HOLLAND's shareholders, with an attendance rate of more than 67 per cent. All of the proposed resolutions of the management were approved by a large majority. This included the presentation of the annual financial statements and the consolidated financial statements for the 2018 financial year, including the management report and Group management report, and the discharge of the members of the Board of Directors. The Annual General Meeting also discharged the auditor, PricewaterhouseCoopers Société coopérative, for the 2018 financial year, who was then reappointed as the auditor for the 2019 financial year. The Annual General Meeting also resolved a dividend of EUR 0.45 (previous year: EUR 0.45) per share for the 2018 financial year.

The Extraordinary General Meeting, which took place immediately after the Annual General Meeting, also approved all of the resolutions proposed by management by a large majority with one exception – the increase in Authorized Capital. One of the most important items was the increase in Authorized Capital I from EUR 164.9 million to EUR 227.0 million.

In an effort to harmonize with the provisions of the German Securities Trading Act (Section 33 (1) WpHG), the Extraordinary General Meeting of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) decided on April 25, 2019, by way of an amendment to Article 18 (1) sentence 1 of the company's Articles of Association, that company shareholders who reach, exceed or fall below the voting rights' threshold of 3 per cent are required to promptly file a voting rights notification with the company. The statutory reporting obligations pursuant to Article 8 et seq. of the Transparency Act of the Grand Duchy of Luxembourg (Law of 11 January 2008 on transparency requirements for issuers), as amended, continue to apply.

SAF-HOLLAND AND LOHR INDUSTRIE SEAL STRATEGIC PARTNERSHIP FOR E-AXLES

In May 2019 SAF-HOLLAND signed a contract for a strategic partnership for electric trailer axles with the French company LOHR Industrie S.A.), the world leader in vehicle transporters.

The cooperation is initially set up for ten years and includes an extension clause. The worldwide distribution rights of the jointly developed AXEAL system are held by SAF-HOLLAND. The first semi-trailers for the transport of passenger cars were equipped with this new application in the first quarter of 2019 for test purposes.

CHANGES IN THE COMPOSITION OF THE GROUP MANAGEMENT BOARD

On May 31, 2019 SAF-HOLLAND GmbH reached a mutual agreement with Mr. Guoxin Mao, President China and member of the Group Management Board on the termination of his service.

Steffen Schewerda, President Americas, resigned from his position effective September 6, 2019, after reaching an amicable agreement with SAF-HOLLAND GmbH to terminate his office. Kent Jones was appointed President Americas and member of the extended management team effective September 9, 2019.

CHANGE IN THE CHAIR OF THE BOARD OF DIRECTORS

Dr. Martin Kleinschmitt, member of the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) since March 2013 and the Vice Chair of the Board since April 2017, assumed in his capacity as Vice Chair of the Board of Directors the tasks of Martina Merz who resigned from her position as Chair for personal reasons. Martina Merz will remain a member of the company's Board of Directors. At the meeting on November 5, 2019, the Board of Directors elected Dr. Martin Kleinschmitt as Chair of the Board of Directors and Martina Merz as the Deputy Chair.

ADJUSTED OUTLOOK FOR THE 2019 FINANCIAL YEAR

On September 23, 2019 the Group Management Board adjusted its outlook for the full year 2019.

As of that date SAF-HOLLAND anticipated Group sales for the 2019 financial year to range between EUR 1,260 million and EUR 1,300 million (previous year: EUR 1,301 million), corresponding to a decline of 0 per cent to 3 per cent (previous forecast: sales growth of 4 to 5 per cent). According to the Group Management Board, the adjusted EBIT margin was expected to range between 6.0 per cent and 6.5 per cent for the full year (previous expectation: midway between 7 per cent and 8 per cent).

The investment volume was also anticipated to be lower, amounting to between EUR 58 million and EUR 63 million (previous expectation: EUR 68 million to EUR 70 million). SAF-HOLLAND expected the fourth key indicator, net working capital in relation to Group sales, to lie in a range between 13 per cent and 14 per cent (previous expectation: 13 per cent).

CHRISTOPH GÜNTER APPOINTED AS PRESIDENT EMEA

SAF-HOLLAND GmbH appointed Mr. Christoph Günter as President EMEA, effective October 1, 2019 and also as a member of the extended management team. In this function, Mr. Günter reports directly to Alexander Geis, CEO of SAF-HOLLAND.

INGRID JÄGERING APPOINTED AS A MEMBER OF THE BOARD OF DIRECTORS

At its meeting on November 5, 2019, the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), appointed Ingrid Jägering as a member of the Board of Directors and Chair of the Audit Committee with immediate effect.

CHANGE OF LEGAL FORM INTO A EUROPEAN COMPANY (SE) AND SUBSEQUENT TRANSFER OF THE REGISTERED OFFICE TO GERMANY

On December 6, 2019 the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) decided to prepare the change of the legal form of the company into a European Company (Societas Europaea, SE) and the subsequent transfer of the registered office of the company to Germany.

The company views the form of an SE as being particularly suitable to underscore its international orientation. By relocating the headquarters to Germany, it is intended to combine corporate management with the operative functions of the SAF-HOLLAND Group. The relocation should reduce the complexity of the organizational structure of the Group and the associated costs. In addition, the system of corporate governance should be changed from a single-tier to a dualistic or two-tier system, consisting of the management board, which acts as the executive, and the supervisory board, which is charged with oversight. In the process, the governance structure will be adjusted to match the actual organizational structure of the SAF-HOLLAND Group.

SALES AND EARNINGS PERFORMANCE

kEUR	Q1-Q4/2019	Total Adjustments	Q1-Q4/2019 adjusted	in % of sales	Q1-Q4/2018	Total Adjustments	Q1-Q4/2018 adjusted	in % of sales
Sales	1,284,155	–	1,284,155	100.0%	1,300,555	71	1,300,626	100.0%
Cost of sales	–1,082,414	15,857	–1,066,557	–83.1%	–1,101,292	7,815	–1,093,477	–84.1%
Gross profit	**201,741**	**15,857**	**217,598**	**16.9%**	**199,263**	**7,886**	**207,149**	**15.9%**
Other income	4,010	–2,167	1,843	0.1%	10,491	–8,090	2,401	0.2%
Other expenses	–2,971	2,971	–	0.0%	–834	833	–1	0.0%
Impairment of goodwill	–6,692	6,692	–	0.0%	–	–	–	0.0%
Selling expenses	–70,754	7,688	–63,066	–4.9%	–61,286	6,264	–55,022	–4.2%
Administrative expenses	–71,289	13,086	–58,203	–4.5%	–51,821	4,065	–47,756	–3.7%
Research and development costs	–20,794	490	–20,304	–1.6%	–19,572	650	–18,922	–1.5%
Operating profit	**33,251**	**44,617**	**77,868**	**6.1%**	**76,241**	**11,608**	**87,849**	**6.8%**
Share of net profit of investments accounted for using the equity method	1,948	–	1,948	0.2%	1,729	–	1,729	0.1%
EBIT	**35,199**	**44,617**	**79,816**	**6.2%**	**77,970**	**11,608**	**89,578**	**6.9%**
Finance income	2,099	–	2,099	0.2%	1,266	–	1,266	0.1%
Finance expenses	–13,087	–	–13,087	–1.0%	–15,015	–	–15,015	–1.2%
Finance result	**–10,988**	**–**	**–10,988**	**–0.9%**	**–13,749**	**–**	**–13,749**	**–1.1%**
Result before taxes	**24,211**	**44,617**	**68,828**	**5.4%**	**64,221**	**11,608**	**75,829**	**5.8%**
Income taxes	–13,914	–5,158	–19,072	–1.5%	–16,106	–4,216	–20,322	–1.6%
Group tax rate	57.5%		27.7%		25.1%		26.8%	
Result for the period	**10,297**	**39,459**	**49,756**	**3.9%**	**48,115**	**7,392**	**55,507**	**4.3%**

EXTRAORDINARY ITEMS

SAF-HOLLAND eliminates certain income and expense items to facilitate its operational management (see the notes on financial indicators and alternative performance measures on page 49 et seq.). The adjusted earnings presented below correspond to the management perspective.

In the 2019 financial year net expenses totalling EUR 44.6 million (previous year: EUR 11.6 million) were eliminated from earnings before interest and taxes (EBIT). These items consist of restructuring expenses of EUR 25.3 million (previous year: EUR 9.0 million), the goodwill impairment of the China region of EUR 6.7 million (previous year: EUR 0 million), depreciation and amortization of EUR 9.7 million (previous year: EUR 8.8 million) arising from purchase price allocations, expenses of EUR 0 (previous year: EUR 1.1 million) arising from the step-up of inventories arising from purchase price allocations and EUR 3.0 million (previous year: EUR -7.3 million) from remeasurement effects related to call and put options. The significant increase in restructuring expenses is mainly due to the plant consolidation in the China region (see segment reporting on page 64) and the program FORWARD in the Americas region (see segment reporting on page 62).

Net expenses totalling EUR 15.9 million were eliminated from the cost of sales in 2019 (previous year: EUR 7.8 million). These consist of restructuring expenses of EUR 13.6 million (previous year: EUR 4.1 million), depreciation and amortization of EUR 2.2 million (previous year: EUR 2.7 million) arising from purchase price allocations and expenses from the step-up of inventories arising from purchase price allocations of EUR 0 (previous year: EUR 1.1 million).

Net income totalling EUR 2.2 million (previous year: EUR 8.1 million) was eliminated from other income in 2019. These relate to restructuring income of EUR 2.2 million (previous year: EUR 0) from the sale of a building upon merging SAF-HOLLAND Australia with York Transport Equipment Pty. Ltd. (Australia), and remeasurement effects from call and put options of EUR 0.0 million (previous year: EUR 8.1 million).

The measurement effects from call and put options of EUR 3.0 million (previous year: EUR 0.8 million) were eliminated from other expenses. Net expenses totalling EUR 7.7 million were eliminated from selling expenses in 2019 (previous year: EUR 6.3 million). These consist of restructuring expenses of EUR 0.7 million (previous year: EUR 0.7 million) and depreciation and amortization of EUR 7.0 million (previous year: EUR 5.6 million) arising from purchase price allocations.

Moreover, eliminations from general administrative expenses came to EUR 13.1 million (previous year: EUR 4.1 million). These consist of restructuring expenses of EUR 13.0 million (previous year: EUR 4.0 million) and depreciation and amortization of EUR 0.1 million (previous year: EUR 0.1 million) arising from purchase price allocations.

With regard to research and development costs, restructuring expenses of EUR 0.1 million (previous year: EUR 0.2 million) and depreciation and amortization of EUR 0.3 million (previous year: EUR 0.5 million) arising from purchase price allocations were eliminated.

The uniform Group tax rate used to calculate the net result for the period increased slightly to 27.7 per cent (previous year: 26.8 per cent).

FINANCIAL PERFORMANCE

The development described below describes the changes in the most significant line items of the income statement in the reporting year after eliminating the extraordinary items discussed above.

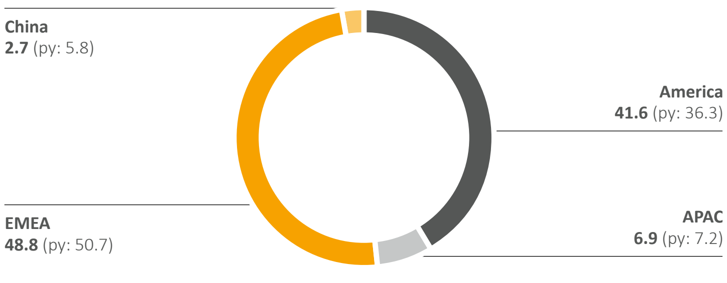
Group sales slightly down on the previous year

Group sales in the 2019 financial year came to EUR 1,284.2 million, roughly 1.3 per cent down on the figure for the previous year of EUR 1,300.6 million. The additional sales contributed by the entities acquired since January 2018 amounted to EUR 41.4 million.

The exchange rate gains, most of which originate from the appreciation of the USD against the EUR, amounted to EUR 25.8 million. Consequently, after eliminating the effects of exchange rates and acquisitions, sales decreased by 6.4 per cent to EUR 1,216.9 million.

Group sales by segment 2019

in %



Share of spare parts business in total sales increases

Sales in the OE business decreased by 3.0 per cent or EUR 29.6 million to EUR 959.1 million in the reporting period from January to December 2019. While the OE business suffered disproportionately in the regions of China, EMEA and APAC due to the economic downturn, sales in the Americas region rose sharply. The share of total sales accounted for by the OE business decreased from 76.0 per cent to 74.7 per cent.

in EUR thousands	Q1-Q4/2019	Q1-Q4/2018	Change absolute	Change in %
Original equipment business	959,090	988,726	–29,636	–3.0%
Spare parts business	325,065	311,829	13,236	4.2%
Group sales	**1,284,155**	**1,300,555**	**–16,400**	**–1.3%**
Original equipment business in % of Group sales	74.7%	76.0%		
Spare parts business in % of Group sales	25.3%	24.0%		

By contrast, sales in the spare parts business increased by EUR 13.2 million or 4.2 per cent to EUR 325.1 million. The Americas region made a decisive contribution to this trend. The share of total sales accounted for by the spare parts business increased from 24.0 per cent to 25.3 per cent.

Adjusted gross profit margin improves to 16.9 per cent despite the burdens in China

The adjusted gross profit improved to EUR 217.6 million (previous year: EUR 207.1 million) in the 2019 financial year in spite of the burdens on earnings by the China region. This result was positively impacted by the contractual passing on of last year's steel price increases, sustained price increases in the North American aftermarket business, the earnings generated by the entities acquired since January 2018, improved procedures and processes at our plants and savings in global sourcing. Product mix effects and impairments recorded on inventories burdened the result. The adjusted gross profit margin of 16.9 per cent is 100 basis points above the level of the previous year of 15.9 per cent.

Adjusted EBIT margin burdened by higher selling and administrative expenses

Adjusted EBIT amounted to EUR 79.8 million in the 2019 financial year (previous year: EUR 89.6 million). The increase of 18.0 per cent in adjusted selling and administrative expenses to EUR 121.3 million contributed particularly to this deterioration. Among other factors, this development was due to the expenses incurred by the entities acquired since January 2018 and the shortfall of a non-cash extraordinary income of EUR 4.7 million from the partial liquidation of the US pension plan. Correspondingly, the adjusted EBIT margin of 6.2 per cent fell short of the 6.9 per cent recorded in the previous year.

Headcount significantly reduced

As of December 31, 2019 SAF-HOLLAND employed 3,924 people worldwide (previous year: 4,470), including temporary workers. Compared to the previous year, the number of employees has decreased by 12.2 per cent. The reduction was primarily realized in the China region because of consolidating the two production locations in Qingdao and Xiamen as well as two warehouses and an office building in Beijing into the new plant in Yangzhou.

Number of employees by region

	12/31/2019	12/31/2018
EMEA	1,477	1,498
Americas	1,853	1,835
APAC	437	509
China	157	628
Total	3,924	4,470

Financial result improves

The financial result improved in the reporting period from January to December 2019 to a loss of EUR – 11.0 million (previous year: a loss of EUR – 13.7 million). The main factor in this regard was the previous-year repayment of a corporate bond of EUR 75.0 million in April 2018, which had an interest coupon of 7 per cent attached.

Adjusted net profit for the period down 10.4 per cent on the previous year

When calculating the adjusted net profit for the period, a uniform tax rate of 27.7 per cent (previous year: 26.8 per cent) was applied.

The adjusted net profit for the period decreased by 10.4 per cent to EUR 49.8 million in the 2019 financial year (previous year: EUR 55.5 million).

Based on unchanged approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the year as a whole amounted to EUR 1.10 (previous year: EUR 1.22) and adjusted diluted earnings per share amounted to EUR 0.95 (previous year: EUR 1.05).

SEGMENT REPORTING

EMEA

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018	Change absolute	Change in %
Sales	**626,236**	**658,924**	**–32,688**	**–5.0%**
EBIT	**50,486**	**62,964**	**–12,478**	**–19.8%**
EBIT margin in %	8.1%	9.6%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	4,611	3,851	760	19.7%
PPA step-up from inventory measuring of acquisition	–	311	–311	–
Valuation effects from call and put options	–	834	–834	–
Restructuring and transaction costs	5,043	3,458	1,585	45.8%
Adjusted EBIT	**60,140**	**71,418**	**–11,278**	**–15.8%**
Adjusted EBIT margin in %	9.6%	10.8%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	17,178	9,702	7,476	77.1%
in % of sales	2.7%	1.5%		
Adjusted EBITDA	**77,318**	**81,120**	**–3,802**	**–4.7%**
Adjusted EBITDA margin in %	12.3%	12.3%		

EMEA region: Sales down on the previous year

In the EMEA region, sales declined in the 2019 financial year by 5.0 per to EUR 626.2 million (previous year: EUR 658.9 million). The entities acquired since January 2018 contributed an additional EUR 20.5 million to sales. Organic sales fell by 8.0 per cent to EUR 606.0 million.

The EMEA region generated an adjusted EBIT of EUR 60.1 million in the reporting period from January to December 2019 (previous year: EUR 71.4 million) and an adjusted EBIT margin of 9.6 per cent (previous year: 10.8 per cent). The lower sales volume referred to above and also higher personnel expenses arising from the collective agreement for the metals industry in 2018 had a negative impact on the margin. On the other hand, margin was positively affected by the entities acquired since January 2018. The result for the 2018 financial year was furthermore favoured by exchange rate gains (TRY to EUR).

Americas region: Earnings stabilize

Americas

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018	Change absolute	Change in %
Sales	**534,455**	**471,551**	**62,904**	**13.3%**
EBIT	**15,714**	**10,790**	**4,924**	**45.6%**
EBIT margin in %	2.9%	2.3%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	2,484	3,346[1]	–862	–25.8%
PPA step-up from inventory measuring of acquisition	–	–	–	–
Valuation effects from call and put options	2,971	–8,090	11,061	–
Restructuring and transaction costs	8,031	2,432	5,599	230.2%
Adjusted EBIT	**29,200**	**8,478**	**20,722**	**244.4%**
Adjusted EBIT margin in %	5.5%	1.8%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	13,334	9,141	4,193	45.9%
in % of sales	2.5%	1.9%		
Adjusted EBITDA	**42,534**	**17,619**	**24,915**	**141.4%**
Adjusted EBITDA margin in %	8.0%	3.7%		

[1] Includes a loss from asset disposal of kEUR 847.

Sales in the Americas region grew by 13.3 per cent in the 2019 financial year to EUR 534.5 million (previous year: EUR 471.6 million). After eliminating the effects of exchange rates and acquisitions, sales improved by 8.0 per cent to EUR 509.4 million.

Business with axle systems with integrated disc brake technology developed very pleasingly. For example, in addition to the existing key customer, XTRA Lease, the Group won a second major fleet operator as a customer and thus increased its market share. In sum, 63.5 per cent more axle systems with disc brakes were shipped to customers in the reporting period from January to December 2019 compared to the previous year. Upon opening a distribution hub for the aftermarket business in Phoenix, Arizona, at the end of September, orders can now be processed much faster.

Adjusted EBIT of EUR 29.2 million is significantly up on the previous year of EUR 8.5 million. The adjusted EBIT margin comes to 5.5 per cent (previous year: 1.8 per cent). The main factors in this regard were improved processes and procedures, the contractual passing on of last year's steel price increases, lower purchase prices for steel and other materials, as well as sustained price increases in the aftermarket. A negative factor was the shortfall of a non-cash extraordinary income in the amount of EUR 4.7 million from the partial liquidation of the US pension plan in the third quarter 2018.

The overall situation in the North American plant network has improved over the course of the 2019 financial year. SAF-HOLLAND initiated the program FORWARD on March 1, 2019 in order to systematically tap the identified significant potential for optimization and to drive forward the turnaround. The key point involves optimization of the production and supply chains, the product portfolio, the aftermarket business and sourcing.

APAC region: Continuing market weakness in India burdens result

APAC

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018	Change absolute	Change in %
Sales	**88,578**	**94,110**	**–5,532**	**–5.9%**
EBIT	**1,973**	**4,273**	**–2,300**	**–53.8%**
EBIT margin in %	2.2%	4.5%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	2,521	1,583	938	59.3%
PPA step-up from inventory measuring of acquisition	–	754	–754	–
Valuation effects from call and put options	–	–	–	–
Restructuring and transaction costs	–1,130	1,801	–2,931	–
Adjusted EBIT	**3,364**	**8,411**	**–5,047**	**–60.0%**
Adjusted EBIT margin in %	3.8%	8.9%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	1,644	647	997	154.1%
in % of sales	1.9%	0.7%		
Adjusted EBITDA	**5,008**	**9,058**	**–4,050**	**–44.7%**
Adjusted EBITDA margin in %	5.7%	9.6%		

The APAC region generated sales of EUR 88.6 million in the 2019 financial year (previous year: EUR 94.1 million). The additional sales contributed by the entities acquired since January 2018 amounted to EUR 20.4 million. After eliminating the effects of exchange rates and acquisitions, sales decreased by 28.6 per cent to EUR 67.2 million. The main reason for this sharp slump in sales was the ongoing weakness of the Indian market.

Adjusted EBIT of EUR 3.4 million is well down on the result of the previous year of EUR 8.4 million. This considers the elimination of restructuring income of EUR 2.2 million from the sale of a building in the course of the merger of SAF-HOLLAND Australia and York Transport Equipment Pty. Ltd.

(Australia). The adjusted EBIT margin slipped from 8.9 per cent to 3.8 per cent. The main reason for this deterioration was also the ongoing weakness of the Indian market and a significant slow-down of the market in Australia in conjunction with unfavourable product mix and exchange rate effects.

