Annual Report 2020
SAF-HOLLAND SE

GAINING TRACTION

KEY FIGURES

RESULTS OF OPERATIONS

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019
Sales	959,519	1,284,155
Adjusted gross profit	178,831	217,598
Adjusted gross profit margin in %	18.6	16.9
Adjusted EBITDA	98,126	114,129
Adjusted EBITDA margin in %	10.2	8.9
Adjusted EBIT	58,799	79,816
Adjusted EBIT margin in %	6.1	6.2
Adjusted result for the period	34,494	49,756
Adjusted undiluted earnings per share in EUR	0.76	1.10

NET ASSETS

in EUR thousands

	12/31/2020	12/31/2019
Balance sheet total	920,486	979,244
Equity	300,463	318,007
Equity ratio in %	32.6	32.5
Net working capital	114,599	183,763
Net working capital in % of sales (LTM)	11.9	14.3

FINANCIAL POSITION

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019
Net cash flow from operating activities	137,922	90,546
Net cash flow from investing activities (property, plant and equipment/intangible assets)	–23,675	–47,727
Operating free cash flow	114,247	42,820
Total free cash flow	114,247	31,967
Cash and cash equivalents	170,982	131,166
Net debt	196,701	251,667

EMPLOYEES

	Q1–Q4/2020	Q1–Q4/2019
Employees at the reporting date	3,369	3,924
Employees (on average)	3,424	4,218

YIELD

in %

	Q1–Q4/2020	Q1–Q4/2019
Return on capital employed (ROCE)	11.1	13.3

All figures shown are rounded. Minor discrepancies may arise from additions of these amounts.

Net working capital ratio = Ratio of inventories and trade receivables less trade payables to sales of last twelve months. The net working capital ratio for Q1–Q4 2019 has been adjusted retrospectively to match the new definition.

Operating free cash flow = Net cash flow from operating activities less net cash flow from investing activities (purchase of PP&E and intangible assets less proceeds from sales of PP&E). The operating free cash flow for Q1–Q4 2019 has been adjusted retrospectively to match the new definition.

ROCE = Adjusted EBIT / (total equity + financial liabilities (excl. refinancing costs, incl. lease liabilities) + pension and other similar benefits – cash and cash equivalents). ROCE for Q1–Q4 2019 has been adjusted retrospectively to match the new definition

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ABOUT THIS REPORT

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__PORTRAIT

SAF-HOLLAND SE, based in Bessenbach and with sales of approximately EUR 960 million in 2020 is one of the world's leading manufacturers of chassis-related assemblies and components for trailers, trucks and buses. The product range comprises axle and suspension systems, fifth wheels, coupling systems, kingpins, and landing gear marketed under the brands SAF, Holland, Neway, KLL, V.Orlandi and York. SAF-HOLLAND sells its products to original equipment manufacturers (OEMs) of trailers and commercial vehicles across six continents. The Group's aftermarket business supplies spare parts to the service networks of original equipment suppliers (OES), wholesalers and also to retail customers and service centers through its extensive global distribution network. 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. Approximately 3,000 committed employees worldwide are already today working on the future of the transportation industry.

SAF-HOLLAND WORLDWIDE

The Management introduces itself

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

INKA KOLJONEN
- Member of the Management Board and Chief Financial Officer
- Born in 1973
- Appointed until August 2023

ALEXANDER GEIS
- Chairman of the Management Board and Chief Executive Officer
- Born in 1974
- Appointed until June 2023

DR. ANDRÉ PHILIPP
- Member of the Management Board and Chief Operating Officer
- President China
- Born in 1969
- Appointed until June 2023

CHRISTOPH GÜNTER
- President EMEA and Senior Vice President Global R&D
- Born in 1979

KENT JONES
- President Americas
- Born in 1969

The Supervisory Board introduces itself

DR. MARTIN KLEINSCHMITT

- Chairman of the Supervisory Board
- Member of the Remuneration and Nomination Committee
- Member of the Audit Committee
- Born in 1960
- Appointed until the end of the Annual General Meeting 2024

MARTINA MERZ

- Deputy Chairwoman of the Supervisory Board
- Member of the Remuneration and Nomination Committee
- Born in 1963
- Appointed until the end of the Annual General Meeting 2024