China region: Consolidation of locations concluded successfully

China

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018	Change absolute	Change in %
Sales	**34,886**	**75,970**	**–41,084**	**–54.1%**
EBIT	**–32,974**	**–57**	**–32,917**	**–**
EBIT margin in %	–94.5%	–0.1%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	57	57	–	–
Impairment	6,692	–	6,692	–
PPA step-up from inventory measuring of acquisition	–	–	–	–
Valuation effects from call and put options	–	–	–	–
Restructuring and transaction costs	13,337	1,271	12,066	949.3%
Adjusted EBIT	**–12,888**	**1,271**	**–14,159**	**–**
Adjusted EBIT margin in %	–36.9%	1.7%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	2,157	1,194	963	80.7%
in % of sales	6.2%	1.6%		
Adjusted EBITDA	**–10,731**	**2,465**	**–13,196**	**–**
Adjusted EBITDA margin in %	–30.8%	3.2%		

The China region generated sales of EUR 34.9 million in the 2019 financial year (previous year: EUR 76.0 million). This decrease in sales is largely a result of the slump in export business because of the trade war between the USA and China, and sudden cancellations/postponements of orders due to the state of the economy and also temporary strikes as a response to the announced plant closures.

The China region generated an adjusted EBIT of EUR -12.9 million in 2019 (previous year: EUR +1.3 million). This result was influenced by the extensive restructuring costs incurred in connection with the consolidation of the plants and the goodwill impairment of the China region of EUR 6.7 million.

Discussion: In the course of the transition from a business unit structure to a regional group structure, the regions EMEA/India, Americas and APAC/China were defined as cash-generating units in 2016. 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.

Furthermore, the regions APAC and China were defined as separate cash-generating units for the purpose of the new segment reporting as of January 1, 2019. The goodwill allocated to the APAC/China region was split between the two regions APAC and China based on their relative values.

Consequently, it is not possible to allocate amortization and impairments of goodwill to past transactions.

The eliminations do not include non-recurring expenses totalling EUR 8.1 million, which were primarily incurred in the second and third quarters. These consist of impairment losses on inventories and receivables of EUR 4.9 million and EUR 1.7 million respectively, losses of EUR 0.7 million on the disposal of non-current assets and strike-related costs of EUR 0.8 million.

The integration of the five Chinese locations into the new plant in Yangzhou has been concluded. The plant in Qingdao shut down its operations on July 31, 2019. The two warehouses in Beijing were also closed down on July 31, 2019. The business activities of the plant in Xiamen and the office in Beijing were shut down at the end of 2019. Pilot production at the new plant in Yangzhou commenced in the fourth quarter.

NET ASSETS

in EUR thousands

	31.12.2019	12/31/2018	Change absolute	Change in %
Non-current assets	**520,805**	**472,284**	**48,521**	**10.3%**
of which intangible assets	257,926	265,765	–7,839	–2.9%
of which property, plant and equipment	216,736	163,263	53,473	32.8%
of which other (financial) assets	46,143	43,256	2,887	6.7%
Current assets	**458,439**	**505,132**	**–46,693**	**–9.2%**
of which inventories	168,129	179,368	–11,239	–6.3%
of which trade receivables	126,000	138,875	–12,875	–9.3%
of which liquid assets	131,166	155,009	–23,843	–15.4%
of which other (financial) assets	33,144	31,880	1,264	4.0%
Balance sheet total	**979,244**	**977,416**	**1,828**	**0.2%**

Total assets up slightly on the previous year

Total assets are up EUR 1.8 million or 0.2 per cent on the previous year and amount to EUR 979.2 million as of December 31, 2019.

The increase in property, plant and equipment is chiefly due to the new lease standard, IFRS 16, which accounts for EUR 33.5 million of the rise. Thanks to targeted working capital management, inventories were scaled back by EUR 11.2 million or 6.3 per cent in a year-on-year comparison. Trade receivables were also cut back substantially in comparison to the close of 2018, falling EUR 12.9 million or 9.3 per cent.

The decrease of EUR 23.8 million in cash and cash equivalents can be largely attributed to the payment of the purchase price for the Stara Group and PressureGuard as well as the dividend paid in May 2019.

Equity ratio at previous year's level of 32.5 per cent

in EUR thousands

	31.12.2019	12/31/2018[1]	Change absolute	Change in %
Equity	**318,007**	**318,072**	**–65**	**0.0%**
Non-current liabilities	**326,081**	**472,101**	**–146,020**	**–30.9%**
of which interest-bearing loans and bonds	195,793	364,459	–168,666	–46.3%
Finance lease liabilities	25,521	38	25,483	67060.5%
of which other non-current liabilities	104,767	107,604	–2,837	–2.6%
Current liabilities	**335,156**	**187,243**	**147,913**	**79.0%**
of which interest-bearing loans and bonds	153,393	3,936	149,457	3797.2%
Finance lease liabilities	8,126	191	7,935	4154.5%
of which trade payables	110,366	129,115	–18,749	–14.5%
of which other current liabilities	63,271	54,001	9,270	17.2%
Balance sheet total	**979,244**	**977,416**	**1,828**	**0.2%**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consoliated Financial Statements).

In comparison to December 31, 2018, equity has remained nearly unchanged with EUR 318.0 million. The comprehensive income for the period of EUR 20.1 million increased equity accordingly. This was offset by the payment of the dividend for the 2018 financial year of EUR 20.4 million. With a slight increase of EUR 1.8 million or 0.2 per cent in total assets to EUR 979.2 million, this leads to a unchanged equity ratio of 32.5 per cent. For further details on the development of equity, please refer to the consolidated statement of changes in equity on page 106.

Non-current liabilities decreased by EUR 146.0 million in comparison to December 31, 2018 to EUR 326.1 million. The main factor in this regard was the premature repayment of the variable portion of the promissory note loan of EUR 101.5 million at the end of November 2019. In the course of adopting the new lease standard, IFRS 16, finance lease liabilities rose by EUR 25.5 million.

To a large extent, the increase in current liabilities is due to the repayment of the variable portion of the promissory note loan. The 14.5 per cent reduction in trade payables to EUR 110.4 million is primarily due to balance sheet date effects. In addition, the new lease standard, IFRS 16, affected current liabilities by an amount of EUR 8.1 million.

Net working capital ratio deteriorates by definition

Net working capital

in EUR thousands

	31.12.2019	12/31/2018	Change absolute	Change in %
Inventories	168,129	179,368	–11,239	–6.3%
Trade receivables	126,000	138,875	–12,875	–9.3%
Income tax receivables	4,066	5,226	–1,160	–22.2%
Other current assets	25,741	26,654	–913	–3.4%
Other provisions (non-current)	–7.637	–7.604	–33	0,4%
Other provisions (current)	–12.552	–9.992	–2.560	25,6%
Trade payables	–110.366	–129.115	18.749	-14,5%
Other liabilities	–28.756	–26.937	–1.819	6,8%
Income tax liabilities	–244	–4.007	3.763	-93,9%
Net working capital	**164.381**	**172.468**	**–8.087**	**-4,7%**
Sales Q4 (extrapolated)	1.102.116	1.278.808	–176.692	-13,8%
Net working capital ratio	14,9%	13,5%		

The net working capital ratio deteriorated in a year-on-year comparison from 13.5 per cent to 14.9 per cent. The main factor in the deterioration was the large decrease in fourth quarter sales (see the financial indicators on page 49), extrapolated to the full year from EUR 319.7 million to EUR 275.5 million (-13.8 per cent). Related to sales over the last twelve months, the net working capital ratio would have improved from 13.3 per cent to 12.8 per cent.

FINANCIAL POSITION

Financial position

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018
Cash flow from operating activities	90,546	40,780
Cash flow from investing activities (property, plant and equipment/intangible assets)	–52,981	–40,786
Operating free cash flow	**37,565**	**–6**
Cash flow from investing activities (subsidiaries, financial assets)	–10,852	–58,691
Total free cash flow	**26,713**	**–58,697**
Other	–64,765	–49,339
Change in net financial liabilities	**–38,052**	**–108,036**

Significant improvement in operating free cash flow

The cash flow from operating activities in the 2019 financial year came to EUR 90.6 million, significantly above the level of the previous year of EUR 40.8 million. This improvement is largely due to the significant progress made in working capital management, particularly with regard to inventories and receivables.

The cash flow from investing activities in property, plant and equipment and intangible assets of EUR 53.0 million was EUR 12.2 million, or 29.9 per cent, above the figure for the previous year, mainly on account of the greenfield project in China, investments in rationalization and expansions in the USA as part of the program FORWARD and a new office building in Germany.

The operating free cash flow improved markedly from EUR 0.0 million to EUR 37.6 million. Total free cash flow of EUR 26.7 million is affected by the cash outflow for the acquisitions of the Stara Group and PressureGuard.

Financial liabilities affected by the first-time application of IFRS 16

Net financial liabilities (including the liabilities from finance leases) increased by EUR 38.1 million to EUR 251.7 million as of December 31, 2019 compared to the reporting date of December 31, 2018. In addition to the dividend payout of EUR 20.4 million, this was due to the first-time application of IFRS 16 on leases, which resulted in financial liabilities of EUR 33.6 million. As of December 31, 2019 SAF-HOLLAND carries cash and cash equivalents of EUR 131.2 million (December 31, 2018: EUR 155.0 million).

GENERAL STATEMENT ON THE ECONOMIC POSITION OF THE COMPANY

Given the circumstances, the Group Management Board is satisfied with the course of business in 2019. The target corridor for Group sales, which was last revised on September 23, 2019, was reached. At 6.2 per cent, the adjusted EBIT margin lay, as announced, within the adjusted corridor of 6.0 to 6.5 per cent.

The success of net working capital management was a key factor for the significantly positive operating free cash flow. The financial profile of SAF-HOLLAND remains very robust as of the reporting date of December 31, 2019 with an equity ratio of 32.5 per cent and net debt (including finance lease liabilities) of EUR 251.7 million.

The Group Management Board is of the opinion that the company, with its innovative product portfolio, the measures it has taken to improve its operational excellence, and its consistent cost discipline, is very well positioned for the next phase of the company's growth.

SEPARATE FINANCIAL STATEMENTS OF SAF-HOLLAND SE (PREVIOUSLY SAF-HOLLAND S.A.)

STATEMENT OF INCOME OF SAF-HOLLAND SE (PREVIOUSLY SAF-HOLLAND S.A.)[1]

kEUR	Q1-Q4/2019	Q1-Q4/2018
Income from financial fixed assets	10,996	25,817
Income from financial current assets	–	–
Other income	–	632
Total income	**10,996**	**26,449**
Other external charges	–2,185	–2,270
Staff costs	–46	–55
Other operating charges	–974	–553
Interest and other financial charges	–997	–2,651
Other taxes	90	–4
Result before income tax	**6,885**	**20,916**
Income tax		–
Result for the period	**6,885**	**20,916**

[1] Figures according to Luxembourg GAAP.

BALANCE SHEET OF SAF-HOLLAND SE (PREVIOUSLY SAF-HOLLAND S.A.)[1]

kEUR	12/31/2019	31/12/2018
Assets		
Non-current assets	**388,215**	**387,606**
Shares in affiliated undertakings	313,238	313,238
Amounts owed by affiliated undertakings	74,974	74,364
Other assets	3	3
Current assets	**8,132**	**21,856**
Amounts owed by affiliated undertakings	7,500	21,000
Cash on hand, cash at banks and checks	444	523
Prepayments	188	333
Total assets	**396,347**	**409,462**
Equity and liabilities		
Equity	**295,080**	**308,625**
Subscribed share capital	454	454
Share premium	276,855	276,855
Legal reserve	45	45
Other reserve	720	720
Profit brought forward	10,122	9,634
Result for the period	6,885	20,916
Non-current liabilities	**–**	**99,800**
Bonds	–	99,800
Current liabilities	**101,267**	**1,037**
Bonds	100,105	305
Trade payables	747	403
Tax and social security debts	415	329
Other creditors	–	–
Total equity and liabilities	**396,347**	**409,462**

[1] Figures according to Luxembourg GAAP.

EVENTS AFTER THE BALANCE SHEET DATE

NEW SEGMENTATION IN CORPORATE MANAGEMENT

The regions of APAC and China were combined into one region effective January 1, 2020 which was named APAC_I/China. Commencing January 1, 2020 the geographic segmentation of SAF-HOLLAND therefore consists of EMEA, the Americas and APAC_I/China.

Mike Ginocchio, the President of APAC to date, assumed responsibility for the new APAC_I/China region on this date. He is a member of the Executive Committee and reports directly to Alexander Geis, CEO of SAF-HOLLAND.

CHANGES IN THE GROUP MANAGEMENT BOARD

In December 2019 Dr. Matthias Heiden, Chief Financial Officer (CFO) of SAF-HOLLAND, informed the Board of Directors that he would like to terminate his contract of service at the end of 2020 at the latest as he will pursue a new professional challenge. The Board of Directors has started a selection process to identify a suitable successor for Dr. Heiden. Until his departure – at the latest by the end of 2020 – Dr. Heiden will continue to fully perform his duties. It is possible that an earlier termination date will be agreed on by mutual consent.

ACQUISITION OF THE REMAINING SHARES IN V.ORLANDI S.P.A.

In January 2020, SAF-HOLLAND acquired the remaining 30 per cent of the shares in the coupling specialist, V.Orlandi S.p.A. for a purchase price of EUR 21.2 million. As a result, SAF-HOLLAND now holds all the shares in V.Orlandi S.p.A. after already acquiring a stake of 70 per cent in the first quarter of 2018.

EXTRAORDINARY GENERAL MEETING APPROVES RESOLUTION TO CONVERT THE LEGAL FORM INTO A EUROPEAN COMPANY (SE)

The extraordinary general meeting of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) held on February 14, 2020 in Luxembourg, passed a resolution to convert the legal form into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE.

In a second step, the company will prepare the transfer of the registered office of the company to Germany. An extraordinary general meeting, which is likely to be held in the second quarter of 2020 immediately after the Annual General Meeting has been concluded, will vote on the required resolutions – a capital increase from company funds, the transfer plan and the restatement of the articles of association of SAF-HOLLAND SE with its future registered office in Germany.

CONVERSION TO A EUROPEAN COMPANY CONCLUDED

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) completed its conversion into a European Company (Societas Europaea, SE) upon being entered into the Luxembourg business register on February 24, 2020 under the name of SAF-HOLLAND SE.

PROMISSORY NOTE LOAN SUCCESSFULLY PLACED – ORIGINAL TARGETED VOLUME OF AT LEAST EUR 100 MILLION OVERSUBSCRIBED MULTIPLE TIMES, STEPPED UP TO EUR 250 MILLION

On March 9, 2020 SAF-HOLLAND SE successfully placed a promissory note transaction with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. Because of the high demand and the resulting over-subscription, the final amount exceeded the target volume of EUR 100 million by EUR 150 million.

The tranches of the promissory note feature fixed as well as variable rates and maturities of three, three and a half, five, seven and ten years. All tranches were allocated at the lowest end of the respectively offered price range. The loan will be paid out to the company at the end of March and at the end of September 2020.

The proceeds will be used to finance the company generally and, in particular, to refinance the convertible bond that falls due on 12 September 2020 (volume: EUR 99.8 million) and the 5-year tranches of the promissory note issued in November 2015 that falls due on 27 November 2020 (volume: EUR 140.5 million).

The issue will contribute to smoothing out the maturity profile and will widen the investor base of the SAF-HOLLAND Group.

OUTLOOK

MACROECONOMIC CONDITIONS AND SECTOR ENVIRONMENT

SIMMERING TRADE CONFLICTS AND CORONAVIRUS BURDEN GLOBAL ECONOMY

According to the economists of Commerzbank AG, the simmering trade conflicts and restrictions brought about by the coronavirus will place a substantial burden on the global economy in 2020. Commerzbank forecasts a global growth rate of 2.6 per cent (previous year 2.9 per cent) for the year 2020.

For the euro zone, Commerzbank anticipates a significant slowdown in growth in 2020 to 0.5 per cent (previous year 1.2 per cent). Apart from the coronavirus, the biggest risk factor remains a possible no-deal Brexit. For Germany, Commerzbank expects economic growth of 0.4 per cent this year.

Despite a slight easing of the trade conflict between the United States and China in recent months, economic experts expect GDP growth in the US to slow from previous year's 2.3 per cent to 1.5 per cent.

By contrast, Commerzbank is slightly more optimistic about Brazil and Russia. An economic recovery is expected for both of these countries in 2020.

According to Commerzbank, the pace of economic growth in China will weaken in the current year to 4.8 per cent (previous year 6.2 per cent), partly due to the potential impact of the coronavirus. In comparison to 2019 (growth of 5.3 per cent), the Indian economy is expected to grow by 5.9 per cent in 2020.

Economic development in key markets

in %

	2019	2020
Euro zone	1.2	0.5
Germany	0.6	0.4
United States	2.3	1.5
Brazil	1.1	1.6
Russia	1.3	1.4
China	6.2	4.8
India	5.3	5.9
World	2.9	2.6

Source: Commerzbank, Economic Briefing, March 2020

SECTOR ENVIRONMENT: CHALLENGING GLOBAL MARKETS FOR COMMERCIAL VEHICLES

The prospects for 2020 remain challenging in the commercial vehicle markets that are relevant for SAF-HOLLAND. Due to declining incoming orders and lower stocks of Class 8 trucks and trailers, a significant downturn in production is expected for North America. In China, the premium segment that is of relevance to SAF-HOLLAND will not be able to fully shield itself from the sustained market downturn. After several years of growth, the production of trailers in the core market of Europe is expected to fall, as already assumed in 2019.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

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

While the EMEA region (approximately 3 per cent of Group sales) and the Americas region (approximately 10 per cent of Group sales) are the most relevant for the truck segment, the trailer and aftermarket segments serve all markets worldwide.

EUROPEAN TRUCK MARKET DOWN ON THE PREVIOUS YEAR

European truck production will decrease in 2020. Leading manufacturers of commercial vehicles expect a decline in production of 10 to 15 per cent. It should be noted, however, that the European truck market is only of minor importance for SAF-HOLLAND.

DECLINING DEMAND FOR TRAILERS IN EUROPE IN 2020

After sustained growth in the years 2012 to 2018 CLEAR forecasts another fall in production of trailers in the year 2020, as already seen in the year 2019 (production down by 7 per cent). The market researchers base their assessment on the fact that catch-up effects had further stimulated the demand for trailers and many European fleet operators modernized and expanded their vehicle fleets in recent years. Industry experts predict a decline in production of 5 to 10 per cent. Here, however, the high benchmark set in the previous year has to be taken into account, as according to CLEAR over 10 per cent more trailers were manufactured than the average of the three preceding years.

TRUCK MARKET IN NORTH AMERICA CONTRACTS SHARPLY

After record levels of production and new registrations of heavy-duty trucks were set in 2019, ACT Research projects a contraction of 40 per cent in the production of Class 8 trucks in North America compared to 2019 to 225,000 units. While a 10 per cent decrease in production is expected in Mexico, a sharp downturn is forecasted for the USA (down 43 per cent) and Canada (down 32 per cent).

NORTH AMERICAN TRAILER MARKET AT A LOWER LEVEL

In spite of the sustained trend towards disc brakes, a sharp downturn is expected on the North American trailer market for 2020. ACT Research, for example, expects to see approximately 35 per cent fewer trailers rolling off the production belts in 2020 than in the strong previous year.

CONTINUED GROWTH IN BOTH TRUCKS AND TRAILERS IN SOUTH AMERICA

Based on an anticipated continuation of the economic recovery in Brazil, LMC Automotive forecasts an increase of 20 per cent in heavy-duty truck production in the year 2020. This would mark a continuation of the upwards trend on the South American truck market that started 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 23 per cent in the trailer market in 2019, demand for trailers will be a bit more subdued in coming years. Experts expect an increase in the production of trailers of around 5 per cent for 2020.

DECLINING DEMAND FOR TRAILERS IN CHINA

After high growth rates in recent years, a contraction of truck and trailer demand in China, which many market observers expected, will continue in 2020. Due to the uncertainties relating to the outcome of the trade war between China and the USA, a 15 per cent fall in the production of heavy-duty trucks is projected for the current year. Still, it is important to keep in mind that the Chinese truck market has no significance for SAF-HOLLAND. According to industry experts, the production of trailers will fall by 30 per cent on the previous year due to the adverse market environment (including the potential impact of the coronavirus). It is expected that the premium segment, which is relevant to SAF-HOLLAND, will not be able to fully shield itself from the market downturn, despite the new loading limits and safety requirements for trailers.

In Australia, a regional market that is important for SAF-HOLLAND, LMC Automotive anticipates a decline in new registrations of heavy and medium-duty trucks of almost 8 per cent in 2020. After a decline of almost 15 per cent in the production of trailers in the year 2019, market observers are forecasting production in the current year to fall at least 10 per cent.

With regard to the truck and trailer market in India, a further decline in production of 20 per cent is anticipated in each of the two segments.

BUSINESS OUTLOOK

DECREASE IN GROUP SALES ANTICIPATED

In light of the macroeconomic environment and the sector-specific framework conditions and after weighing up the opportunities and risk potentials for the 2020 financial year (including the currently foreseeable impact on business from the coronavirus), the Group Management Board of SAF-HOLLAND anticipates a low-double-digit percentage decrease in Group sales (previous year: EUR 1,284.2 million), at the preparation date on March 16, 2020

ADJUSTED EBIT MARGIN EXPECTED OF BETWEEN 4 PER CENT AND 5 PER CENT

Under the above assumptions, SAF-HOLLAND is projecting an adjusted EBIT margin for the 2020 financial year of between 4 per cent and 5 per cent. Besides the decline in sales, further effects from COVID-19 will burden the result. Factors expected helping to stabilize earnings are the significant reduction of operating losses from the Chinese operations, the consistent execution of program FORWARD in the USA, the Group-wide rollout of the SAF-HOLLAND Operational Excellence System and the high-margin aftermarket business.

Moreover, with a view to the current spread of COVID-19, the economic effects on SAF-HOLLAND cannot currently be adequately determined or reliably quantified.

INVESTMENT RATIO OF AROUND 3 PER CENT ANTICIPATED

In order to support the strategic objectives, the company is planning investments of around 3 per cent of Group sales (previous year: 4.1 per cent) in the 2020 financial year. This capital expenditure will focus primarily on continuing the introduction of a Global Manufacturing Platform, further automation and the program FORWARD.

GENERAL STATEMENT OF THE GROUP MANAGEMENT BOARD ON PROSPECTIVE DEVELOPMENTS

As of the preparation date on March 16, 2020, the Group Management Board of SAF-HOLLAND is forecasting a decrease in Group sales in the low double-digit percentage range and an adjusted EBIT margin of between 4 per cent and 5 per cent. The primary focus of the Group Management Board in the 2020 financial year will be on the issue of Operational Excellence.

OPPORTUNITIES AND RISK REPORT

FUNDAMENTALS OF THE SAF-HOLLAND GROUP'S 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 counteraction. 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 that are not directly related to the company (such as macroeconomic risk) 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 at group level analyzes both the potential exposure (severity of loss) and the probability of occurrence (frequency). 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. Uniform policies and defined procedures are mandatory.

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 dual control 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 is 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.

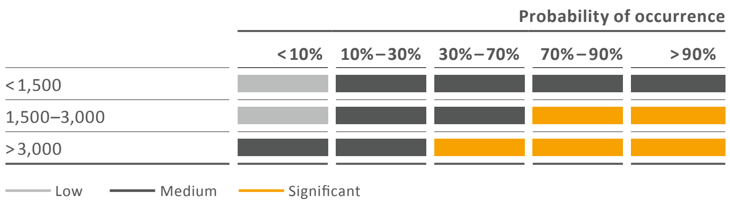
HIGHER OVERALL POTENTIAL RISK AT THE SAF-HOLLAND GROUP IN THE 2019 FINANCIAL YEAR RESULTING FROM BUSINESS EXPANSION AND A RISE IN THE GENERAL RISK SITUATION

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

The risk exposure 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



At the end of 2019 the overall risk exposure of the SAF-HOLLAND Group increased moderately. The higher risk assessment stemmed from a number of external factors, such as the simmering global trade conflicts. 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 ability of the Group or a major Group company to continue as a going concern.

Strategic risks as well as legal and regulatory risks were the two most important risk areas in the past financial year, each accounting for about 22 per cent of overall potential risk. In absolute terms, both the strategic and the legal and regulatory risks have risen slightly (due to higher trading risks). By contrast, financial risks have risen considerably because of the impairment of goodwill. Moreover, operative, technological and other risks have also risen. Personnel risks, on the other hand, are waning.

To our shareholders

Combined Management Report

- Background of the Group
- Economic background and business development
- Separate Financial Statements
- Events after the Balance Sheet Date
- Outlook
- Opportunities and Risk Report
- Sustainability
- Remuneration Report
- Corporate Governance

Consolidated Financial Statements

Additional Information

OVERVIEW OF RISKS

Risk Overview

Risk area[1]		Individual risks	Individual risk 2019 vs. prior year[2]	Total risk 2019 vs. prior year[3]
Strategic risks	Significant	Customer dependency risks	higher	higher
	Significant	Competitive risks	higher	
	Medium	Vertical customer integration	higher	
Legal and regulatory risks	Medium	Trademark and patent risks	higher	higher
	Medium	Liability risks	higher	
	Medium	Trade risks	higher	
	Medium	Other regulatory risks	lower	
Technology risks	Medium	Marketing risks	higher	higher
	Medium	Risks from technological progress	lower	
	Low	Risks from the loss of a cooperation	higher	
Personnel risks	Significant	Loss of knowledge risks	lower	lower
	Low	Strike risks	unchanged	
Operating risks	Medium	Procurement risks	higher	higher
	Medium	Inventory valuation risks	higher	
IT risks	Medium	System outage and cybercrime	unchanged	unchanged
Financial risks	Low	Financing risks	higher	higher
	Low	Currency risks	unchanged	
	Low	Impairment risks	higher	
Other risks	Medium	Compliance risks	unchanged	higher
	Low	Business relationship risks	higher	

Low — Medium — Significant

[1] The individual risks 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 increase and decreases in risk assessment.

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 harbour 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 did not coincide. As a result, we were often able to at least partially offset temporary weak demand in one market through a steady or upward trend in demand in another market. Our strength in the aftermarket 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

A relatively small number of global manufacturers dominates the global truck business (14 per cent of sales of the SAF-HOLLAND Group). Consequently, the dependency of the Group in this market on individual OE customers is relatively high. The trailer business, which accounts for 60 per cent of sales and is of much more relevance for SAF-HOLLAND, has a much less condensed market structure, with several hundred manufacturers operating in both North America and Europe.

SAF-HOLLAND responds to customer dependency 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 or medium-size suppliers of specialist vehicles and are major players in their respective niche markets. The company's continued internationalization and positioning as a global partner for the commercial vehicles industry also improve its risk profile. Customer dependency risks increased over the course of the reporting year. Nevertheless, no one customer represented more than 10 per cent of Group sales in the 2019 and 2018 financial years.

Competitive risks

Competitive risks continue to be one of the single most important risks 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 a number of 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 behaviour 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 increased compared to the previous 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 specialist vehicle business.

ELEVATED LEGAL AND REGULATORY RISK EXPOSURE

Trademark and patent risks

The misuse of SAF-HOLLAND trademarks 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 at poor quality standards or containing defects. 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 that its manufacturing is in accordance with high quality standards across the entire Group. 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 that is 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 2019 financial year, global trade relations came under increasing pressure because of reciprocal punitive tariffs between the US and China and the EU. At present, no final resolution of the trade conflict, particularly between the USA and China, is in sight. In this environment, trade and market access risks at the end of 2019 were rated significantly higher than in the previous year.

By contrast, the UK's withdrawal from the European Union (Brexit) on January 31, 2020 is not expected to have any significant impact on the company's operating business. 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 2019 financial year, exports to Great Britain accounted for roughly 1.8 per cent of Group sales. As none of SAF-HOLLAND's major competitors has significant production capacities in Great Britain, we do not expect 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 in 2018 increased the risks in the past financial year that could result from violating the relevant data protection regulations. SAF-HOLLAND 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 company 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 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.

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 because 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.

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.

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 labour 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. The company 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, labour-management agreements and, at the location in Bessenbach, a supplementary tariff agreement 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.

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 keep sufficient stock levels to cover any sudden delivery bottlenecks.

A particularly important price risk is the development of the prices for raw materials, 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 largely passing on raw material price increases to our customers. These types of adjustments, however, are often only possible after a certain time lag, which may initially result in temporary additional procurement costs. The development of steel prices may vary strongly in the respective reporting segments. Because of its global organization, SAF-HOLLAND cannot rule out this risk completely but can partially mitigate it.

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 and computer-based attempts at fraud has been rising worldwide for years and the potential damage from such attacks has increased, SAF-HOLLAND 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.

AGGREGATE FINANCIAL RISK GAINS IN SIGNIFICANCE

Financing risks

We counter the risk of insufficient liquidity mainly using a budget, medium-term planning and a monthly reporting system that includes an analysis of any budget deviations. 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. At present the Group has sufficient liquidity available. In addition, the liabilities are broadly diversified in terms of their term and the nature of the financial instrument. 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. If necessary, there is an option to extend the credit line by an additional EUR 100 million. 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 2019.

Further information on the company's liquidity and financing can be found on > page 66 of this management report.

Currency risks

Because of its global business activities, the company 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 transaction risks arise 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 financial performance 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 based on a rolling planning process. At the end of the financial year the risks of impairment were classified as moderate as sufficient risk provisioning had been made, particularly in China, in the form of impairment losses on property, plant and equipment and increases in the loss allowances on inventories and receivables.

We address the risk of bad debts by comprehensively insuring our receivables. As a rule, we endeavour to insure all receivables arising from sales to non-group companies if such insurance coverage is available in the market. Last year, we insured 76 per cent of all our receivables.

OTHER RISKS ON THE RISE

Risks arising from the spread of the novel coronavirus SARS-CoV-2 (COVID-19)

The spread of the novel coronavirus SARS-CoV-2 (COVID-19) could give rise to risks for global economic growth and subsequently risks for the SAF-HOLLAND Group particularly with regard to procurement, production and sales. A global crisis response team is advising the Group Management Board on the current situation and prepares the materials needed by management for its decision-making. It also coordinates and monitors communications and operative measures.

Compliance risks

We counter risks arising from non-compliance with laws and regulations through the Group-wide Code of Conduct, which we continuously review for timeliness and adapt when necessary as well as other Group-wide guidelines and policies. 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 gratuities or insider information, are regulated by mandatory guidelines 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 where possible in cooperation with the respective business partner. Due to the realignment of the product portfolio in the course of consolidating operations in China, individual business relationships were reassessed. As a result, the risk assessment of the recoverability of outstanding receivables had to be adjusted.

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 result in a rise 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-duty trucks is projected to grow on average by around 1 per cent 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 become steadily more stringent 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, 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 higher than in the original equipment business.

With the launch of the trademarks SAUER 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 parts 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 on the roads. 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

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 sidewalls and wire mesh superstructures.

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. SAF-HOLLAND's products provide highly competitive solutions for these requirements and place the company in an opportune position to greatly increase its market share in China.

Stricter emission regulations in the United States

In 2016 the US Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) published a new directive (Regulations for Greenhouse Gas Emissions from Commercial Trucks & Buses) regulating the CO_2 emissions of heavy commercial vehicles. 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 lies at roughly 20 per cent. 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 per cent 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. As a result, the Group won a second major fleet operator as a customer for axle systems with integrated disc brake technology in addition to the existing key customer, XTRA Lease. Additional capacities were created at the Warrenton location to address the growing demand. The proportion of disc brake technology in the US is expected to increase in the medium term to 30-35 per cent. SAF-HOLLAND has been playing a pioneering role in this segment of the European market for years and possesses extensive expertise. By employing disc brake technology in its axle systems, the Group will be able to increase its added value per vehicle by 50 per cent or more.

OPPORTUNITIES THROUGH ACQUISITIONS

SAF-HOLLAND has already proven its ability to successfully consolidate its market position and accelerate its growth through 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 interesting 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 the market leader for trailer axles 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 precisely meets the current market demand as a first step. 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. Consequently, the company 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 WANING MARKETS

A downturn in the truck and trailer markets and the production capacity this will free up will enable a more rapid implementation of the Global Operational Excellence Strategy.

OPPORTUNITIES FROM PENETRATING NEW MARKETS

In the 2019 financial year, SAF-HOLLAND generated roughly 90 per cent of its sales in its traditional regions EMEA and Americas. It is the Group's stated objective to significantly raise its sales outside of these key regions in the mid-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 (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 2018, 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 low double-digit million-euro investment, a new central production centre with a production area of around 46,000 m^2 was built in the Yangtze River Delta. Operations commenced in the fourth quarter of 2019. This is yet another example of how SAF-HOLLAND is laying the foundation for long-term, profitable growth in this region.

SUSTAINABILITY

Sustainability is an integral component of the corporate philosophy and business strategy of SAF-HOLLAND. For us sustainability means operating in a sustainable manner and assuming our corporate social responsibility. We are convinced that this approach contributes to our ability to recognize opportunities and risks at an early stage and enhance our innovative strengths to secure our future. With our sustainability strategy we ensure that sustainability issues are managed efficiently across the Group and make a meaningful contribution to the company's performance.

DIALOGUE WITH STAKEHOLDERS INTENSIFIED

Dialogue with our stakeholders is of special significance. We can only further develop our sustainability strategy in discourse with our various stakeholders. To this end we conducted an international stakeholder survey in the reporting year. This was the second stakeholder survey since 2017. In total, over 700 stakeholders were interviewed. The survey extended across all regions in which SAF-HOLLAND operates. The results of the survey were also integrated in the new materiality matrix of SAF-HOLLAND.

PUBLICATION OF THE CONSOLIDATED NON-FINANCIAL STATEMENT

SAF-HOLLAND will publish the 2019 Sustainability Report on April 16, 2020. The Consolidated Non-Financial Statement will be rendered upon publication of this report.

The 2019 Sustainability Report will be available on the company's website on https://corporate.safholland.com/en/investor-relations/publications/sustainability-report.

The Sustainability Report also contains the UN Global Compact Progress Report of SAF-HOLLAND. SAF-HOLLAND has been a signatory to the UN Global Compact, the largest initiative in the world for corporate social responsibility, since 2018.

SUSTAINABILITY REPORTING CONTINUES TO BE MADE MORE PROFESSIONAL

SAF-HOLLAND continued to expand its sustainability reporting in the year 2019. This includes a change to the processes used to collect data on sustainability. As a result, we can now collect data on non-financial risks. We are integrating these in our risk management system which enables us to identify opportunities and risks at an earlier stage and derive effective countermeasures.

In addition, all production locations are now integrated in the reporting. The 2019 Sustainability Report reflects the entire global production network of SAF-HOLLAND and provides complete disclosures on the entire Group.

SOCIAL CONCERNS AND HUMAN RIGHTS ARE A CORNERSTONE OF SUSTAINABILITY ACTIVITIES

The new SAF-HOLLAND Code of Conduct came into force during the reporting year. In this code we have set binding rules on the conduct of all of our employees and managers. The Code of Conduct is available in eleven languages. Our Human Rights Policy Statement and Declaration on Modern Slavery and Human Trafficking complement it. We view it as our duty to prevent all violations of human rights, whatever their form. Our global commitment towards human rights extends to our employees, our managers, our business partners and – where this lies in our sphere of influence and responsibility – to other levels in our supply chain.

INNOVATIVE PRODUCTS MAKE A CONTRIBUTION TO A SUSTAINABLE TRANSPORT SECTOR

The product portfolio of SAF-HOLLAND distinguishes itself due to the quality of its long-lived quality products, the use of lightweight components as well as the integration of sensors and electronics in the products. These features enable our products to contribute to a more sustainable transport industry in the operating phase. More information on the latest innovations in the SAF-HOLLAND product portfolio can be found in the chapter on research and development in this annual report and in the chapter on product innovations in the sustainability report.

REMUNERATION REPORT

The remuneration report explains the compensation system and presents the individual remuneration paid to the various members of the Group Management Board and Board of Directors (BoD). Remuneration for the 2019 financial year is reported in accordance with German accounting standards (DRS 17) as well as the recommendations of the German Corporate Governance Code (DCGK), which the company adheres to on a voluntary basis as it is domiciled in Luxembourg.

CHANGES TO THE GROUP MANAGEMENT BOARD

Dr. André Philipp was appointed the new Chief Operating Officer (COO) and member of the Group Management Board effective January 1, 2019. Mike Ginocchio was appointed President APAC and made a member of the Group Management Board, also effective January 1, 2019.

Alexander Geis was appointed Chief Executive Officer (CEO) on February 26, 2019. The service contract with his predecessor, Detlef Borghardt was terminated by mutual agreement.

Guoxin Mao, President of the China region and member of the Group Management Board left the company on May 31, 2019 and Steffen Schewerda, President of the Americas region and member of the Group Management Board left the company on December 31, 2019.

As of January 1, 2020, the Group Management Board consists of three functions: the CEO (Alexander Geis), the CFO (Dr. Matthias Heiden) and the COO (Dr. André Philipp).

GROUP MANAGEMENT BOARD

FUNDAMENTAL ASPECTS OF REMUNERATION

Every year the Board of Directors reviews the remuneration of each individual member of the Group Management Board in terms of amount and structure. In addition, it is possible to offer the members of the Group Management Board a bonus when they take on special tasks or render special performance. The Remuneration Committee generally drafts resolutions concerning executive remuneration. In the 2019 financial year the expertise of an external and independent remuneration consultant was drawn on who analyzed and confirmed the appropriateness and market conformity of the remuneration paid to the Group Management Board (horizontal remuneration comparison).

The remuneration system for the Group Management Board is aligned towards the business strategy and is aimed at instilling performance-based sustainable corporate governance and ensuring the long-term company success. The criteria for determining the appropriateness of remuneration consist of the individual duties of the members of the Group Management Board, their personal performance, the economic situation, the performance and future prospects of the company. In addition, the appropriateness of the remuneration elsewhere within the company is also reviewed (vertical remuneration comparison).

COMPARABILITY OF REMUNERATION

The annual remuneration paid to a member of the Group Management Board consists of a fixed salary and both short and long-term variable components. This corresponds to roughly 12 times the average remuneration paid to an employee at the German company and 4 times the annual salary of the upper management team (Vice President level). The vertical comparison that is recommended by the German Corporate Governance Code substantiates that the remuneration paid to the Group Management Board is appropriate.

REMUNERATION SYSTEM

The remuneration consists of the following components:

Components of fixed remuneration		Performance-based remuneration	
Annual salary Twelve monthly payments	**Fringe benefits** Company car, insurance, pecuniary benefits	**Short Term Incentive, STI** Short-term performance-based remuneration for the current financial year	**Long Term Incentive, LTI** Variable remuneration pegged to company performance and share price development over a four-year period

The following criteria shall apply to the individual components of the Group Management Board's remuneration in the 2019 financial year:

Fixed annual base salary

The base salary is fixed 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 offset this, the base salary has contained a compensatory component since the 2018 financial year.

Short-term incentive (STI)

The annual bonus is a variable cash payment pegged to the measurable performance of the company over the past financial year and the degree to which individual goals are attained. Targets for Group sales, adjusted EBIT margin and the net working capital ratio have been defined as the corporate goals. In terms of goal attainment, the lower limit for the bonus is 70 per cent and the upper limit 125 per cent. If the sum of the weighted individual target achievement is below 70 per cent (threshold), then there is no partial payout of the bonus. The amount of the incentive to be paid is calculated by multiplying the percentage of target achievement with the target bonus. In those years when a member of the Group Management Board joins or leaves the company, they are entitled to a pro rata share of the bonus. The short-term incentive is paid out in the following financial year.

In the 2019 financial year additional individual non-financial performance goals for 2020 were set for the CEO, the CFO and the COO, which are oriented towards the strategic alignment of the company and enabling it to master the next phase of growth.

Long-term incentive (LTI)

The LTI is a variable remuneration component which is intended to honour the increase in the value of the company and thereby create a sustainable connection between the interests of the company's management and executives (Vice President level) with the interests of the shareholders of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) The programme 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 phantom 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 respective grant by the average share price in the last two months of the year preceding the grant. Upon expiration of the performance period, the number of share units granted is adjusted by multiplying it 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 previously set for the performance period. The LTI is paid in cash based on the audited consolidated financial statements.

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.

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

The members of the Group do not have a right to shares in SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) or any obligation to invest in shares.

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” of 70 per cent. A level of target achievement that is below 70 per cent results in a target achievement factor of “0” and no payout.

If a member of the Group Management Board or Executive Team leaves the company or a Group company prior to the expiration of the performance period as a result of death, disablement, disability or retirement as agreed in the contract, he or she will receive a potential payout on the payment date on a pro rata temporis basis.

A potential payment may be temporarily withheld by the Board of Directors should imminent or urgent financial factors at SAF-HOLLAND SE (previously 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 per cent 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 per cent of the short-term variable compensation thereby constitute the maximum limit for the remuneration of the members of the Management Board.

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.

Severance payments

The members of the Group Management Board have permanent contracts that require notice of twelve months. If the contract of service is terminated in keeping with the contract and has been in place for at least two years at the time of termination, the member of the Group Management Board receives a severance payment amounting to 1.5 times the current annual base salary and 1.5 times the short-term variable incentive upon termination, assuming termination is without good cause. The amount of the variable bonus is based on the average of the variable bonus payments made in the three previous years.

No severance payment is made in the event of a termination of a contract with a member of the Group Management Board for culpable due cause on the part of that member or termination of the contract at the wish of the member of the Group Management Board.

The contracts do not provide for any benefits in the event of a termination of service on the Group Management Board because of a change in control.

The contracts generally contain a post-contractual non-competition clause, which prohibits the members from working for or rendering services to a competitor for a period of one year after leaving the company. As consideration, they receive compensation of 50 per cent of their last drawn contractual remuneration package.

Loans to members of the Group Management Board
As in 2018, there were no loans or advances made to members of the Group Management Board in 2019.

REMUNERATION OF THE GROUP MANAGEMENT BOARD

The total remuneration of the members of the Group Management Board in the 2019 financial year amounted to kEUR 4,776 (previous year: kEUR 3,843).

Individual management remuneration for the 2019 financial year:

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

In kEUR

	Alexander Geis		Dr. Matthias Heiden		Dr. André Philipp		Mike Ginocchio		Detlef Borghardt		Steffen Schewerda		Guoxin Mao		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-performance related components	550	400	373	363	341	0	294	0	570	625	321	322	119	299	2,568	2,009
Performance-related components	140	159	100	123	0	0	63	0	110	162	395	111	65	115	873	670
Long-term incentive	178	237	178	188	0	0	27	0	315	419	530	252	86	59	1,314	1,155
Total remuneration	**868**	**796**	**651**	**674**	**341**	**0**	**384**	**0**	**995**	**1,206**	**1,246**	**685**	**270**	**473**	**4,755**	**3,834**

The total remuneration of the management and the managing directors according to Section 314 (1) no. 6a HGB are shown in the following overview. The remuneration of Guoxin Mao is based on the period that ended upon termination of his duties on May 31, 2019.