MATTHIAS ARLETH

- Member of the Supervisory Board
- Chairman of the Remuneration and Nomination Committee
- Born in 1967
- Appointed until the end of the Annual General Meeting 2024

INGRID JÄGERING

- Member of the Supervisory Board
- Chairwoman of the Audit Committee
- Born in 1966
- Appointed until the end of the Annual General Meeting 2024

CARSTEN REINHARDT

- Member of the Supervisory Board
- Member of the Audit Committee
- Born in 1967
- Appointed until the end of the Annual General Meeting 2024

Interview with
ALEXANDER GEIS,
INKA KOLJONEN &
DR. ANDRÉ PHILIPP

«WE SUCCESSFULLY MASTERED THE COVID-19 STRESS TEST AND, MOREOVER, LAID THE GROUNDWORK FOR PROFITABLE GROWTH IN FUTURE.»

Mr. Geis, 2020 was certainly not a normal year. What has impressed you most about your organisation during the course of the COVID-19 crisis to date?
Geis: I was very impressed that the entire workforce reacted with such team spirit to this global crisis that none of us could have foreseen. Under the motto: One SAF-HOLLAND. Many employees – particularly in administration – were forced to completely rearrange their working days within a very short period of time. Yet we managed to keep operations running at all times. That is a fantastic performance, one I would like to thank the entire workforce for most sincerely.

Dr. Philipp, as the Chief Operating Officer you must have had a few sleepless nights.
Dr. Philipp: Yes, that's true! But the same can be said for my team at our plants as well. The pandemic subjected our entire value chain to a stress test, starting with the supply chain through to production and HR planning and the personal protection measures we had to install at all locations of the SAF-HOLLAND Group. Based on the SARS-CoV-2 occupational safety standard issued by the Federal Ministry of Labour and Social Affairs, a site-specific assessment of the situation was made and a fundamental action plan drawn up and implemented. This placed great demands on the local managers, particularly considering that it was not always possible to send expert support to help out the locations on account of the travel restrictions. However, we all grew to meet the challenge.

Ms. Koljonen, you joined the Management Board as CFO in September 2020. What are your impressions after six months at SAF-HOLLAND?
Koljonen: After an extremely challenging year in 2020, we can look forward with a degree of optimism. For we have clearly demonstrated that we have a resilient business model that generates comfortable margins. And we even achieved a new record in operating free cash flow, significantly reducing our net financial debt. Moreover, we have an extremely sound financial base that provides the headroom we need until the end of 2023. Thanks to

«I WAS VERY IMPRESSED THAT THE ENTIRE WORKFORCE REACTED WITH SUCH TEAM SPIRIT TO THIS GLOBAL CRISIS.»

— **Alexander Geis**
CEO

the cost-cutting programs initiated, we are in good shape and excellently positioned to benefit from the coming growth. In future, focus will be placed on securing long-term improvements to our processes. Extending the Cash-is-King program to include all the levers of net working capital will lead to further improvement in our cash conversion, i.e. the ratio of operating cash flow before taxes to EBITDA, in the coming years and allow us to establish a sustainable cash culture for the future.

Mr. Geis, is this already evident in the results for the reporting year?
Geis: Absolutely. We have demonstrated our flexibility and generated a significant operating profit. Despite sales falling sharply because of the crisis, we can be very satisfied with our adjusted EBIT margin of 6.1 per cent. Moreover, we used the year to make important course changes and adjust our cost structures, which has given us a good start position for when the COVID-19 crisis is over. Operating free cash flow was particularly encouraging. At EUR 114.2 million, we set a new record here, as Inka Koljonen has just mentioned. The success of the measures to optimise net working capital and our disciplined investment policy are reflected in this strong improvement.

Did all three regions contribute equally to this result?
Geis: With our trailer axles and suspension systems we significantly outperformed the market in the EMEA region over the reporting year. The region was once again a reliable earnings driver. The main factors in this regard are our flexible cost structures that allow us to react rapidly to changing market conditions, our broad and diversified customer base and, last but not least, our high-margin spare parts business.