German Corporate Governance Code (GCGC)

In kEUR

	Alexander Geis				Dr. Matthias Heiden				Dr. André Philipp				Mike Ginocchio			
	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)
Base salary	345	459	459	459	352	359	359	359	0	325	325	325	0	276	276	276
Bonus compensation	44	75	75	75	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benefits	11	16	16	16	11	14	14	14	0	16	16	16	0	18	18	18
Total	**400**	**550**	**550**	**550**	**363**	**373**	**373**	**373**	**0**	**341**	**341**	**341**	**0**	**294**	**294**	**294**
1-year variable remuneration	160	220	0	275	200	200	0	250	0	160	0	200	0	116	0	145
Multi-year variable remuneration	0	0	0	0	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	43	0	0	0	0	0	0
2017 – 2020 LTI Plan	0	0	0	0	0	0	0	0	0	85	0	0	0	0	0	0
2018 – 2021 LTI Plan	170	0	0	690	170	0	0	704	0	128	0	0	0	0	0	0
2019 – 2022 LTI Plan	0	340	0	918	0	170	0	718	0	170	0	650	0	170	0	552
Total	**330**	**560**	**0**	**1,883**	**370**	**370**	**0**	**1,672**	**0**	**586**	**0**	**850**	**0**	**286**	**0**	**697**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	10	10	10
Total remuneration	**730**	**1,110**	**550**	**2,433**	**733**	**743**	**373**	**2,045**	**0**	**927**	**341**	**1,191**	**0**	**590**	**304**	**1,001**

German Corporate Governance Code (GCGC)

In kEUR

	Detlef Borghardt				Steffen Schewerda				Guoxin Mao				Total			
	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)	2018	2019 (Target)	2019 (Min)	2019 (Max)
Base salary	530	540	540	540	302	321	321	321	245	97	97	97	1,774	2,377	2,377	2,377
Bonus compensation	68	0	0	0	0	0	0	0	0	0	0	0	112	75	75	75
Fringe benefits	27	30	30	30	20	0	0	0	54	22	22	22	123	116	116	116
Total	**625**	**570**	**570**	**570**	**322**	**321**	**321**	**321**	**299**	**119**	**119**	**119**	**2,009**	**2,568**	**2,568**	**2,568**
1-year variable remuneration	220	171[1]	171	171	186	209	209	209	115	0	0	145	881	1,076	380	1,395
Multi-year variable remuneration	0	410[2]	410	410	0	350[2]	350	350	0	0	0	0	0	760	760	760
2016 – 2019 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0	0	43	0	0
2017 – 2020 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	0	0	85	0	0
2018 – 2021 LTI Plan	300	0	0	0	170	0	0	604	170	0	0	392	510	128	0	2,390
2019 – 2022 LTI Plan	0	0	0	0	0	0	0	642	0	0	0	492	470	850	0	3,972
Total	**520**	**581**	**581**	**581**	**356**	**559**	**559**	**1,805**	**285**	**0**	**0**	**1,029**	**1,861**	**2,942**	**1,140**	**8,517**
Pension-related expenses	0	0	0	0	9	11	11	11	0	0	0	0	9	21	21	21
Total remuneration	**1,145**	**1,151**	**1,151**	**1,151**	**687**	**891**	**891**	**2,137**	**584**	**119**	**119**	**1,148**	**3,879**	**5,531**	**3,729**	**11,106**

[1] According to a mutually agreed agreement

[2] One-time grant to settle all claims from the phantom share plan

	Alexander Geis		Dr. Matthias Heiden		Dr. André Philipp		Mike Ginocchio		Detlef Borghardt		Steffen Schewerda		Guoxin Mao	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Base salary	51	45	49	49	0	50	0	49	50	48	46	36	46	100
1-year variable remuneration	24	22	28	28	0	24	0	21	21	15	28	24	22	0
Multi-year variable remuneration	25	33	23	23	0	26	0	55	29	37	26	40	32	0

In kEUR

	Alexander Geis		Dr. Matthias Heiden		Dr. André Philipp		Mike Ginocchio		Detlef Borghardt		Steffen Schewerda		Guoxin Mao		Total	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Base salary	345	459	352	359	0	325	0	276	530	540	302	321	245	97	1,774	2,377
Bonus compensation	44	75	0	0	0	0	0	0	68	0	0	0	0	0	112	75
Fringe benefits	11	16	11	14	0	16	0	18	27	30	20	0	54	22	123	116
Total	**400**	**550**	**363**	**373**	**0**	**341**	**0**	**294**	**625**	**570**	**322**	**321**	**299**	**119**	**2,009**	**2,568**
1-year variable remuneration	159	140	123	100	0	0	0	63	162	110	111	395	115	65	670	873
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	350	0	0	0	350
2014 – 2017 LTI Plan	237	0	188	0	0	0	0	0	419	0	252	0	59	0	1,155	0
2015 – 2018 LTI Plan	0	178	0	178	0	0	0	27	0	315	0	180	0	86	0	964
Total	**396**	**318**	**311**	**278**	**0**	**0**	**0**	**90**	**581**	**425**	**363**	**925**	**174**	**151**	**1,825**	**2,187**
Pension-related expenses	0	0	0	0	0	0	0	10	0	0	9	11	0	0	9	21
Total remuneration	**796**	**868**	**674**	**651**	**0**	**341**	**0**	**394**	**1,206**	**995**	**694**	**1,257**	**473**	**270**	**3,843**	**4,776**

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the Board of Directors is governed in the Rules of Procedure of the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) It is commensurate to the tasks of the Board of Directors and the situation of the company.

Members of the Board of Directors receive a fixed annual remuneration that is paid after the close of the respective financial year. Performance-based or stock-based compensation components are not granted.

The Chair of the Board of Directors receives a fixed annual remuneration of kEUR 100.

The Deputy Chair of the Board of Directors receives a fixed annual remuneration of kEUR 60.

Each regular member of the Board of Directors receives a fixed annual remuneration of kEUR 40.

For their services on the committees of the Board of Directors each chairperson of a committee receives a fixed remuneration of kEUR 20. This considers the greater amount of time invested by the chairperson. The ordinary members of the committees do not receive any fixed remuneration.

The members of the Board of Directors each receive an attendance fee of kEUR 1 for each day of a meeting of the Board of Directors or its committees that they attend and an attendance fee of kEUR 0.5 for each conference call. Chairpersons of Committees do not receive any attendance fees. Members of the Board of Directors who perform their function on the Board or any of its committees, or the function of chairperson or deputy chairperson, for just part of the financial year are paid on a pro rata temporis basis.

In addition, the members of the Board of Directors receive an expense allowance for BoD-related overseas travel. The D&O group insurance also covers the members of the Board of Directors. No advances or loans were made to members of the Board of Directors in 2019.

The total remuneration of the members of the Board of Directors for 2019 amounts to kEUR 413.7 (previous year: kEUR 405).

Remuneration paid to the individual members of the Board of Directors:

in EUR thousands	Fixed remuneration	Attendance fee	Total 2018	Fixed remuneration	Attendance fee	Total 2019
Martina Merz[1]	140.0	12.0	152.0	110.0	8.0	118.0
Dr. Martin Kleinschmitt[2]	80.0	11.0	91.0	86.7	14.5	101.2
Anja Kleyboldt	40.0	12.5	52.5	40.0	16.5	56.5
Jack Gisinger	40.0	12.5	52.5	40.0	15.0	55.0
Carsten Reinhardt	45.0	12.0	57.0	60.0	11.0	71.0
Ingrid Jägering[3]	0.0	0.0	0.0	10.0	2.0	12.0
Detlef Borghardt[4]	0.0	0.0	0.0	0.0	0.0	0.0
Total	**345.0**	**60.0**	**405.0**	**346.7**	**67.0**	**413.7**

[1] Chair of the Board of Directors until September 2019. Deputy Chair since November 2019.
[2] Chair of the Board of Directors since October 2019.
[3] Member of the Board of Directors and Chair of the Audit Committee since November 2019.
[4] Member of the Board of Directors until February 28, 2019 (no remuneration due to management activities)
Note: The above summary does not include the reimbursement of out-of-pocket expenses and overseas travel.

CORPORATE GOVERNANCE

SAF-HOLLAND is incorporated as a Société Anonyme (S.A.) under Luxembourg law. The management structure of an S.A. is based on the single-tier principle of the Anglo-American board system.

As a multinational corporation, good and sustainable corporate governance plays a key role within SAF-HOLLAND. Both the Board of Directors and the Group Management Board regularly address compliance with the principles of good governance within the organization as an integral component of their common understanding of leadership.

BOARD OF DIRECTORS

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) is a financial holding without any active operating business of its own. The leadership of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) by the Board of Directors focuses primarily on the strategic orientation of SAF-HOLLAND 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 32 and the Rules of Procedure. The latter can be found on the SAF-HOLLAND website at https://corporate.safholland.com/en/company/about-us/corporate-governance/rules-of-procedure.

In accordance with the requirements of the German Corporate Governance Code, the Chair of the Board of Directors has agreed to hold talks with investors on supervisory board topics within an appropriate framework.

Since the departure of the former CEO, Detlef Borghardt, only non-executive directors external to the company sit on the Board of Directors. The Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) is currently composed of six members. 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 by proxy at a meeting. At least half of the members must be present or represented (quorum).

According to the Articles of Association of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), there must be at least three independent members on the Board of Directors, as a rule. As of December 31, 2019, four 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, Ingrid Jägering 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 directors and supervisory board members in listed companies. With Dr. Martin Kleinschmitt and Jack Gisinger, two former members of the Group Management Board are represented on the Board of Directors.

Board of Directors

As of December 31, 2018

Name	Position	First appointment	Term expires
Dr. Martin Kleinschmitt	Chair of the Board of Directors (since 11/2019) Non-Executive Director	April 25, 2013	April 2023
Martina Merz	Deputy Chair of the Board of Directors (since 11/2019) Non-Executive Director	April 24, 2014	April 2023
Ingrid Jägering	Member of the Board of Directors - Non-Executive Director	November 5, 2019	April 2020
Jack Gisinger	Member of the Board of Directors - Non-Executive Director	April 27, 2017	April 2021
Anja Kleyboldt	Member of the Board of Directors - Non-Executive Director	April 26, 2012	April 2021
Carsten Reinhardt	Member of the Board of Directors - Non-Executive Director	April 27, 2017	April 2020

More information on the activities of the Board of Directors during the 2019 financial year can be found in the report on page 32.

Committees of the Board of Directors

Three standing committees – the Audit Committee, the Remuneration Committee and the Nomination Committee – and the temporary North America Special Committee supported the work of the Board of Directors in 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 37.

The Nomination Committee consisted of the following members as of December 31, 2019:

— Martina Merz (Chair)

— Jack Gisinger

— Dr. Martin Kleinschmitt

— Anja Kleyboldt

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

The Audit Committee consisted of the following members as of December 31, 2019:

— Ingrid Jägering (Chair)

— Dr. Martin Kleinschmitt

— Carsten Reinhardt

With Ingrid Jägering and Dr. Martin Kleinschmitt, the Board of Directors has two financial experts who possess special expertise in applying accounting standards and internal controls. Two of the three members of the Audit Committee are independent members of the Board of Directors.

The Remuneration Committee consisted of the following members as of December 31, 2019:

— Martina Merz (Chair)

— Jack Gisinger

— Dr. Martin Kleinschmitt

— Anja Kleyboldt

— Carsten Reinhardt

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

The North America Special Committee consisted of the following members as of December 31, 2019:

— Carsten Reinhardt (Chair)

— Dr. Martin Kleinschmitt

— Anja Kleyboldt

Two of the three members of the North America Special Committee are independent members of the Board of Directors. The Special Committee was disbanded at the end of 2019.

GROUP MANAGEMENT BOARD

As the top executive body of the SAF-HOLLAND Group, the Group Management Board consists of CEO, CFO and COO. It functions as a management board and is responsible for the operational management of the Group. The members of the Group Management Board are appointed by the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) The Board of Directors and the Group Management Board maintain a close, continuous and faithful cooperation in the best interest of the company.

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 and the Group Management Board 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 current version to the extent allowed by Luxembourg corporate law and the company's monistic structure. The limitations that exist are reflected in the Declaration of Conformity pursuant to Section 161 AktG, which is provided 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 10 , 2020 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. For this reason, the Group views compliance not merely as the act of adhering to the applicable national and international laws and regulations. Rather, SAF-HOLLAND sees itself as under an obligation to uphold ethical and moral values. This is the reason we have established a Compliance department to help our employees and managers meet these requirements. The compliance processes are laid out in the process management manual.

The Compliance & Legal Affairs department oversees compliance management and reports directly to the Chief Financial Officer. The design and effectiveness of the measures and processes are also the subject of reviews conducted by the Internal Audit department. The Board of Directors and the Group Management Board are jointly responsible for adherence of compliance-relevant measures and processes with the statutory regulations and internal company policies. Within the Board of Directors it is primarily the Audit Committee which regularly addresses compliance issues, ensuring a line of reporting to the Board of Directors.

In addition, a Compliance Committee was established in the year 2019. In the event of a breach of compliance by the CEO or CFO, the Chair of the Compliance Committee informs the Chair of the Audit Committee directly and reports regularly on the activities of the committee in the Audit Committee. Members of the Compliance Committee are experienced executives in the fields of compliance & legal affairs, human resources and internal audit services.

In 2018, a whistleblower system was implemented throughout the Group, giving employees the opportunity to provide anonymous and protected information about any legal violations in the company. This system is also available to third parties. The Compliance Committee processes any incoming reports.

Our Code of Conduct, which was fully revised in 2019, comprises the compliance requirements for SAF-HOLLAND, which are binding for the company and the management, as well as each individual employee.

Among others, the Code of Conduct regulates such matters as the following:

— prohibition of illegal business practices, such as illegal cartel agreements and unfair trading practices, bribery, corruption and insider transactions

— avoidance of conflicts of interest

— prohibition of unlawful discrimination, child or forced labour, as well as any violation of confidential information and infringement of intellectual property rights of third parties

— a right of all employees to fair treatment, equal opportunities and occupational health and safety

— protection of the environment and conserving natural resources

— comprehensive and legally compliant protection of personal data against unauthorized access

— obligation to keep proper accounting and financial reporting

— compliance with export controls and customs duties.

In addition to the two primary languages of the Group, English and German, the Code of Conduct is also available to employees in Chinese, French, Indian, Italian, Malay, Portuguese, Russian, Spanish and Thai.

Employees may contact the Compliance & Legal Affairs department at any time in the event of questions or suspected cases or leave an anonymous message in the whistleblower system.

Group-wide guidelines regulate other compliance issues, such as the handling of receiving benefits, human rights issues and insider information. When there are changes in the legal framework, the relevant information is updated and the employees affected are informed.

DIVERSITY AT SAF-HOLLAND

DIVERSITY AS A SUCCESS FACTOR

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 sites 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 operating in the world's transport markets under a wide variety of local conditions. Different cultural backgrounds, abilities and experiences create the foundation for an attractive working atmosphere and generate a diversity of ideas upon which the company can prosper.

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 in Germany visit workshops of the non-profit organization "Lebenshilfe" for two weeks to learn how to interact with severely handicapped people and thereby strengthen their social competence.

— In an international trainee programme, university graduates from a wide range of cultural backgrounds (e.g. China and Vietnam) are able to gain international experience and train their soft skills at various locations within the SAF-HOLLAND Group.

— As part of the employee development programme, especially executives participate in multicultural 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 SE (previously 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 company is committed to the principle of diversity when filling management positions 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 SE (previously SAF-HOLLAND S.A.) is 50 per cent, which exceeds the female quota required by German law of at least 30 per cent on supervisory boards.

DIVERSITY AND COMPETENCE PROFILE

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 as well as automotive and commercial vehicles. If possible, members should also have experience in the field of digitization.

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 and considers the best possible composition of a complementary leadership team.

Board of Directors

The Board of Directors should consist of members that, in their entirety, have the knowledge, expertise and professional experience listed below that are required to perform their duties properly. The Board of Directors therefore decided on a competence profile that, among other factors, considers the specific situation of the company, its international structure, the future development of its markets and the product portfolio. This profile will be continuously refined over time. The Board of Directors considers the following fields of competence to be significant to performing its duties:

1. Financial competence
    a. Accounting and auditing
    b. Financial indicators and systems of financial indicators
    c. Capital and financial markets

2. Product/technology and market competence
    a. Familiarity with international markets (the USA in particular)
    b. Technologies and methods relevant to the industry (including digital competence)
    c. Industrial operations experience in global markets
    d. Marketing and sales competence
    e. Knowledge of macroeconomic and political/regulatory environment
    f. Product and technology competence

3. Strategy and leadership competence
    a. Strategy
    b. Leadership
    c. Human resources
    d. Transformation

4. Internal controls
    a. Risk management
    b. Legal affairs/compliance
    c. Corporate governance
    d. Board experience

The Board of Directors concluded that, taken in its entirety, it appropriately fulfils the competence profile.

In addition, the Board of Directors set itself the following requirements when appointing new members

- At least one member should have expertise in accounting and/or auditing (financial expert).

- There should be at least one member with a non-European origin or who has extensive experience in the markets outside of Europe.

- The Board of Directors should have a mix of genders and diversity in its composition.

- As a rule, the age limit for members of the Board of Directors is 70 years of age.

- Conflicts of interest should be avoided in the composition of the Board of Directors.

- The members of the Board of Directors are appointed by the SAF-HOLLAND SE (previously 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 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.

With the appointment of Ingrid Jägering we were not only able to win a proven financial expert for the Board but also a woman with profound industry expertise, transformation skills, capital market experience and a background in the fields of innovation and technology.

TRANSPARENCY IN WAGE STRUCTURES ACT

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 "Transparency in Wage Structures 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.

Against this backdrop, SAF-HOLLAND conducted a review in Germany in 2017 of the equality of pay for men and women for equal work. To this end, 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 travelling information bus Metal Infotruck, as well as the campaign "Youth and Technology AG".

ANNUAL GENERAL MEETING

The shareholders of SAF-HOLLAND SE (previously 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 per cent 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 Board of Directors presents the annual and consolidated financial statements to the shareholders. The Annual General Meeting passes the resolutions on whether to adopt the SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) annual financial statements or not, the appropriation of profits, as well as the discharge of the members of the Board of Directors and the auditor, who is appointed by the Annual General Meeting. Moreover, the Annual General Meeting passes resolutions on any significant corporate matters, 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 SE (previously 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 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.

Upon publication of the SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) annual financial statements, the company hosts an analyst and investor conference. Likewise, after publication of the quarterly results, the company regularly hosts 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 SE (previously 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.

PricewaterhouseCoopers Société Cooperative, Luxembourg, the auditor elected by the 2019 Annual General Meeting, audited the consolidated financial statements. 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 engagement, 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 SE (previously 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 SE (previously 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 received seven reports of management transactions in the 2019 financial year. All notifications were and are available on our website at https://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 SE (previously SAF-HOLLAND S.A.) held 0.1 per cent 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) can be found on page 41 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 (as amended) are as follows:

Shareholder name	Shareholder name	% share of notified voting rights
Times Square Capital, USA	2,354,472	5.19%
NN Group N.V., NL	2,342,860	5.16%
Kempen Oranje Participates, NL	2,297,543	5.07%
Nordea 1 SICAV, LUX	2,297,403	5.06%
Union Investment Privatfonds, D	2,288,386	5.04%
Bestinver Gestion, ESP	2,027,148	4.47%

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, 2019, 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).

h) The members of the Board of Directors in accordance with Article 7.1 and 7.4 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 per cent 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. The term of office may not exceed six years. However, a member of the Board of Directors may be re-elected. 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 per cent 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 (EUR 99.8 million outstanding) and a coupon of 1 per cent, 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 four convertible bonds into 33,190 shares that were 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 totalling EUR 200 million with differing maturities. Of this total, EUR 101.5 million was repaid in November 2019. 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 SE (previously 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. In the case of a change of control, the contractual terms of the respective loans, as described in detail in Article 11 of the respective loan agreement, state that the bank may terminate the loan within 15 days of receiving the notice of a change of control and demand repayment in full, effective immediately.

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 due cause 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.

_Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1-Q4/2019	Q1-Q4/2018[1]
Sales	(5.1)	1,284,155	1,300,555
Cost of sales	(5.2)	–1,082,414	–1,101,292
Gross profit		**201,741**	**199,263**
Other income	(5.3.1)	4,010	10,491
Other expenses	(5.3.5)	–2,971	–834
Impairment of Goodwill		–6,692	–
Selling expenses	(5.3.2)	–70,754	–61,286
Administrative expenses	(5.3.3)	–71,289	–51,821
Research and development expenses	(5.3.4)	–20,794	–19,572
Operating result		**33,251**	**76,241**
Share of net profit of investments accounted for using the equity method	(6.4)	1,948	1,729
Earnings before interest and taxes		**35,199**	**77,970**
Finance income	(5.3.6)	2,099	1,266
Finance expenses	(5.3.6)	–13,087	–15,015
Finance result		**–10,988**	**–13,749**
Result before income tax		**24,211**	**64,221**
Income tax	(5.4)	–13,914	–16,106
Result for the period		**10,297**	**48,115**
Attributable to:			
Equity holders of the parent		8,979	48,151
Shares of non-controlling interests		1,318	–36
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans	(6.10)	–126	946
Income tax effects on items recognized in other comprehensive income	(6.10)	21	–45
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	(6.10)	9,950	2,219
Other comprehensive income		**9,845**	**3,120**
Comprehensive income for the period		**20,142**	**51,235**
Attributable to:			
Equity holders of the parent		18,859	51,522
Shares of non-controlling interests		1,283	–287
Basic earnings per share in EUR	**(7.2)**	**0.20**	**1.06**
Diluted earnings per share in EUR	**(7.2)**	**0.19**	**0.92**

[1] Since January 1, 2019, IFRS 16 has been applied for the first time. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some figures are not comparable with the prior year period.