We have made excellent progress with our restructuring program FORWARD 2.0 in the Americas region. We have significantly adjusted the cost structure for the long term and generated an adjusted EBIT margin of 4.1 per cent in the reporting period. The high-margin spare parts business remains an important balancing factor for the North American trailer and truck markets, which are much more cyclical than other regions. In sum, the Americas region is well equipped to benefit from the anticipated market recovery.

Dr. Philipp: The APAC region needs to be viewed from many different angles. Our market share in Australia and New Zealand remains very high. We are the market leader in India, but the local economy remained very weak in the financial year 2020. With more than 60 per cent of the market we will profit considerably more than others when the Indian economy picks up again. The most modern plant of the entire group stands in China where it serves this vital market. Unfortunately, due to the COVID-19 pandemic, there was some delay in ramping up production. The “restart” in the Chinese market will require a little patience. However, I am convinced that we will succeed in the end.

Koljonen: We have made substantial savings in selling and administrative expenses in all three of our regions within the framework of a global cost-savings program that we initiated in September 2019, and tailored our workforce to match the market conditions. In the EMEA region we were able to realise notable savings in personnel expenses thanks to a supplementary agreement to the industrial agreement in place at the headquarters in Bessenbach, by introducing the short-work furlough scheme in response to COVID-19 and also due to a voluntary waiver of salaries on the part of the Management Board and Supervisory Board. In the Americas region we successfully implemented the program FORWARD 2.0, as mentioned above.

Mr. Geis, let’s look to the future. What is the strategy of SAF-HOLLAND going forward?
Geis: We presented our “Strategy 2025” at the capital market day event in November 2020. Customer satisfaction lies at the heart of this strategy. We have formulated our vision accordingly: to be the most trusted and

reliable partner to the commercial vehicles industry. We intend to occupy a leading role during the transformation to sustainable mobility and intend to journey along this path together with our customers. We have set five strategic points of focus for the coming years.

And they are?
Geis: First, we will optimise our global production network, streamline our product portfolio, exploit economies of scale better than in the past and bundle our competencies more tightly together, which will make us more efficient and more profitable. Secondly, we will invest in technical innovations, such as alternative powertrains, autonomous driving and digitisation. Thirdly, we will build on our competitive position as a global player by improving the standardisation, harmonisation and digitisation of our operating processes, development activities and sourcing as well as by developing our global infrastructure and our leadership model. Fourthly, we will consistently pursue operational excellence. And fifthly, we intend to be an employer of choice with a competent and motivated workforce that pursues life-long learning and works both remotely and flexibly.

Ms. Koljonen, as the CFO, what does this strategy mean for you?
Koljonen: My strategic focus lies on us generating profitable sales growth and improving the adjusted EBIT margin from 6.1 per cent at present to 8 per cent by 2023 at the latest while simultaneously steadily improving our cash conversion. In the process we will significantly improve our leverage ratio, measured as the ratio between net financial liabilities and EBITDA, from

«WE WANT TO IMPROVE OUR CASH FOCUS AND ESTABLISH A SUSTAINABLE CASH CULTURE.»

__ **Inka Koljonen**
CFO

its current level by continuing to pursue a disciplined investment policy. If we reach all of these goals, we will automatically improve shareholder value. In the end, this is what we as the board team will be measured on. This goal is also what I personally set out to achieve.

«OPERATIONAL EXCELLENCE IS NOT JUST ABOUT MACHINERY, BUT CLEARLY ALSO ABOUT PEOPLE.»

__ **Dr. André Philipp**
COO

Dr. Philipp, a strategy is only as good as its implementation by the various plants. How do you plan to start?
Dr. Philipp: Alexander Geis just outlined the five strategic pillars, including the topic of operational excellence. This is naturally within my remit and things are currently gathering momentum.

This means you will be modernising the plants?
Dr. Philipp: Operational Excellence is not just about machinery, but clearly also about people. For example, it is about how I can avoid waste, pay attention to safety, minimise error rates and use resources wisely. We have defined a total of six core areas for the SAF-HOLLAND Operational Excellence System and developed a total of 30 roadmaps with which we want to successively improve each plant and also the administrative functions in the coming years.

Many thanks for the interesting discussion!