CONSOLIDATED BALANCE SHEET

kEUR	Notes	12/31/2019	31/12/2018[1]
Assets			
Non-current assets		**520,805**	**472,284**
Goodwill	(6.1)	78,826	84,480
Other intangible assets	(6.1)	179,100	181,285
Property, plant and equipment	(6.2)	216,736	163,263
Investments accounted for using the equity method	(6.4)	16,522	16,833
Financial assets	(7.1)	1,147	1,309
Other non-current assets	(6.5)	2,868	2,686
Deferred tax assets	(5.4)	25,606	22,428
Current assets		**458,439**	**505,132**
Inventories	(6.6)	168,129	179,368
Trade receivables	(6.7)	126,000	138,875
Income tax receivables		4,066	5,226
Other current assets	(6.8)	25,741	25,149
Financial assets	(7.1)	3,337	1,505
Cash and cash equivalents	(6.9)	131,166	155,009
Balance sheet total		**979,244**	**977,416**

kEUR	Notes	12/31/2019	31/12/2018[1]
Equity and liabilities			
Total equity	(6.10)	**318,007**	**318,072**
Equity attributable to equity holders of the parent		**304,981**	**307,002**
Subscribed share capital		454	454
Share premium		269,044	269,044
Legal reserve		45	45
Other reserve		720	720
Retained earnings		59,903	71,804
Accumulated other comprehensive income		–25,185	–35,065
Shares of non-controlling interests		13,026	11,070
Non-current liabilities		**326,081**	**472,101**
Pensions and other similar benefits	(6.11)	30,894	30,507
Other provisions	(6.12)	7,637	7,604
Interest bearing loans and bonds	(6.13)	195,793	364,459
Lease liabilities	(7.1)	25,521	38
Other financial liabilities	(6.15)	13,031	18,460
Other liabilities	(6.16)	691	626
Deferred tax liabilities	(5.4)	52,514	50,407
Current liabilities		**335,156**	**187,243**
Other provisions	(6.12)	12,552	9,992
Interest bearing loans and bonds	(6.13)	153,393	3,936
Lease liabilities	(7.1)	8,126	191
Trade payables	(6.14)	110,366	129,115
Income tax liabilities		244	4,007
Other financial liabilities	(6.15)	21,719	13,065
Other liabilities	(6.16)	28,756	26,937
Balance sheet total		**979,244**	**977,416**

[1] Since January 1, 2019, IFRS 16 has been applied for the first time. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some figures are not comparable with the prior year period.
Adjusted according to IAS 8.42 (cp. Section 2.4.2 in the Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR

	Q1-Q4/2019								
	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 01/01/2019	**454**	**269,044**	**45**	**720**	**86,282**	**–35,065**	**321,480**	**11,070**	**332,550**
Effect of the retroactive adjustment due to IAS 8.42[1]					–14,478		–14,478		–14,478
As of 01/01/2019	**454**	**269,044**	**45**	**720**	**71,804**	**–35,065**	**307,002**	**11,070**	**318,072**
Result for the period	–	–	–	–	8,979	–	8,979	1,318	10,297
Other comprehensive income	–	–	–	–	–	9,880	9,880	–35	9,845
Comprehensive income for the period	**–**	**–**	**–**	**–**	**8,979**	**9,880**	**18,859**	**1,283**	**20,142**
Dividend	–	–	–	–	–20,427	–	–20,427	–	–20,427
Put option for acquisition of remaining shares of PressureGuard LLC	–	–	–	–	–453	–	–453	–	–453
Transactions with non-controlling interests	–	–	–	–	–	–	–	214	214
Addition of shares of non-controlling interests from business combinations	–	–	–	–	–	–	–	459	459
12/31/2019	**454**	**269,044**	**45**	**720**	**59,903**	**–25,185**	**304,981**	**13,026**	**318,007**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consoliated Financial Statements).

kEUR	Q1-Q4/2018								
	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings[1]	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.	–	–	–	–	–20,190	–	–20,190	–	–20,190
Put option for acquisition of remaining shares of Axscend Group Ltd.					–2,189		–2,189		–2,189
Reclassification	–	–	–	–	–832	832	–	–	–
Transactions with non-controlling interests	–	–	–	–	–221	136	–85	–549	–634
Addition of shares of non-controlling interests from business combinations	–	–	–	–	–	–	–	9,773	9,773
31/12/2018	**454**	**269,044**	**45**	**720**	**71,804**	**–35,065**	**307,002**	**11,070**	**318,072**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consoliated Financial Statements).

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	Notes	Q1-Q4/2019	Q1-Q4/2018[1]
Cash flow from operating activities			
Result before income tax		**24,211**	**64,221**
- Finance income	(5.3.6)	–2,099	–1,266
+ Finance expenses	(5.3.6)	13,087	15,015
+/- Share of net profit of investments accounted for using the equity method	(6.4)	–1,948	–1,729
+/- Other non-cash transactions	(7.3)	2,970	–7,256
+ Amortization and depreciation of intangible assets and property, plant and equipment	(5.3.8)	42,742	29,521
+ Impairment of Goodwill	(5.3.8)	6,692	–
+ Impairment of other intangible assets and property, plant and equipment		3,580	
+ Allowance of current assets	(6.6)/ (6.7)	8,602	3,855
+/- Loss/Gain on disposal of property, plant and equipment		–695	1,339
+ Dividends from investments accounted for using the equity method	(6.4)	2,297	1,214
Cash flow before change of net working capital		**99,439**	**104,914**
+/- Change in other provisions and pensions		1,307	–5,140
+/- Change in inventories		14,019	–27,097
+/- Change in trade receivables and other assets		14,305[2]	1,143[2]
+/- Change in trade payables and other liabilities		–19,962	–7,301
Change of net working capital		**9,669**	**–38,395**
Cash flow from operating activities before income tax paid		**109,108**	**66,519**
- Income tax paid	(5.4)	–18,562	–25,739
Net cash flow from operating activities		**90,546**	**40,780**
Cash flow from investing activities			
- Purchase of other short term investments		–1,797	–
+ Proceeds from sale of other short term investments		–	58,216
- Purchase of property, plant and equipment	(6.2)	–45,591	–33,406
- Purchase of intangible assets	(6.1)	–7,390	–7,380
+ Proceeds from sales of property, plant and equipment		5,254	1,308
- Payments for acquisition of subsidiaries net of cash	(3)	–10,852	–58,691
+ Interest received		684	367
Net cash flow from investing activities		**–59,692**	**–39,586**
Cash flow from financing activities			
- Dividend payments to shareholders of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.)	(6.10)	–20.427	–20.427
- Repayments of current and non-current financial liabilities		–101.500	–
- Payments for repayment of bonds			–75.000
- Proceeds from foreign currency derivatives		–41	–
- Payments for lease liabilities		–8.872	–23
- Interest paid		–7.484	–12.793
+/- Change in drawings on the credit line and other financing activities	(6.13)	81.224	–15.811
Net cash flow from financing activities		**–57.100**	**–124.054**
Net increase/decrease in cash and cash equivalents		**–26.246**	**–122.860**
+/- Effect of changes in exchange rates on cash and cash equivalents		2.403	–906
Cash and cash equivalents at the beginning of the period	**(6.9)**	**155.009**	**278.775**
Cash and cash equivalents at the end of the period	**(6.9)**	**131.166**	**155.009**

[1] Since January 1, 2019, IFRS 16 has been applied for the first time. It is applied using the modified retrospective approach, under which the previous year's figures are not adjusted. As a result, some figures are not comparable with the prior year period.

[2] As of December 31, 2019, trade receivables in the amount of € 39.9 million (previous year: € 41.5 million) were sold in the context of a factoring contract. Assuming the legal validity of receivables, no further rights of recourse to SAF-HOLLAND exist from the receivables sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Financial Year January 1 through December 31, 2019

1. CORPORATE INFORMATION

SAF-HOLLAND SE (previously SAF-HOLLAND S.A.; hereinafter referred to as the "Company") was founded on December 21, 2005 in the form of a stock corporation (Société Anonyme) under Luxembourg law. By resolution of an extraordinary general meeting on February 14, 2020 and the ensuing entry in the Luxembourg Trade and Companies Register on February 24, 2020 it was converted into a European Company (Societas Europaea). 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 SE (previously SAF-HOLLAND S.A. and its subsidiaries (the "Group") as of December 31, 2019 were authorized for publication by the resolution of the Board of Directors on March 16, 2020. Shareholder approval of the financial statements is required under Luxembourg law.

2. ACCOUNTING AND VALUATION PRINCIPLES

2.1 BASIS OF PREPARATION

The SAF-HOLLAND SE (previously 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, 2019 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, 2019, the carrying amount of goodwill totaled EUR 78.8 million (previous year: EUR 84.5 million), and that of intangible assets with indefinite useful lives amounted to EUR 40.6 million (previous year: EUR 40.2 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, 2019, the carrying amount of property, plant and equipment totaled EUR 216.7 million (previous year: EUR 163.3 million), and that of intangible assets with finite useful lives amounted to EUR 138.5 million (previous year: EUR 141.1 million). Further details are provided in Notes 6.1 and 6.2.

Income Taxes

Tax positions are calculated using the locally applicable tax legislation and any relevant official interpretations and decrees. Due to their complexity, tax positions are subject to the risk that the taxpayer and the tax authorities interpret tax matters differently. Different interpretations of existing or new tax legislation introduced by tax reforms or other law-making procedures can lead to back-taxes for past years (e.g. Transfer Prices). Such matters are considered by the management when they make their estimate.

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, 2019, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 4.4 million (previous year: EUR 1.0 million). Unrecognized tax loss carryforwards amounted to EUR 67.2 million (previous year: EUR 48.5 million). In addition, as of December 31, 2019, the carrying amount of deferred tax assets recognized on interest carryforwards was EUR 10.6 million (previous year: EUR 12.1 million). Further details are provided in Note 5.4.

Lease Liabilities
According to IFRS 16, the terms of leases are based on the non-cancellable term of the lease and an assessment of any options to extend or terminate the lease. The decision on the lease terms and the discount rate used has an influence on the amount at which right-of-use assets and lease liabilities are recognized.

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, 2019, the carrying amount of pensions and other similar obligations was EUR 30.9 million (previous year: EUR 30.5 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, 2019, other provisions amounted to EUR 20.2 million (previous year: EUR 17.6 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 Group 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 plans. As of December 31, 2019, the carrying amount of obligations was EUR 1.1 million (previous year: EUR 2.5 million). Further details are provided 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, 2019, the fair value of derivative financial instruments was EUR – 0.5 million (previous year: EUR – 0.6 million). Further details are provided in Note 7.1.

2.3 SUMMARY OF KEY ACCOUNTING POLICIES

Consolidation principles

The consolidated financial statements consist of the financial statements of SAF-HOLLAND SE (previously 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 SE (previously 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. The Group's share in any gains and losses on transactions between the Group and an associate or joint venture are eliminated.

The complete list of the Group's shareholdings is provided in Note 7.5.

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	
	12/31/2019	31/12/2018	2019	2018
USD	0.89296	0.87428	0.89334	0.84728
CAD	0.68343	0.64127	0.67338	0.65391
CNY	0.12782	0.12714	0.12938	0.12821
INR	0.01252	0.01258	0.01271	0.01242

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	Infinite	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
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
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

In the course of adopting IFRS 16 “Leases”, the new standard on leases, the Group changed its accounting method for those leases where the Group is a lessee. The accounting method and the associated implications are presented in Note 2.4.

Until December 31, 2018 the classification of leases was based on the extent to which risks and rewards incidental to ownership of a leased asset lay with the lessor or the lessee.

Leases in which the Group, as the lessee, bore substantially all the risks and rewards incidental to the ownership of the leased asset were accounted for as finance leases. Accordingly, the Group capitalized the leased asset at the asset’s fair value or the present value of the minimum lease payments, if lower, and subsequently depreciated the leased asset over its estimated useful life or the contractual term, if shorter. Lease payments are therefore separated into finance costs and payments of principal on the lease liability to achieve a constant rate of interest on the remaining carrying amount of the lease liability. Finance costs were expensed immediately through profit or loss.

All other leases in which the Group was the lessee were accounted for as operating leases. In this case, lease payments were 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 policies described in note 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 payments of principal and interest (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 upon 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 that 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 financial assets and 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 risks and rewards of ownership of the financial asset or (b) neither transferred nor retained substantially all of the risks and rewards of ownership of the financial asset but instead 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 at 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 at 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.

In accordance with IAS 32.23, put options to shares that do not have any controlling interests attached are measured upon initial recognition at the present value of the estimated repurchase price and presented under other financial liabilities. As IAS 32 does not set any guidance on how put options with an indefinite date of exercise should be measured, the earliest possible date of exercise has been assumed to measure the other financial liability.

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 Group 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 at 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 POLICIES

The accounting policies applied are essentially unchanged compared to those applied in the previous year, with the following exceptions:

2.4.1 IFRS 16 "Leases"

SAF-HOLLAND has adopted IFRS 16 "Leases" effective January 1, 2019. IFRS replaces, among others, IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease" and introduces a uniform accounting model by which a lessee is obliged to recognize a right-of-use asset for all leases and a lease liability for the outstanding lease instalments. The former classification into operating and finance leases has been revoked by IFRS 16.

In terms of the lessor, the new standard generally follows the accounting treatment of IAS 17 and retains the distinction between operating and finance leases.

IFRS 16 allows practical expedients for leases that have a term of 12 months or less and leases of low-value assets. The Group avails of these practical expedients and therefore does not recognize a right-of-use asset or a lease liability in such cases. As in the past, the related lease payments are still posted as expenses through profit or loss.

The right-of-use assets are presented under property, plant and equipment and are measured at cost less any depreciation and accumulated impairment losses. The cost of a right-of-use asset is measured at the present value of all the lessee's future lease payments plus any lease payments made at or before the commencement date plus an estimate of the costs needed to dismantle or restore the leased asset. Any lease incentives are deducted from cost. The right-of-use asset is depreciated on a straight-line basis with the depreciation charge being allocated to the costs of the respective function.

Upon initial recognition of a lease liability, it is measured at the present value of the lease payments that have not yet been made as of that date. These payments are discounted using the incremental borrowing rates for instruments of the same term and currency as the interest rates implicit in the leases cannot be readily determined. Subsequent measurement of the lease liability uses the effective interest method. The associated interest expenses are presented in finance costs.

During the transition to IFRS 16, the Group applies the modified retrospective approach, by which the comparative figures are presented in accordance with IAS 17 and not adjusted to the new standard.

SAF-HOLLAND has made use of the following practical expedients during the first-time application of IFRS 16:

— during first-time application of IFRS 16 right-of-use assets are fundamentally measured at the amount of the lease liability the lease liability is measured at the present value of all outstanding lease payments the weighted average incremental borrowing rate amounted to 2.7 %

— earlier assessments of whether a lease constituted an onerous contract were assumed as an alternative to conducting impairment tests. As of January 1 there were no onerous contracts

— initial direct costs were not considered when measuring right-of-use assets upon first-time application of the new standard

— retroactive determination of the term of the lease for leases with options to extend the lease or terminate it

— recognition of leases that had a term of less than 12 months as of January 1, 2019 as current leases.

In the course of the transition to IFRS 16 lease liabilities and right-of-use assets of EUR 18.2 million were recognized in the opening consolidated balance sheet as of January 1, 2019.

The following table reconciles the rental agreements and leases carried as of December 31, 2018 to the amounts of the lease liabilities carried in the opening consolidated balance sheet.

Reconciliation of lease liabilities as of January 1, 2019

kEUR	
Operating lease liabilities as reported on December 31, 2018:	20,215
Discounted at the lessee's marginal borrowing rate when IFRS 16 was first applied	18,812
Plus: liabilities from finance leases as of December 31, 2018	229
Less: short-term leases, which are recognized as an expense on a straight-line basis	–556
Less: leases for low-value assets that are recognized as an expense on a straight-line basis	–304
Lease liabilities recognized on January 1, 2019	**18,181**
thereof current liabilities	4,609
thereof non-current liabilities	13,572

The following table summarizes the impact of IFRS 16 as of December 31, 2019:

IFRS 16 – Effects on the consolidated balance sheet

kEUR	12/31/2019	Effects IFRS 16	12/31/2019 without application of IFRS 16	12/31/2018 without application of IFRS 16
Assets				
Non-current assets	520,805	–33,493	487,312	472,284
Current assets	458,439	–	458,439	505,132
Balance sheet total	**979,244**	**–33,493**	**945,751**	**977,416**
Equity and liabilities				
Equity	318,007	154	318,161	318,072
Non-current liabilities	326,081	–25,521	300,560	472,101
Current liabilities	335,156	–8,126	327,030	187,243
Balance sheet total	**979,244**	**–33,493**	**945,751**	**977,416**

In sum, the indicators in the consolidated statement of comprehensive income have been impacted as follows:

IFRS 16 – Effects on the consolidated statement of comprehensive income

kEUR	12/31/2019	Effects IFRS 16	12/31/2019 without application of IFRS 16	12/31/2018 without application of IFRS 16
EBITDA	88,213	–8,872	79,341	107,491
EBIT	35,199	–647	34,552	77,970

In the statement of cash flows, the change in the recognition of expenses from operating leases leads to an improvement in the cash flow from operating activities of kEUR 8,872 in the 2019 financial year. The net cash flow from financing activities decreases accordingly.

2.4.2 Changes pursuant to IAS 8.42

The Group has made a retrospective adjustment of the comparative figures in accordance with IAS 8.42 relating to the presentation of business combinations in the previous year. The restatements relate to the acquisitions of V.ORLANDI S.p.A. and Axscend Group Ltd.

More specifically, this means that the carrying amounts of financial liabilities arising from put options in the column for the comparative figures as at December 31, 2018 have been adjusted and, instead of their fair values of the put options, have been measured at their estimated redemption amount on the date of initial recognition plus the time effect of money for the period between initial recognition and December 31, 2018 as well as any adjustments due to changes in the estimate. The differences between the original carrying amounts as at December 31, 2018 (as reported in the 2018 annual report) and the corrected amounts, which are attributable to changes between the fair values and present values of the estimated repurchase prices as at December 31, 2018, were offset against retained earnings in the column for the comparative figures.

Due to the adjustment pursuant to IAS 8.42 in connection with the acquisitions of V.ORLANDI S.p.A. and Axscend Group Ltd., the figures in the consolidated balance sheet as at December 31, 2018 have changed and were adjusted retroactively as follows:

kEUR			31/12/2018
	before adjusting	Adjustment	after adjusting
Total equity	**332,550**	**–14,478**	**318,072**
thereof retained earnings	86,282	–14,478	71,804
Total non-current liabilities	**469,912**	**2,189**	**472,101**
thereof other financial liabilities	16,271	2,189	18,460
Total current liabilities	**174,954**	**12,289**	**187,243**
thereof other financial liabilities	776	12,289	13,065

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.

Amendments to IFRS 3: Definition of a business

In October 2018 the IASB issued amendments to the definition of a business in IFRS 3 “Business Combinations” aimed at making it easier for companies to decide whether it has acquired a business or a group of assets.

As the amendments apply prospectively to transactions or other events that will only occur on or after the date of first-time application, they did not have any impact on the Group on the date of transition.

Amendments to IAS 1 and IAS 8 – Definition of material

In October 2018, the IASB issued amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The objective of the amendments was to align the definition of materiality used in all standards and to clarify certain aspects of the definition. According to the new definition, information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group assumes that the amendment to the definition of “materiality” will not have a significant impact on the consolidated financial statements.

Other amendments were also made to the standards, but these did not have any effect on the Group’s assets, liabilities, financial position and financial performance.

3. BASIS OF CONSOLIDATION

The Group's basis of consolidation changed as follows when compared to the consolidated financial statements as of December 31, 2018.

BUSINESS ACQUISITIONS

Business acquisitions in the year 2019

Acquisition of PressureGuard 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 can be exercised in the period 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 financial liability resulting from the put option is accounted for in accordance with IAS 32. Because of the voting rights majority, SAF-HOLLAND Inc. obtained control of PressureGuard LLC as of the acquisition date.

The first-time consolidation of PressureGuard LLC will be carried out in accordance with IFRS 3 using the acquisition method.

The purchase price of approximately EUR 0.9 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
Other intangible assets	655
Property, plant and equipment	33
Inventories	325
Trade receivables	72
Other assets	10
	1,095
Deferred tax liabilities	145
Trade payables	14
	159
Total of identified net assets	**936**
Shares of non-controlling interests	–459
Goodwill from the acquisition	406
Consideration transferred	**883**

The gross amount of trade receivables came to kEUR 72 at the time of acquisition.

Goodwill of kEUR 406 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 459 at the time of acquisition.

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

kEUR	
Cash outflow	883
Actual cash outflow	**883**

PressureGuard LLC has been allocated to the Americas region.

The value of the call/put option for the remaining 49 % of the shares in PressureGuard LLC is dependent on future earnings figures and amounted to kEUR 453 at the time of acquisition.

Since the time of acquisition, PressureGuard LLC has contributed kEUR 682 to the Group's sales and kEUR 142 to the Group's earnings before tax.

Transaction costs of kEUR 80 were recognized as an expense and included in administrative expenses.

Acquisition of the business operations of the Stara Group

With effect from February 1, 2019, SAF-HOLLAND GmbH acquired the business operations of the Finnish Stara Group from the owner family. The Stara Group was previously the distribution partner of SAF-HOLLAND GmbH, focusing primarily on the distribution of axle and suspension systems for trailers in Finland and Sweden.

The acquisition was completed in two stages. 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 connected stage, Stara Parts Oy acquired the business operations of Oy Arne Stara AB.

Because of the voting rights majority, SAF-HOLLAND GmbH obtained control of Stara Parts Oy and Trailax AB as of the acquisition date.

The total purchase price of approximately EUR 10.9 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
Other intangible assets	3,344
Property, plant and equipment	4,678
Inventories	4,983
Trade receivables	2,015
Other assets	104
Cash and cash equivalents	959
	16,083
Deferred tax liabilities	678
Trade payables	69
Other liabilities	233
Lease liabilities	4,475
	5,455
Total of identified net assets	**10,628**
Goodwill from the acquisition	300
Consideration transferred	**10,928**

The gross amount of trade receivables came to kEUR 2,045 at the time of acquisition.

Goodwill of kEUR 300 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	10,928
Cash acquired	959
Actual cash outflow	**9,969**

The Stara Group has been allocated to the EMEA region.

In the period from the time of acquisition until December 31, 2019, the acquired business contributed kEUR 12,212 to the Group's sales and kEUR 125 to the Group's earnings before tax, including purchase price allocation effects and integration costs.

Transaction costs of kEUR 144 were recognized as an expense and included in administrative expenses.

If the two acquisitions had been included in the consolidated financial statements as of January 1, 2019, the Group's sales and Group's earnings before tax would have been EUR 1,285.5 million and EUR 24.2 million respectively in the past financial year.

Business acquisitions in the year 2018

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 were granted a call / put option for the purchase / sale of the remaining 30 % of the shares. 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 financial liability resulting from the put option was accounted for in accordance with IAS 32. Because SAF-HOLLAND GmbH holds the majority of voting rights, it 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 acquisition 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 bonds	3,461
Trade payables	5,335
Other liabilities	712
Pension liabilities	1,086
Other provisions	95
Income tax liability	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 came 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 were 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. has been assigned to the EMEA region.

The present value of the estimated redemption amount for the remaining 30 per cent of the shares in V.ORLANDI S.p.A is dependent on future earnings figures and, after considering the adjustments made in the reporting year pursuant to IAS 8.42, amounted to kEUR 21,193 at the time of acquisition.

Due to the first-time consolidation of V.ORLANDI S.p.A. the Group's sales increased by kEUR 18,305 and its earnings before tax by kEUR 2,940 in the 2018 financial year.

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 acquisition 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 bonds	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 came to kEUR 12,330 at the time of acquisition.

Goodwill of kEUR 6,581 was 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 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 earnings 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 British 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 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 acquisition method.

The purchase price of approximately EUR 5.3 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	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 came to kEUR 289 at the time of acquisition.

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**

The present value of the redemption amount for the acquisition of the remaining shares amounts to kEUR 2,190 after considering the adjustments made in the reporting year pursuant to IAS 8.42

Due to the first-time consolidation of Axscend Group Ltd., consolidated sales rose by kEUR 482 and consolidated earnings before tax – including the impact on earnings from the purchase price allocation and integration costs – decreased by kEUR 76 in the 2018 financial year.

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 purchase price of EUR 0.9 million was paid in cash.

Due to the close timing between the date of acquisition and the date on which the consolidated financial statements for the year ended December 31, 2018 were prepared, the business combination was only recognized at the preliminary figures. The purchase price allocation was finalized in the 2019 financial year within the 12-month timeframe allowed by IFRS 3.

The following table shows a comparison between the figures in the preliminary purchase price allocation and the final purchase price allocation:

kEUR	Preliminary fair value as of acquisition date	Final fair value as of acquisition date
Other intangible assets		200
Property, plant and equipment	20	20
Inventories	1,230	1,230
Trade receivables	242	242
Cash and cash equivalents	136	136
	1,628	**1,828**
Deferred tax liabilities		50
Interest bearing loans and bonds	19	19
Trade payables	613	613
Other liabilities	1,159	1,159
	1,791	**1,841**
Total of identified net assets	**–163**	**–13**
Goodwill from the acquisition	1,063	913
Consideration transferred	**900**	**900**

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

The goodwill of kEUR 913 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 region.

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

NEWLY ESTABLISHED COMPANIES

SAF-HOLLAND (Thailand) Co. Ltd., Thailand, was established in the financial year.

In the previous year OOO V. Orlandi Rus with registered offices in Naberezhnye Chelny, Russia, SAF-HOLLAND (Shanghai) Investment Co., Ltd., China, and SAF-HOLLAND (Yangzhou) Vehicle Parts Co., Ltd., China, were founded.

DECONSOLIDATIONS

Rednet Pte. Ltd., Singapore, was deconsolidated in the financial year upon being liquidated on April 4, 2019. There was no material impact on the Group’s assets, liabilities, financial position or financial performance.

In the previous year, SAF-HOLLAND Austria GmbH, Austria, was deconsolidated upon conclusion of the liquidation process on December 29, 2018. The deconsolidation did not result in any gains or losses.

OTHER CHANGES

Effective May 1, 2019 York Sales (Thailand) Co. Ltd. and SAF-HOLLAND (Thailand) Co. Ltd. were merged with a newly established company with the same name, SAF-HOLLAND (Thailand) Co. Ltd.

After the acquisition, Stara Parts Oy and Trailax AB were renamed SAF-HOLLAND Suomi Oy and SAF-HOLLAND Sverige AB respectively.

In the previous year, 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 an equity transaction.

4. SEGMENT INFORMATION

Commencing January 1, 2019 a new segment was introduced for management and group reporting purposes, to reflect the growing significance of the individual regions. The APAC / China region was divided into the regions “APAC” and “China.” Since January 1, 2019, corporate management and group reporting have been segmented into the “EMEA,” “Americas,” “APAC” and “China” segments. The four regions cover both original equipment as well as the 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 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-Q4/2019	Q1-Q4/2018
Operating result	33,251	76,241
Share of net profit of investments accounted for using the equity method	1,948	1,729
EBIT	**35,199**	**77,970**
Additional depreciation and amortization from PPA	9,673	8,837[2]
PPA step-up from inventory measuring of acquisitions	–	1,065
Valuation effects from call and put options	2,971	–7,256
Impairment of Goodwill	6,692	–
Restructuring and transaction expenses	25,281[1]	8,962
Adjusted EBIT	**79,816**	**89,578**

[1] Restructuring and transaction costs of EUR 25.3 million (previous year EUR 9.0 million) include unscheduled depreciation of property, plant and equipment of EUR 2.3 million (previous year EUR 0.0 million).
[2] Includes a loss from asset disposal of kEUR 847.

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

kEUR	EMEA[1]		Americas[2]		APAC[3]		China[4]		Total	
	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018
Sales	626,236	658,924	534,455	471,551	88,578	94,110	34,886	75,970	1,284,155	1,300,555
Cost of sales	–500,291	–529,190	–458,449	–424,561	–74,516	–78,194	–49,158	–69,347	–1,082,414	–1,101,292
Gross profit	**125,945**	**129,734**	**76,006**	**46,990**	**14,062**	**15,916**	**–14,272**	**6,623**	**201,741**	**199,263**
Gross profit margin in %	20.1	19.7	14.2	10.0	15.9	16.9	–40.9	8.7	15.7	15.3
Selling and administrative expenses, research and development costs, other income and expenses, impairment goodwill, share of net profit of investments accounted for using the equity method	–75,459	–66,770	–60,292	–36,200	–12,089	–11,643	–18,702	–6,680	–166,542	–121,293
Adjustments	9,654	8,454	13,486	–2,312	1,391	4,138	20,086	1,328	44,617	11,608
Adjusted EBIT	**60,140**	**71,418**	**29,200**	**8,478**	**3,364**	**8,411**	**–12,888**	**1,271**	**79,816**	**89,578**
Adjusted EBIT margin in %	9.6	10.8	5.5	1.8	3.8	8.9	–36.9	1.7	6.2	6.9
Depreciation and impairments	–21,789	–13,553	–15,818	–12,487	–4,165	–2,230	–11,242	–1,251	–53,014	–29,521

[1] Includes Europe, Middle East and Africa.
[2] Includes Canada, the USA as well as Central and South America.
[3] Includes Asia/Pacific and India.
[4] Includes China.

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 and China regions lies on 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	12/31/2019	31/12/2018
Non-current assets		
Americas	187,493	173,708
EMEA	253,970	235,815
APAC	28,558	27,885
China	24,031	11,139
Total	**494,052**	**448,547**

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-Q4/2019	Q1-Q4/2018
OEM	959,090	988,726
Aftermarket	325,065	311,829
Total	**1,284,155**	**1,300,555**

The performance obligation is met through the delivery of axle and suspensions systems, fifth wheel couplings, kingpins, trailer- couplings (OEM 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-Q4/2019	Q1-Q4/2018
Cost of materials	861,863	902,349
Personnel expenses	144,451	134,782
Amortization and depreciation of intangible assets and property, plant and equipment	23,899	16,098
Expenses related to rent and leasing	2,371	7,293
Temporary employees expenses	6,243	13,249
Repair and maintenance expenses	12,059	11,401
FX-valuation	219	905
Legal and consulting expenses	3,021	1,364
Travel expenses	1,442	1,308
Warranty expenses	7,885	1,131
Restructuring and transaction expenses	13,642	4,114
Other	5,319	7,298
Total	**1,082,414**	**1,101,292**

In the 2019 financial year, cost of sales included inventory consumption of kEUR 1,050,886 (previous year: kEUR 1,079,833).

5.3 OTHER INCOME AND EXPENSES

5.3.1 Other income

Other operating income consists of the following:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Income from option valuation	–	8,090
FX-valuation	–	1,033
Restructuring and transaction income	2,167	–
Other	1,842	1,368
Total	**4,010**	**10,491**

Other income mainly resulted from a property sale in connection with the post-merger integration of the York group which was acquired last year.

5.3.2 Selling expenses

The following table presents a breakdown of selling expenses:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Personnel expenses	34,461	32,467
Expenses for advertising and sales promotion	8,836	8,956
Amortization and depreciation of intangible assets and property, plant and equipment	10,779	6,603
Expenses related to rent and leasing	547	2,348
Expenses for distribution	4,923	4,018
Trade receivable allowance and write-off	3,738	1,208
Commissions	503	716
Restructuring and transaction expenses	661	338
FX-valuation	236	301
Other	6,070	4,331
Total	**70,754**	**61,286**

5.3.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Personnel expenses	28,669	21,510
Expenses for office and operating supplies	8,147	6,404
Amortization and depreciation of intangible assets and property, plant and equipment	5,784	4,544
Expenses related to rent and leasing	383	1,016
Legal and consulting expenses	5,372	5,196
Travel expenses	1,802	1,890
Restructuring and transaction expenses	12,996	4,314
Other	8,136	6,947
Total	**71,289**	**51,821**

5.3.4 Research and development costs

Research and development costs consist of the following:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Personnel expenses	10,766	10,919
Amortization and depreciation of intangible assets and property, plant and equipment	2,280	2,276
Expenses related to rent and leasing	158	311
Testing expenses	2,361	1,982
Impairment of R&D projects	1,244	–
Restructuring and transaction expenses	149	196
Other	3,836	3,888
Total	**20,794**	**19,572**

Development costs of kEUR 4,943 (previous year: kEUR 4,328) were recognized as internally generated intangible assets 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 KLL Equipamentos para Transporte Ltda.

5.3.6 Financial result

Finance revenue breaks down as follows:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Unrealized foreign exchange gains on foreign currency loans and dividends	402	12
Realized foreign exchange gains on foreign currency loans and dividends	227	161
Finance income due to derivatives	460	679
Finance income due to pensions and other similar benefits	12	5
Interest income	850	367
Other	148	42
Total	**2,099**	**1,266**

Finance costs break down as follows:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Interest expenses due to interest bearing loans and bonds	–7,935[1]	–9,889[1]
Amortization of transaction costs	–508	–592
Finance expenses due to pensions and other similar benefits	–866	–862
Finance expenses due to derivatives	–471	–862
Realized foreign exchange losses on foreign currency loans and dividends	–553	–632
Unrealized foreign exchange losses on foreign currency loans and dividends	–1,183	–25
Finance expenses due to leasing	–707	–3
Other	–864	–2,150
Total	**–13,087**	**–15,015**

[1] Includes the non-cash interest expenses of kEUR 673 (previous year: kEUR 666) 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 – 508 (previous year: kEUR – 592) 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.

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-Q4/2019	Q1-Q4/2018
Wages and salaries	–179,327	–176,872
Social insurance contributions	–28,758	–25,279
Pension expenses	–505	4,015
Termination benefits	–9,757	–1,542
Total	**–218,347**	**–199,678**

Termination benefits primarily comprises severance payments made in connection with the legal entity consolidation in China and for former members of the Group Management Board.

Social insurance contributions include expenses from defined contribution plans of kEUR 9,113 (previous year: kEUR 8,370).

5.3.8 Depreciation and amortization and impairment

Breakdown of depreciation and amortization by function:

kEUR	Depreciation of property, plant, and equipment		Amortization of intangible assets		Total	
	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018
Cost of sales	–21,460	–14,285	–2,439	–1,813	–23,899	–16,098
Selling expenses	–4,010	–1,094	–6,769	–5,509	–10,779	–6,603
Administrative expenses	–2,566	–1,727	–3,218	–2,817	–5,784	–4,544
Research and development expenses	–1,118	–983	–1,162	–1,293	–2,280	–2,276
Impairment of R&D projects	–	–	–1,244	–	–1,244	–
Impairment of Goodwill	–	–	–6,692	–	–6,692	–
Impairment of tangible assets	–2,336[1]				–2,336[1]	
Total	**–31,490**	**–18,089**	**–21,524**	**–11,432**	**–53,014**	**–29,521**

[1] Included in the restructuring and transaction costs.

The increase in the depreciation of property, plant and equipment results from the first-time application of the new standard on leases, IFRS 16, and a higher volume of capital expenditure in the last two years.

Depreciation of property, plant and equipment and amortization of intangible assets arising from purchase price allocations amounted to kEUR 9,673 (previous year: kEUR 7,990).

5.4 INCOME TAXES

Income taxes primarily consist of the following:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Current income taxes	–16,085	–16,969
Deferred income taxes	2,171	863
Income tax reported in the result for the period	**–13,914**	**–16,106**

The effective income tax rate for the Group for the year ended December 31, 2019 is 57.47 % (previous year: 25.08 %). The following table reconciles the tax expenses presented in the consolidated financial statements and the expected income taxes for the Group after applying the Group's corporate income tax rate of 27.71 % (previous year: 26.80 %). The Group tax rate is the average weighted tax rate of the regions EMEA, Americas, APAC and China applied to the Group's earnings before tax. 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 %. For the APAC region the average weighted tax rate of 26.88% has been applied. The Chinese corporate tax rate of 25.00 % has been applied in the China region.

The expected income tax expenses (current and deferred) based on the Group's income tax rate of 27.71 % deviate from the reported income tax expenses as follows:

kEUR	12/31/2019	31/12/2018
Result before income tax	**24,211**	**64,221**
Income tax based on Group's income tax rate of 27.71% (previous year: 26.80%)	–6,709	–17,211
Unused interest carry-forwards	–374	–
Unused tax loss carry-forwards	–6,047	–1,891
Use of previously not recognized tax loss carry-forwards	2,029	1,999
Non-deductible operating expenses	–3,473	–1,307
Tax-Exempt income	247	1,639
Differences in tax rates	961	30
Income taxes resulting from previous year	–199	2,722
Other	–284	99
Effects from changes in foreign tax legislation	–64	–2,186
Income tax based on effective income tax rate of 57.47% (previous year: 25.08%)	–13,914	–16,106

The development of deferred income taxes in the items tax loss carryforwards is impacted by losses resulting from impairments predominantly in Chinese subsidiaries, on which no deferred tax asset have been built. The development of deferred income taxes as of the reporting date was as follows:

kEUR	12/31/2019	31/12/2018
Inventories	2,343	1,918
Pensions and other similar benefits	6,399	6,679
Other financial liabilities	167	208
Other provisions	2,622	2,279
Tax loss carry-forwards	4,377	1,017
Interest carry-forwards	10,580	12,114
Other	4,183	4,365
Deferred income tax assets	**30,670**	**28,580**
Intangible assets	–37,059	–39,371
Property, plant and equipment	–12,919	–10,518
Inventories	–	–14
Investments accounted for using the equity method	–375	–394
Other assets	–353	–233
Interest bearing loans and bonds	–3,185	–2,921
Other	–3,687	–3,108
Deferred income tax liabilities	**–57,578**	**–56,559**

For the year ended 31 December 2018, the Group Management Board assessed that it is more likely than not that loss carry-forwards on KLL Equipamentos para Transporte Ltda. (KLL) in an amount of 2.211 kEUR and SAF-HOLLAND South Africa Ltd. in an amount of 3.689 kEUR cannot be utilized for offsetting against taxable income. Deferred tax assets on these loss carry-forwards have therefore not been recognized. As of each reporting date, the Group Management Board considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets.

As of December 31, 2019, the Group Management Board reassessed the possibility of utilization of tax loss carry-forwards in KLL and SAF-HOLLAND South Africa Ltd. and concluded that there is sufficient positive evidence that it is more likely than not that deferred taxes are realizable. The Group therefore reversed the valuation allowance accordingly. As of December 31, 2019, the Group has tax loss carry-forwards of 4.190 kEUR for KLL and of 3.059 kEUR for SAF-HOLLAND South Africa Ltd, which, if unused, can be carried forward indefinitely. The Group therefore recorded deferred tax assets on the loss carry-forwards of KLL in an amount of 1.431 kEUR and on SAF-HOLLAND South Africa in an amount of 857 kEUR.

This conclusion is substantiated for KLL primarily by a turnaround of the Brazilian economy in 2018 and 2019 and by increased sales opportunities through expansion across the whole South American market, new customers especially in the OEM business and stronger demand for mechanical suspension systems, which bring more business to the company in the local trailer market. For SAF-HOLLAND South Africa Ltd., this conclusion is substantiated by an expected change in customer demand to more innovative and weight-reduced axles and trailer components and also internal cost-cutting programs and efficiency gains in internal processes.

In addition, as of December 31, 2019 the Group recorded a deferred tax asset of 1.072 kEUR on losses in an amount of 4.289 kEUR in SAF-HOLLAND Yangzhou Vehicle Parts Ltd., China. As of 31 December 2019 the Group Management Board deems it more likely than not that deferred tax assets in SAF-HOLLAND Yangzhou Vehicle Parts Ltd. can be realized in the loss carry-forward period by 2022. The Group Management Board's conclusion is supported by expected changes in regulations that urge trailer manufactures to shift to weight-reduced and disc-brake technology, both a key competence of SAF-HOLLAND.

As of the reporting date, deferred tax assets and liabilities of kEUR 5,064 (previous year: kEUR 6,152) were offset, having met the requirements for offsetting. The presentation in the balance sheet thus considers deferred tax assets of kEUR 25,606 (previous year: kEUR 22,428) and deferred tax liabilities of kEUR 52,514 (previous year: kEUR 50,407).

The Group has tax loss carryforwards of kEUR 84,391 (previous year: kEUR 52,222) 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 67,178 (previous year: kEUR 48,483) 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	12/31/2019	31/12/2018
Expiry date		
Infinite	33,997	39,424
Within 5 years	31,461	8,416
Within 10 years	1,720	643
Total	**67,178**	**48,483**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 42,282 (previous year: kEUR 54,274), which are available indefinitely to various Group companies to deduct from future taxable income. Interest carryforwards result from the interest limitation rules introduced by the business tax reform in Germany as well as a comparable regulation in the US.

In financial year 2019, deferred income taxes amounting to kEUR –21 (previous year: kEUR –45) were recognized in other comprehensive income.

Furthermore, temporary differences associated with shares held in subsidiaries for which no deferred taxes have been recognized amounted to EUR –14.4 million (previous year: EUR –6.0 million).

To our shareholders

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6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 GOODWILL AND INTANGIBLE ASSETS

kEUR	Customer relationship	Technology	Development costs	Brand	Service network	Licenses and software	Intangible assets	Goodwill
Historical costs								
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**
Additions from initial consolidation	3,872	132	37	158	–	–	4,199	556
Additions	–	12	4,943	–	–	2,435	7,390	–
Disposals	–	–	398	–	–	387	785	–
Transfers	–	–	–	–	–	–435	–435	–
Foreign currency translation	1,303	307	296	350	–	311	2,567	685
As of 12/31/2019	**142,795**	**29,973**	**28,212**	**41,784**	**3,494**	**42,752**	**289,011**	**115,674**
Accumulated amortization								
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	–
Transfers	–	–	–	–	–	–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**
Additions from initial consolidation	–	–	–	–	–	–	–	–
Impairment	–	–	1,244	–	–	–	1,244	6,692
Additions	6,608	1,187	2,009	119	175	3,490	13,588	–
Disposals	–	–	100	–	–	386	486	–
Transfers	–	–	–	–	–	107	107	–
Foreign currency translation	351	104	79	–3		137	668	203
As of 12/31/2019	**48,463**	**21,515**	**8,447**	**1,175**	**2,403**	**27,908**	**109,911**	**36,848**
Carrying amount 12/31/2018	**96,116**	**9,298**	**18,119**	**40,217**	**1,266**	**16,268**	**181,285**	**84,480**
Carrying amount 12/31/2019	**94,332**	**8,458**	**19,765**	**40,609**	**1,091**	**14,844**	**179,100**	**78,826**

A number of development projects were discontinued on account of a change in the allocation of resources. The development expenses incurred during the development phase for these projects were written off by recording an impairment loss of kEUR 1,244. The impairment loss has been allocated to the EMEA region.

Intangible assets with finite useful lives that are significant to the Group are presented in the following table:

	2019		2018	
	Carrying amount	Useful life	Carrying amount	Useful life
Customer relationship "OEM"	25,474	27	26,445	28
Customer relationship "5th-Wheel"	10,512	19	11,072	20

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.

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 2025 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	
	2019	2018
Americas	9.49%	11.18%
EMEA	8.28%	9.33%
APAC	13.84%	14.00%
China	11.40%	14.00%

In addition, specific peer group information was considered in the form of beta-factors and debt ratios, whereby changes to debt ratios caused by the first-time application of IFRS 16 were considered accordingly.

In the course of introducing the new regional segmentation on January 1, 2019, the region of "APAC/China" was split into the regions of "China" and "APAC" to operate alongside the regions of "EMEA" and "Americas", each of which are defined as cash-generating units. The allocation of the carrying amounts of goodwill to the cash-generating units was based on the relative fair values for the regions. The allocation of the brands "SAF", "Holland", "York" and "V.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 V.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 cash-generating unit. The carrying amounts are as follows:

kEUR	Americas		EMEA		APAC		China		Total	
	12/31/2019	31/12/2018	12/31/2019	31/12/2018	12/31/2019	31/12/2018	12/31/2019	31/12/2018	12/31/2019	31/12/2018
Goodwill	26,385	25,500	45,336	45,109	7,105	7,179	–	6,692	78,826	84,480
Brand	12,959	12,742	24,671	24,558	2,979	2,916	–	1	40,609	40,217

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

The impairment test in the 2019 financial year revealed that the goodwill carried for the China region of kEUR 6,692 had to be written off in full. The impairment loss is primarily due to a deterioration in the earnings forecast.

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 12/31/2017	**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**
Additions from initial consolidation	4,475	33	203	–	4,711
Additions	36,035	23,993	9,080	13,644	82,752
Disposals	2,756	9,787	1,329	303	14,175
Transfers	3,588	2,765	510	–7,107	–244
Foreign currency translation	652	1,607	371	86	2,716
As of 12/31/2019	**138,120**	**187,016**	**40,625**	**24,675**	**390,436**
Accumulated amortization					
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**
Additions from initial consolidation	–	–	–	–	–
Impairment	220	2,116	–		2,336
Additions	9,956	14,443	4,755	–	29,154
Disposals	1,667	6,740	1,229	–	9,636
Transfers	41	–767	–60		–786
Foreign currency translation	172	761	286	–	1,219
As of 12/31/2019	**37,194**	**109,013**	**27,493**	**–**	**173,700**
Carrying amount 12/31/2018	**67,654**	**69,205**	**8,049**	**18,355**	**163,263**
Carrying amount 12/31/2019	**100,926**	**78,003**	**13,132**	**24,675**	**216,736**

The impairment loss of kEUR 2,336 is primarily a result of plant closures in China in the wake of consolidating all operations at the new location in Yangzhou.

6.3 LEASES

The Group has entered into leases for a range of office equipment, warehouse buildings, production buildings and plant and machinery, vehicles, other equipment, office furniture and equipment, all of which it uses for its operating activities. The leases for buildings generally have terms ranging between 5 and 15 years. The terms of the leases for technical equipment and machinery as well vehicles, other equipment, office furniture and equipment customarily range between 3 and 5 years. Many of the leases entered into by the Group contain options to extend or terminate the lease. Such terms and conditions are used to provide the Group with the greatest possible flexibility with regard to the leased assets. The majority of the existing options to extend or terminate the leases can only be exercised by the Group and not by the respective lessor.

Payments for short-term leases of technical equipment and machinery and vehicles, as well as leases of low-value assets are expensed through profit or loss on a straight-line basis. Short-term leases are those which have a residual lease term of twelve months or less. Low-value assets consist of IT equipment and smaller items of office furniture.

The following items are presented in the balance sheet in connection with leases:

Right-of-use assets

kEUR	31.12.2019	01.01.2019
Land and buildings	29,533	14,588
Plant and equipment	96	66
Other equipment, office furniture and equipment	3,864	3,527
Total	**33,493**	**18,181**

The additions to right-of-use assets during the 2019 financial year mainly consisted of the lease of two new aftermarket distribution centers, one in Germany and one in the US, as well as acquisitions made in the financial year, and amounted to kEUR 23.455.

The age structure of lease liabilities breaks down as follows:

Aging of lease liabilities

kEUR

	Remaining term of up to 1 year	Remaining term of up to 2 years	Remaining term of up to 3 years	Remaining term of up to 4 years	Remaining term of up to 5 years	Remaining term of more than 5 years	Total
Land and buildings	6,330	5,224	4,853	3,099	2,918	7,263	29,687
Plant and equipment	51	4	4	4	4	7	74
Vehicles	1,590	1,095	512	192	111	57	3,557
Other equipment, office furniture and equipment	155	140	23	11	–	–	329
Total	**8,126**	**6,463**	**5,392**	**3,306**	**3,033**	**7,327**	**33,647**

This had the following impact on the statement of comprehensive income:

Consolidated Statement of Comprehensive Income

kEUR

	2019	2018
Amortization of right of use assets	–8,225	0
Interest expenses	–707	0
Expenses related to short-term leases	–2,906	0
Expenses related to low-value leases	–553	0

The depreciation of right-of-use assets breaks down to the different classes of non-current assets as follows:

Amortization of right of use assets

kEUR

	2019	2018
Land and buildings	–6,299	0
Plant and equipment	–86	0
Other equipment, office furniture and equipment	–1,840	0
Total	**–8,225**	**0**

Total lease expenditure in the 2019 financial year came to kEUR 12.331.

The Group does not act as a lessor.

6.4 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following investments in other entities 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 associates are presented in the following table:

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

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

kEUR	Castmetal FWI S.A.	
	12/31/2019	31/12/2018
Current assets	44,686	53,492
Non-current assets	10,624	8,486
Current liabilities	–15,810	–12,525
Non-current liabilities	–2,840	–5,908
Sales	42,989	45,245
Net profit of the financial year from continuing operations	5,507	4,887
Total comprehensive income	**5,507**	**4,887**
Group's share in total comprehensive income	1,877	1,666
Other equity holders	3,630	3,221

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	12/31/2019	31/12/2018
Net assets of the associate	36,660	43,545
Equity interest of the Group	34.09%	34.09%
Other adjustments	2,754	806
Carrying amount of the investment in Castmetal FWI S.A.	15,251	15,651

The reconciliation item “other adjustments” resulted primarily from declared but unpaid dividends and the disclosure of hidden reserves in the context of the acquisition of the investment and its amortization.

A dividend of kEUR 2,277 (previous year: kEUR 1,214) 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	12/31/2019	31/12/2018
Group's share in profit or loss	71	63
Group's share in total comprehensive income	71	63
Aggregate carrying amount of Group's share in this company	1,271	1,182

A dividend of kEUR 20 was distributed by SAF-HOLLAND Nippon, Ltd. in the financial year.

6.5 OTHER NON-CURRENT ASSETS

kEUR	12/31/2019	31/12/2018
VAT reimbursement claims	1,283	1,223
Claims from reinsurance	847	799
Insurance premiums	118	94
Other	620	570
Total	**2,868**	**2,686**

6.6 INVENTORIES

kEUR	12/31/2019	31/12/2018
Raw materials	60,701	69,739
Work in progress	42,573	43,510
Finished and trading goods	51,441	54,187
Goods in transit	13,414	11,932
Total	**168,129**	**179,368**

Cost of sales includes impairment of inventories of kEUR 5,758 (previous year: kEUR 1,608). The inventory impairment is recorded in a separate impairment account and netted against the gross amount of inventory. The increase in the impairment loss recorded on inventories is chiefly attributable to the realignment of the product portfolio in the course of consolidating the locations in China.

kEUR	Allowance account
As of 12/31/2017	**7,468**
Additions from initial consolidation	1,176
Charge for the year	2,305
Utilized	1,457
Release	697
Foreign currency translation	–132
As of 12/31/2018	**8,663**
Charge for the year	6,096
Utilized	1,323
Release	338
Foreign currency translation	270
As of 12/31/2019	**13,368**

6.7 TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on 30-120 day terms.

kEUR					Thereof partly impaired on the reporting date and past due in the following periods					
	Gross carrying amount	Impairment	Carrying amount	Thereof neither impaired nor past due 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 12/31/2019	132,966	6,966	126,000	92,619	14,005	4,607	2,274	2,947	6,761	2,787
Trade receivables as of 12/31/2018	145,018	6,143	138,875	102,383	17,850	4,952	1,607	1,459	4,350	6,274

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 12/31/2017	**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
Release	994
Foreign currency translation	–293
As of 12/31/2018	**6,143**
Additions from initial consolidation	30
Charge for the year	2,926
Utilized	2,148
Release	82
Foreign currency translation	97
As of 12/31/2019	**6,966**

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 USA to insure against the default risk.

The Group disposed of receivables with a volume of kEUR 39,863 as of the reporting date (previous year: kEUR 41,536) under a number of factoring agreements. Assuming the legal validity of the receivables, the factor bears the risk of customer default for the purchased receivables.

6.8 OTHER CURRENT ASSETS

kEUR	12/31/2019	31/12/2018
VAT receivables	9,118	9,211
Prepaid expenses	5,854	4,937
Insurance premiums	420	342
Creditors with a debit balance	497	124
Deposits within the framework of factoring	2,187	2,187
Other	7,665	8,348
Total	**25,741**	**25,149**

6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2019	31/12/2018
Cash on hand, cash at banks and checks	131,064	154,865
Short-term deposits	102	144
Total	**131,166**	**155,009**

6.10 EQUITY

Issued 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 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 capital increase
Article 5.3.4 ICW Article 5.3.5	April 25, 2019/valid until May 10, 2024	136,249.30 Euro = 13,624,930 Shares		
Article 5.3.3 ICW Article 5.3.5	April 25, 2019/valid until May 10, 2024	EUR 90,722.22 = 9,072,222 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

Capital reserve

As of December 31, 2019, the capital reserve was unchanged at kEUR 269,044 (previous year: kEUR 269,044).

Statutory reserve

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

Other reserves

Other reserves consist of a reserve that is subject to a restriction on distribution. This reserve ensures the Group adheres to specific requirements under Luxembourg tax law. As of December 31, 2019, 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 SE (previously SAF-HOLLAND S.A.) of kEUR 8,979 (previous year: kEUR 48,151).

For the 2019 financial year it is proposed not to pay any dividend. A dividend of EUR 0.45 was paid in the previous year. The total distribution thus amounted to kEUR 20,427.

Other comprehensive income

kEUR

	Before tax amount		Tax income/expense		Net of tax amount	
	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018
Exchange differences on translation of foreign operations	9,950	2,219	–	–	9,950	2,219
Remeasurements of defined benefit plans	–126	946	21	–45	–105	901
Total	**9,824**	**3,165**	**21**	**–45**	**9,845**	**3,120**

The total amount of exchange differences from the translation of foreign operations included in other comprehensive income comes to kEUR –7,328 (previous year: kEUR –17,313*).

The total amount after taxes included in other comprehensive income that arises from the remeasurement of defined benefit plans is kEUR –17,857 (previous year: kEUR –17,752*).

6.11 PENSIONS AND OTHER SIMILAR OBLIGATIONS

Germany

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

Under a supplementary 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 847 (previous year: kEUR 799) is recognized under other non-current assets in accordance with IAS 19.

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

U.S.A.

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.

* adjusted due to arithmetically inaccuracy

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)	
	2019	2018	2019	2018	2019	2018	2019	2018
Balance as of the beginning of the period	**90,318**	**98,610**	**59,907**	**64,575**	**96**	**99**	**30,507**	**34,134**
Additions from initial consolidation	**–**	**1,191**	**–**	**105**	**–**	**–**	**–**	**1,086**
Beginning Balance	**90,318**	**99,801**	**59,907**	**64,680**	**96**	**99**	**30,507**	**35,220**
Current service cost	505	709	–	–	–	–	505	709
Past service cost[1]	–	–4,724	–	–	–	–	–	–4,724
Settlement	–	–	–	–	–	–	–	–
Interest expenses	3,310	3,074	–	–	4	3	3,314	3,077
Interest income	–	–	2,460	2,215	–	–	–2,460	–2,215
Other	–	–	–	–	–	–	–	–
Components of defined benefit costs recognized in the Consolidated Statements of income	**3,815**	**–941**	**2,460**	**2,215**	**4**	**3**	**1,359**	**–3,153**
Actuarial gains/losses	9,570	–6,617	9,444	–5,673	–	–	126	–944
Effects of asset ceiling	–	–	–	–	–2	–2	–2	–2
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**9,570**	**–6,617**	**9,444**	**–5,673**	**–2**	**–2**	**124**	**–946**
Employer Contributions	–	–	972	923	–	–	–972	–923
Benefits paid	–5,042	–4,368	–4,602	–3,948	–	–	–440	–420
Foreign currency translation effects	2,183	2,443	1,873	1,710	6	–4	316	729
Other reconciling items	**–2,859**	**–1,925**	**–1,757**	**–1,315**	**6**	**–4**	**–1,096**	**–614**
Balance as of the end of the period	**100,844**	**90,318**	**70,054**	**59,907**	**104**	**96**	**30,894**	**30,507**
thereof:								
Germany	16,976	14,697	11	11	–	–	16,965	14,686
USA	63,666	57,950	54,317	46,939	–	–	9,349	11,011
Canada	15,815	12,805	15,625	12,854	104	96	294	47
Other countries	1,760	1,459	101	103	–	–	1,659	1,356
Post-employment medical plan	2,627	3,407	–	–	–	–	2,627	3,407
Actual return on plan assets	**–**	**–**	**11,904**	**–3,458**	**–**	**–**	**–**	**–**

[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 by using a discount rate of 3.93% as of August 31, 2018.

The net balance from defined benefit plans of kEUR 30,894 (previous year: kEUR 30,507) is fully recorded in the line item pensions and other similar benefits. The net interest expense amounted to kEUR 854 (previous year: kEUR 862).

The actuarial gains (–) and losses (+) included in the revaluation resulted from:

kEUR	12/31/2019	31/12/2018
Experience losses/gains related to defined benefit obligation	–401	–970
Experience losses/gains related to plan assets	–9,444	5,673
Changes in demographic assumptions	–1,621	46
Changes in financial assumptions	11,592	–5,693
Total	**126**	**–944**

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.

in %	12/31/2019	31/12/2018
Discount rate		
Germany pension plan	1.05	2.00
USA pension plan	3.12	4.15
Canada pension plan	3.10	4.01
Post-employment medical plan	2.93	4.01
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]
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]
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	–	–
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
USA	RP-2014 mortality table with MP-2019 generational projection
Canada	RP-2014Priv mortality table with MI-2017 generational projection

Healthcare cost inflation:

in %	12/31/2019	31/12/2018
Initial rate (health care cost trend rate assumed for next year)	7.00	6.50
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2027	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	12/31/2019		31/12/2018	
	Increase	Decrease	Increase	Decrease
Total	**–9,206**	**10,740**	**–7,699**	**8,920**
thereof:				
Germany	–2,114	2,606	–1,707	2,085
USA	–5,233	6,045	–4,609	5,296
Canada	–1,739	1,954	–1,297	1,443
Other countries	–120	135	–86	96

A one percentage point change in the assumed trend in healthcare costs would have the following effects:

kEUR	12/31/2019		31/12/2018	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	4	–4	9	–8
Effect on the defined benefit obligation	148	–132	215	–198

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

kEUR					2019
	2020	2021-2024	2025-2029	2030 ff.	Total
Germany	471	2,056	2,843	15,425	20,795
USA	4,020	15,710	19,377	59,364	98,471
Canada	567	2,634	3,947	19,101	26,249
Other countries	94	265	3,106	1,263	4,728
Total	**5,152**	**20,665**	**29,273**	**95,153**	**150,243**

					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**

The weighted average duration of pension plans is described below:

in years	12/31/2019	31/12/2018
Germany	19	17
USA	11	12
Canada	17	15
Other countries	11	9

The employer contributions to defined benefit plans expected for the 2020 financial year amount to kEUR 506.

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:

	12/31/2019		31/12/2018	
	%	kEUR	%	kEUR
Equities	63.59%	44,547	62.17%	37,241
Bonds	31.18%	21,844	33.27%	19,934
Cash and money market	1.39%	973	1.44%	862
Real estate	3.68%	2,578	2.93%	1,755
Insurance	0.16%	112	0.19%	115
Total	**100.00%**	**70,054**	**100.00%**	**59,907**

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 31/12/2017	**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
31/12/2018	**10,817**	**405**	**143**	**1,304**	**202**	**2,498**	**2,227**	**17,596**
Additions	6,753	–	–	861	4,238	453	1,772	14,077
Utilized	5,568	24	–	931	985	1,540	1,148	10,196
Release	977	–	2	6	–	288	314	1,587
Foreign currency translation	237	–30	9	27	–	2	54	299
As of 12/31/2019	**11,262**	**351**	**150**	**1,255**	**3,455**	**1,125**	**2,591**	**20,189**
Thereof in 2019								
Current	6,585	–	43	464	3,455	655	1,350	12,552
Non-current	4,677	351	107	791	–	470	1,241	7,637
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

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.

German phased retirement scheme

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 at 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 provision

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 Group 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 SE (previously 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 SE (previously 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 253,066 and consists of the following:

	Performance Share Unit Plan				
	2015–2018	2016–2019	2017–2020	2018–2021	2019–2022
Share Units outstanding at the beginning of the period	108,422	98,999	102,229	83,087	–
Share Units granted during the period	–	10,000	16,333	17,593	119,227
Share Units forfeited during the period	–	64,097	64,181	52,336	13,788
Share Units exercised during the period	108,422	–	–	–	–
Share Units outstanding at the end of the period	**–**	**44,902**	**54,381**	**48,344**	**105,439**
Share Units exercisable at the end of the period	–	44,902	–	–	–

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			
	2016–2019	2017–2020	2018–2021	2019–2022
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	7.29	7.17	6.91	6.68
Expected volatility	n/a	52.90%	44.15%	38.44%
Risk free interest rate	0.70%	–0.70%	–0.65%	–0.59%
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, 2019, provisions for these performance plans amounted to EUR 1.1 million (previous year: EUR 2.5 million). The net expense for the period of EUR –0.2 million (previous year: EUR 0.3 million) has 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	
	12/31/2019	31/12/2018	12/31/2019	31/12/2018	12/31/2019	31/12/2018
Interest bearing bank loans	95,395	12,196	–	–	95,395	12,196
Convertible bond	–	98,653	99,326	–	99,326	98,653
Promissory note loan	46,500	200,000	52,000	–	98,500	200,000
Financing costs	–707	–1,045	–277	–393	–984	–1,438
Accrued interests	–	3	931	771	931	774
Other loans	54,605	54,652	1,413	3,558	56,018	58,210
Total	**195,793**	**364,459**	**153,393**	**3,936**	**349,186**	**368,395**

On November 27, 2019 SAF-HOLLAND prematurely terminated the variable tranches of the corporate bond issued on November 20, 2015 of EUR 101.5 million in order to reduce the interest burden for the Group.

In the previous year, the corporate bond with a nominal volume of EUR 75.0 million issued in 2012 fell due on April 26 and was redeemed from existing cash.

Also in the previous year, a new syndicated loan was signed on October 2, with a larger 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	12/31/2019			
	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**	**Total liquidity**
Revolving credit line	88,454	200,000	–	111,546
Other facilities	6,941	6,941	131,166	131,166
Total	**95,395**	**206,941**	**131,166**	**242,712**

	31/12/2018			
	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	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**

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 of kEUR 110,366 (previous year: kEUR 129,115) are non-interest-bearing and are normally settled within two to six months.

6.15 OTHER FINANCIAL LIABILITIES

Other financial liabilities of kEUR 34,209 (previous year: kEUR 30,749) reflect primarily the value of the put options for the outstanding shares of KLL Equipamentos para Transporte Ltda, V.ORLANDI S.p.A and Axcend Group Ltd. as well as PressureGuard LLC.

6.16 OTHER LIABILITIES

kEUR	Current		Non-current	
	12/31/2019	**31/12/2018**	**12/31/2019**	**31/12/2018**
Liabilities for salaries and social security contributions	12,335	12,677	–	–
Other taxes	6,638	5,801	–	–
Anniversary obligations	261	157	691	626
Liabilities from factoring	5,470	4,811	–	–
Other	4,052	3,491	–	–
Total	**28,756**	**26,937**	**691**	**626**

To our shareholders
Combined Management Report
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7. OTHER NOTES

7.1 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

kEUR							12/31/2019
			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 IFRS 16	Fair value
Assets							
Cash and cash equivalents	FAAC	131,166	131,166	–	–	–	131,166
Trade receivables	FAAC	126,000	126,000	–	–	–	126,000
Other financial assets							
Other financial assets	FAAC	4,484	4,484	–	–	–	4,484
Liabilities							
Trade payables	FLAC	110,366	110,366	–	–	–	110,366
Interest bearing loans and bonds	FLAC	349,186	349,186	–	–	–	356,856
Lease liabilities	n/a	33,647	–	–	–	33,647	33,647
Other financial liabilities							
Derivatives without a hedging relationship	FLtPL	541	–		541		541
Other financial liabilities	FLtPL	34,209	–	–	34,209	–	34,209
of which aggregated by category in accordance with IFRS 9							
Financial assets measured at amortized cost	FAAC	261,650	261,650	–	–	–	261,650
Financial liabilities measured at amortized cost	FLAC	459,552	459,552	–		–	467,222
Financial Liabilities at fair value through profit and loss	FLtPL	34,750			34,750		34,750

kEUR							31/12/2018[1]
			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							
Derivatives without a hedging relationship	FAtPL	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
Lease liabilities	n/a	229	–	–	–	229	229
Other financial liabilities							
Other financial liabilities	FLtPL	30,749	–		30,749		30,749
Derivatives without a hedging relationship	FLtPL	776	–	–	776	–	776
of which aggregated by 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 at fair value through profit and loss	FAtPL	135	–	–	135	–	135
Financial Liabilities at fair value through profit and loss	FLtPL	31,525			31,525		31,525

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consolidated Financial Statements).

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

				12/31/2019
	Level 1	Level 2	Level 3	Total
Convertible bond	–	100,141	–	100,141
Promissory note loan	–	196,480	–	196,480
Interest bearing loans and bonds	–	60,234	–	60,234
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	10,210	10,210
Put option for the remaining shares in V.ORLANDI S.p.A.	–	–	21,193	21,193
Put option for acquisition of remaining shares of Axscend Group Ltd.			2,336	2,336
Put option for acquisition of remaining shares of PressureGuard LLC	–	–	470	470
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	541	–	541

				31/12/2018[1]
	Level 1	Level 2	Level 3	Total
Convertible bond	–	108,757	–	108,757
Promissory note loan	–	196,480	–	196,480
Interest bearing loans and bonds	–	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.	–	–	21,193	21,193
Put option for acquisition of remaining shares of Axscend Group Ltd.			2,190	2,190
Derivative financial assets	–	135	–	135
Derivative financial liabilities	–	776	–	776

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consoliated Financial Statements).

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. 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, 2019, only derivatives of kEUR –541 (previous year: kEUR –641) were measured at fair value. Other financial liabilities associated with the measurement of put options for shares without any controlling interests attached of kEUR 34,209 (previous year: kEUR 30,749) were recognized at the present value of their respective estimated redemption amount. The estimated redemption amount is measured on the basis of projected 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, 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 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.

Net results break down by measurement categories as follows:

kEUR					12/31/2019
		From subsequent measurement			
	From interest	At fair value	Currency translation	Impairment	Net result
Financial assets measured at amortized cost	735	–	–	–2,844	–2,109
Financial assets at fair value through profit and loss	–	–471	–	–	–471
Financial liabilities measured at amortized cost	–8,443	–	–1,107	–	–9,550
Financial liabilities held for trading	–	460	–	–	460
Total	**–7,708**	**–11**	**–1,107**	**–2,844**	**–11,670**
					31/12/2018
		From subsequent measurement			
	From interest	At fair value	Currency translation	Impairment	Net result
Financial assets measured at amortized cost	180	–	–	–441	–261
Financial assets at fair value through profit and loss	–	–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**

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 risks

As an internationally active group, SAF-HOLLAND SE (previously 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 Group 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. The management also continually monitors compliance with the financial covenants laid out in the long-term loan agreement.

The maturity structure of the Group's financial liabilities is as follows:

kEUR				12/31/2019
	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	349,186	153,393	103,433	92,360
Lease liabilities	33,647	8,126	18,179	7,342
Trade payables	110,366	110,366	–	–
Other financial liabilities				
Other financial liabilities	34,209	21,193	13,016	–
Derivatives without a hedging relationship	541	541	–	–
Financial liabilities	**527,949**	**293,619**	**134,628**	**99,702**

				31/12/2018
	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
Lease liabilities	229	191	38	–
Trade payables	129,115	129,115	–	–
Other financial liabilities				
Other financial liabilities	30,749	21,193	9,556	–
Derivatives without a hedging relationship	776	776	–	–
Financial liabilities	**514,786**	**134,018**	**279,503**	**101,265**

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									12/31/2019
	Cash flow 2020			Cash flow 2021			Cash flow 2022–2029		
	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	–4,776	–	–153,394	–3,372	–	–	–12,908	–	–195,793
Lease liabilities	–881	–	–8,126	–690	–	–6,463	–1,927	–	–19,058
Other financial liabilities									
Derivatives without a hedging relationship	–541	–	–	–	–	–	–	–	–

									31/12/2018
	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
Lease liabilities	–146	–	–191	–44	–	–38	–	–	–
Other financial liabilities									
Derivatives without a hedging relationship	–776	–	–	–	–	–	–	–	–

All instruments are included that were held as of the reporting date and for which payments were already contractually agreed. Budgeted figures for future new debt are not included. Amounts denominated in foreign currency were translated at the spot rate as of the balance sheet date. Variable interest payments arising from financial instruments were calculated using the most recent interest rates determined ahead of the reporting date. All on-call financial liabilities are allocated to the earliest possible period in the table.

The following table shows the change in financial liabilities:

kEUR						12/31/2019
	01/01/2019	**Cash flow**	**Foreign exchange movement**	**Interest effect**	**IFRS 16**	**12/31/2019**
Interest bearing bank loans	12,196	83,395	–196	–	–	95,395
Convertible bond	98,653	–	–	673	–	99,326
Promissory note loan	200,000	–101,500	–	–	–	98,500
Other loans	58,210	–2,171	–21	–	–	56,018
Leasing	229	–8,872	–53	707	41,636	33,647

						31/12/2018
	01/01/2018	Cash flow	Foreign exchange movement	Interest effect	Mergers & Acquisitions	31/12/2018
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

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 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.

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, 2019 had been 100 base points lower (higher), the result would have been kEUR 850 (previous year: kEUR 295) 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 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 SE (previously SAF-HOLLAND S.A.) and SAF-HOLLAND GmbH. Loans granted to international Group companies are generally denominated in euros. The translation of intercompany loans as of the reporting date may result in unrealized foreign exchange gains and losses. Unrealized foreign exchange gains and losses as of the reporting date amounted to kEUR 5,918 (previous year: kEUR 6,252) and kEUR –4,240 (previous year: kEUR –4,547) respectively. Of the unrealized foreign exchange gains kEUR 5,516 (previous year: kEUR -6,240) and kEUR 3,057 (previous year: kEUR 4,522) of the unrealized foreign exchange losses, were reclassified to other comprehensive income (OCI) as translation effects from the valuation of intercompany foreign currency loans, which are considered part of a net investment in a foreign operation and are therefore recognized directly in equity.

The table below shows the Group's sensitivity to a 5 % increase or decrease in the euro versus the US dollar. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the end of the period by a 5 % change in exchange rates.

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2019	5%	4,502	5,997
	–5%	–4,502	–5,997
2018	5%	5,097	5,044
	–5%	–5,097	–5,044

7.2 EARNINGS PER SHARE

		Q1-Q4/2019	Q1-Q4/2018
Result for the period	**kEUR**	**8,979**	**48,151**
Weighted average number of shares outstanding	thousands	45,394	45,394
Basic earnings per share	Euro	0.20	1.06
Diluted earnings per share	**Euro**	**0.19**	**0.92**

Basic earnings per share are calculated by dividing the result for the period attributable to shareholders of SAF-HOLLAND SE (previously 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 0.01 per share (previous year: EUR 0.14).

Diluted earnings per share are derived from basic earnings per share as follows:

kEUR	Overall potentially dilutive financial instruments 2019	Dilutive financial instruments used for the calculation 2019
Result for the period		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	8,979	8,979
Increase in profit equivalent to effect of convertible bond recognized in profit and loss	1,196	1,196
Numerator for diluted earnings	**10,175**	**10,175**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,394	45,394
Convertible bond	8,479	8,479
Denominator for potentially diluted earnings per share	**53,873**	
thereof to be included for dilution (adjusted weighted average)		**53,873**
Basic earnings per share (EUR)		**0.20**
Diluted earnings per share (EUR)		**0.19**

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 recognized 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**

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
01/01/2019–04/25/2019	0.01	8,386,799	115	964,481,885
04/26/2019–12/31/2019	0.01	8,521,880	245	2,087,860,576
Total			**360**	**3,052,342,461**
Average		**8,478,729**		
	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**		

7.3 CASH FLOW STATEMENT

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 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Litigation

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.

7.5 RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of SAF-HOLLAND SE (previously 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.	Czechia	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	VAE	100.0
SAF-HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi	Turkey	100.0
SAF-Holland Sverige AB	Sweden	100.0
SAF-Holland Suomi Oy	Finland	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

Subsidiaries

	Country of incorporation	% Equity interest
SAF-HOLLAND International de México S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND International Services México S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND Hong Kong Ltd.	Hong Kong	100.0
SAF-HOLLAND (Xiamen) Co., Ltd.	China	100.0
Corpco Beijing Technology and Development Co., Ltd.	China	100.0
OOO SAF-HOLLAND Russland	Russia	100.0
SAF-HOLLAND India Pvt. Ltd.	India	100.0
PressureGuard LLC	USA	51.0
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) Pty. Ltd.	India	100.0
YTE Special Products Pte. Ltd.	Singapore	100.0
York Transport Equipment (Shanghai) Co Ltd.	China	100.0
YTE Transport Equipment (SA) (Pty) Ltd.	South Africa	100.0
Qingdao YTE Special Prodcuts Pte. Ltd.	China	100.0
PT York Engineering Ltd.	Indonesia	100.0
Axscend Group Ltd.	Great Britain	69.9
Axscend Ltd.	Great Britain	69.9
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	34.1

The table below shows the composition of the Group Management Board and the Board of Directors of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) as of the reporting date:

Group Management Board

Alexander Geis	Chief Executive Officer (CEO) (since 02/26/2019)
Detlef Borghardt	Chief Executive Officer (CEO) (until 02/25/2019)
Dr. Matthias Heiden	Chief Financial Officer (CFO)
Dr. André Philipp	Chief Operating Officer (COO)
Mike Ginocchio	President APAC (since 01/01/2019)
Guoxin Mao	President China (until 05/31/2019)
Steffen Schewerda	President Americas (until 09/06/2019)

Board of Directors

Dr. Martin Kleinschmitt	Chairman of the Board of Directors
Martina Merz	Deputy Chairman of the Board of Directors
Ingrid Jägering	Member of the Board of Directors (since 11/05/2019)
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 Group Management Board are described in the chapter “Other Mandates of Members of the Board of Directors / Group Management Board” in this annual report.

As of December 31, 2019, members of the Group Management Board directly or indirectly held ordinary shares amounting to kEUR 0.5 (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 338 has been accrued for appreciation rights granted to the members of the Group Management Board (previous year: kEUR 1,865); thereof kEUR 18 (previous year: kEUR –227) was recognized in profit and loss in 2019. Of the total accrual, an amount of kEUR 119 (previous year: kEUR 931) 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 Group Management Board members in the reporting year amounted to kEUR 3,441 (previous year: kEUR 2,853). Remuneration from the performance share unit plans, in contrast, is not included in the total remuneration presented.

In the past financial year, serverance payments were paid to former members of the Group Management Board in amount of kEUR 2,395 or accrued at the balance sheet date.

Total remuneration for the Board of Directors in the financial year was kEUR 414 and was expensed through profit and loss. Due to the new remuneration system that was ratified at the beginning of 2019, the remuneration of the Board of Directors for the financial year 2018 was raised kEUR 125 retrospectively. Taking account of the adjustments to the new remuneration system, the total remuneration paid to the Board of Directors for the financial year 2018 comes to kEUR 405 (previous year reported: kEUR 280).

For further information about the remuneration of the Group 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-Q4/2019	Q1-Q4/2018	Q1-Q4/2019	Q1-Q4/2018
Joint Ventures	605	1,233	–	–
Associates	–	–	18,833	35,214
Total	605	1,233	18,833	35,214

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2019	31/12/2018	12/31/2019	31/12/2018
Joint Ventures	77	167	–	–
Associates		–	1,501	1,294
Total	77	167	1,501	1,294

Outstanding balances as of December 31, 2019 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, 2019 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.

7.6 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, bonds and lease liabilities less cash and cash equivalents.

kEUR	12/31/2019	31/12/2018
Interest bearing loans and bonds	349,186	368,395
Lease liabilities	33,647	229
Other short-term investments	–	–
Cash and cash equivalents	–131,166	–155,009
Net debt	**251,667**	**213,615**
Equity attributable to equity holders of the parent	**304,981**	**321,480**
Equity and net debt	**556,648**	**535,095**

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.

7.7 AUDIT FEES

The following expenses were incurred in the 2019 financial year for services provided by the auditors and their related companies:

kEUR	Q1-Q4/2019	Q1-Q4/2018
Auditing of financial statements	821	634
Tax accountancy services		6
Other services	363	184
Total	**1,184**	**824**

The other consulting services rendered in the 2019 financial year are primarily related to the establishment of the new location in Yangzhou, China.

The auditing firm, PricewaterhouseCoopers, Société coopérativè, has been the appointed auditor of the consolidated financial statements since the 2016 financial year. The engagement partner, Mr. Patrick Schon, has signed the independent auditor's report since the 2016 financial year.

7.8 SUBSEQUENT EVENTS

New segmentation in corporate management

The regions of APAC and China were combined into one region effective January 1, 2020 which was named APAC_I/China. Commencing January 1, 2020 the geographic segmentation of SAF-HOLLAND therefore consists of EMEA, the Americas and APAC_I/China.

Mike Ginocchio, the President of the APAC region to date, assumed responsibility for the new APAC_I/China region on this date. He is a member of the Executive Committee and reports directly to Alexander Geis, CEO of SAF-HOLLAND.

Acquisition of the remaining shares in V.ORLANDI S.p.A.

In January 2020, SAF-HOLLAND acquired the remaining 30 percent of the shares in the coupling specialist, V.ORLANDI S.p.A. for a purchase price of EUR 21.2 million. As a result, SAF-HOLLAND now holds all the shares in V.ORLANDI S.p.A. after already acquiring a stake of 70 percent in the first quarter of 2018.

Changes to the Group Management Board

Dr. Matthias Heiden, Chief Financial Officer (CFO) of the SAF-HOLLAND, has informed the Board of Directors in December 2019 that he would like to terminate his contract of service at the end of 2020 at the latest as he will pursue a new professional challenge. The Board of Directors has started a selection process to identify a suitable successor for Dr. Heiden. Until his departure – at the latest by the end of 2020 – Dr. Heiden will continue to fully perform his duties. It is possible that an earlier termination date will be agreed on by mutual consent.

Extraordinary general meeting approves resolution to convert the legal form into a European Company (SE)

The extraordinary general meeting of SAF-HOLLAND S.A. held on February 14, 2020 in Luxembourg, passed a resolution to convert the legal form into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE.

Conversion into a European Company concluded upon entry in the Luxembourg business register

SAF-HOLLAND S.A. completed its conversion into a European Company (Societas Europaea, SE) upon being entered into the Luxembourg business register on February 24, 2020 under the name of SAF-HOLLAND SE.

In a second step, the company will prepare the transfer of the registered office of the company to Germany. An extraordinary general meeting, which is likely to be held in the second quarter of 2020 immediately after the Annual General Meeting has been concluded, will vote on the required resolutions – a capital increase from company funds, the transfer plan and the restatement of the articles of association of SAF-HOLLAND SE with its future registered office in Germany.

To our shareholders
Combined Management Report
Consolidated Financial Statements
Consolidated Statement of Comprehensive Income
Consolidated Balance Sheet
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows
Notes to the Consolidated Financial Statements
Mandates of Members of the Board of Directors/ Group Management Board
Audit Report
Declaration of the Legal Representatives
Additional Information

Promissory note loan successfully placed – original targeted volume of at least EUR 100 million oversubscribed multiple times, stepped up to EUR 250 million

On March 9, 2020 SAF-HOLLAND SE successfully placed a promissory note transaction with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. Because of the high demand and the resulting over-subscription, the final amount exceeded the target volume of EUR 100 million by EUR 150 million.

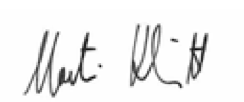
The tranches of the promissory note feature fixed as well as variable rates and maturities of three, three and a half, five, seven and ten years. All tranches were allocated at the lowest end of the respectively offered price range. The loan will be paid out to the company at the end of March and at the end of September 2020.

The proceeds will be used to finance the company generally and, in particular, to refinance the convertible bond that falls due on 12 September 2020 (volume: EUR 99.8 million) and the 5-year tranches of the promissory note issued in November 2015 that falls due on 27 November 2020 (volume: EUR 140.5 million).

The issue will contribute to smoothing out the maturity profile and will widen the investor base of the SAF-HOLLAND Group.

No other material events have occurred subsequent to the reporting date.

Luxembourg, March 16, 2020



Dr. Martin Kleinschmitt
Chair of the Board of Directors

Martina Merz
Deputy Chair of the Board of Directors

MANDATES OF THE BOARD OF DIRECTORS / GROUP MANAGEMENT BOARDS

Dr. Martin Kleinschmitt

— Member of the Board of Directors (Chair) SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on April 25, 2013, Chair since November 5, 2019, appointed until April 2023)
— Chairman of the Supervisory Board, SAF-HOLLAND GmbH
— Chairman of the Supervisory Board of G&H Bankensoftware AG, Berlin, Germany (since March 2017)
— Member of the Management Board, Noerr Consulting AG
— Member of the Executive Board, Schaltbau Holding AG, Munich, Germany (since August 2017)

MARTINA MERZ

— Deputy Chair and Member of the Board of Directors, SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on April 24, 2014, appointed until April 2023, Deputy Chair since November 5, 2019)
— Chief Executive Officer, thyssenkrupp AG, Essen, Germany (since October 2019)
— 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 (until May 2020)

Jack Gisinger

— Member of the Board of Directors, SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on April 27, 2017, until April 2020)

Anja Kleyboldt

— Member of the Board of Directors, SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on April 26, 2012, extended until April 2019)
— Member of the Supervisory Board, SAF-HOLLAND GmbH
— Head of Business Unit Industry, Arnold AG, Friedrichsdorf, Germany

Carsten Reinhardt

— Member of the Board of Directors, SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on April 27, 2017, extended until April 2020)
— Chairman of the Advisory Board, 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 of Directors, Garret Motion Inc., Morristown, NJ, USA (since November 2018)
— Member of the Board, Beinbauer Automotive GmbH & Co. KG, Büchlberg, Germany (since May 2018)
— Member of the Advisory Board, WEZAG GmbH, Stadtallendorf, Germany (since October 2016)
— Member of the Advisory Board, 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)

Ingrid Jägering

— Member of the Board of Directors, SAF-HOLLAND SE (previously SAF-HOLLAND S.A.), (first appointed on November 5, 2019, until April 2021)
— Member of the Board member of the audit committee, Hensoldt Holding GmbH, Taufkirchen, Germany (since March 2017)

Alexander Geis

— Managing Director, Chief Executive Officer (CEO), SAF-HOLLAND GmbH (since February 25, 2019), Chief Procurement Officer (CPO); (December 2018 until June 2019)

Detlef Borghardt

— Managing Director, Chief Executive Officer (CEO) SAF-HOLLAND GmbH, Chief Executive Officer (CEO), (until February 25, 2019)

Dr. Matthias Heiden

— Managing Director, Chief Financial Officer (CFO), SAF-HOLLAND GmbH

Dr. André Philipp

— Managing Director, Chief Operating Officer (COO), SAF-Holland GmbH (since January 1, 2019)

Steffen Schewerda

— Managing Director, President Americas, SAF-HOLLAND GmbH (until September 6, 2019)

Guoxin Mao

— President China (until May 31, 2019)

Mike Ginocchio

— President APAC (until December 31, 2019)

AUDIT REPORT

To the Shareholders of
SAF-Holland SE (previously 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 SE (the "Company") and its subsidiaries (the "Group") as at 31 December 2019, 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 2019;
— 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 our 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 the EU Regulation 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 7.7 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. 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 78.8 million EUR (8.0 % of the balance-sheet total or 24.8 % 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 2019, the Company has acquired a 51 % interest in PressureGuard LLC, Nashville, Tennessee, USA and a 100 % interest in Stara-Group has been acquired. The data pertaining to business acquisitions can be found in point 3 in the notes to the consolidated financial statements. The total consideration for the two acquisitions amounted to 11.8 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 11.6 million EUR attributed to the Group, the aggregated goodwill arising from the two transactions amounts to 0.7 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 two 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 communicate to 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 25 April 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

March 16, 2020

PricewaterhouseCoopers, Société coopérativeLuxembourg

Represented by

Patrick Schon

DECLARATION OF THE LEGAL REPRESENTATIVES

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 16, 2020

SAF-HOLLAND SE

Dr. Martin Kleinschmitt
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 marg
Adjusted EBIT/sales x 100

Adjusted EBITD
Earnings before interest, taxes, depreciation and amortization adjusted for special items such as restructuring and transaction costs.

C

Cash conversion rat
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, share- holdings 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 shortterm 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 shortterm 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 —— Consists of the regions Europe, Middle East and Africa
ESMA —— European Securities and Markets Authority
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)
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
Mio. —— 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

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

W

WKN —— Wertpapierkennnummer (Security identification number)
WpHG —— Wertpapierhandelsgesetz (German Securities Trading Act)

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

Mai 13, 2020
Quarterly Statement Q1 2020

Mai 20, 2020
Annual General Meeting 2020
Second Extraordinary General Meeting 2020

August 13, 2020
Half-Year Financial Report 2020

November 18, 2020
Quarterly Statement Q1-Q3 2020

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In cases of doubt, the German version shall prevail.

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