2020

GAINING TRACTION

Our lightweight products can be relied on to get trucks and trailers rolling. We create transparency for fleet managers by providing data. And our smart axles not only generate power for trailer auxiliaries but can even power their drives. No wonder that we have come out of 2020 stronger than before and continue to gain traction.

___OPERATIONAL EXCELLENCE

EACH DAY A LITTLE BIT BETTER

As a premium manufacturer, we at SAF-HOLLAND are not satisfied until our work meets the highest demands. But what does that mean exactly? What is excellent forward-looking action and how do you recognise peak performance? We have now defined this for us exactly. All locations will align themselves towards our SAF-HOLLAND Operational Excellence System in future.

The best results and top quality products necessitate excellent processes, systems and exemplary conduct. Based on the motto, “Each day a little bit better”, we at SAF-HOLLAND rely on a sensible combination of human expertise, efficient use of machinery and a high degree of automation.

Motivated and satisfied employees are at the centre of our culture of continuous improvement. Whoever feels good at work and thinks positively about their tasks makes a more active contribution and supports the basic principles of daily improvement. And the feeling of satisfaction increases further when employees can put their own suggested improvements into practice.

For this reason we focus on people and personal motivation in our Operational Excellence System.

«OPERATIONAL EXCELLENCE PROVIDES A GLOBAL, UNIFIED AND HOLISTIC PLATFORM, GIVING EVERY SAF-HOLLAND EMPLOYEE THE OPPORTUNITY TO ADD VALUE BY PROACTIVELY CONTRIBUTING, AS WE SPEAK THE SAME LANGUAGE AROUND THE WORLD.»

__Peter Bahmer
Vice President Operations Europe

WHAT WE MEAN BY OPERATIONAL EXCELLENCE

Operational excellence is the ability of an organisation to continuously improve and optimise its processes and systems across the entire value chain. Operational excellence operationalises the corporate strategy. The aim is to improve productivity and quality and optimise cost structures. The focus of operational excellence lies on manufacturing, but administrative areas are also explicitly included. The SAF-HOLLAND Operational Excellence System is mandatory for all plants.

For Dr. André Philipp, Chief Operating Officer (COO) of SAF-HOLLAND, operational excellence is not just a question of having the right machinery, but, more importantly, having the right attitude: “Each employee at SAF-HOLLAND can contribute to operational excellence. This is true regardless of the task, the location or whether the employee works on the workshop floor or in an office.”

Together with numerous colleagues from different locations and departments, Dr. Philipp has spent the last few months discussing how certain activities should ideally be carried out at SAF-HOLLAND – and what milestones there are along the way. This has made it clear: If we only optimise individual parts of the organisation we cannot

«THE SAF-HOLLAND OPERATIONAL EXCELLENCE SYSTEM PROVIDES OUR LOCAL TEAM A PATH TO EXCELLENCE WITH GLOBAL SYSTEMATIC SOLUTIONS. IT GIVES US NOT ONLY THE VISION, BUT ALSO THE EXECUTABLE METHODS.»

__**Michael Zhao**
Director Operations China

unleash the potential synergies. An operational excellence system must therefore be rolled out holistically to the entire organisation. For this reason, our system comprises six core areas. It is no coincidence that the top priority in this system lies with the core area "Leadership & Culture". Improvement is only possible in an environment in which improvement is promoted and encouraged. Our top management and plant management are strong role models for compliance and excellence as well as anchoring operational excellence within the entire organisation.

Leadership & Culture
Ensuring strategic leadership, transparent objective deployment and empowering employees through skill development and the authority to improve their workplace. Leaders are responsible for the cultural change which is necessary to become exceptional!

Safety, Health & Environment
Achieving an incident and accident free working environment, where every SAF-HOLLAND employee and visitor are safe from any unsafe actions or conditions. Through our operations and community involvement, we promote the safe, efficient and responsible use of the world's resources.

Total Quality
Establishing of a system in which we improve our processes and systems to provide quality products and services that are able to exceed our customers' increasing expectations.

Material Supply
Optimising our internal and external material flows to ensure the quantity and quality of material for production at the required time while minimising cost and capital investment.

Product Dev. & Engineering
Optimising the engineering and development processes of our products by meshing them closely with production processes to minimise manufacturing costs and simultaneously optimise customer satisfaction.

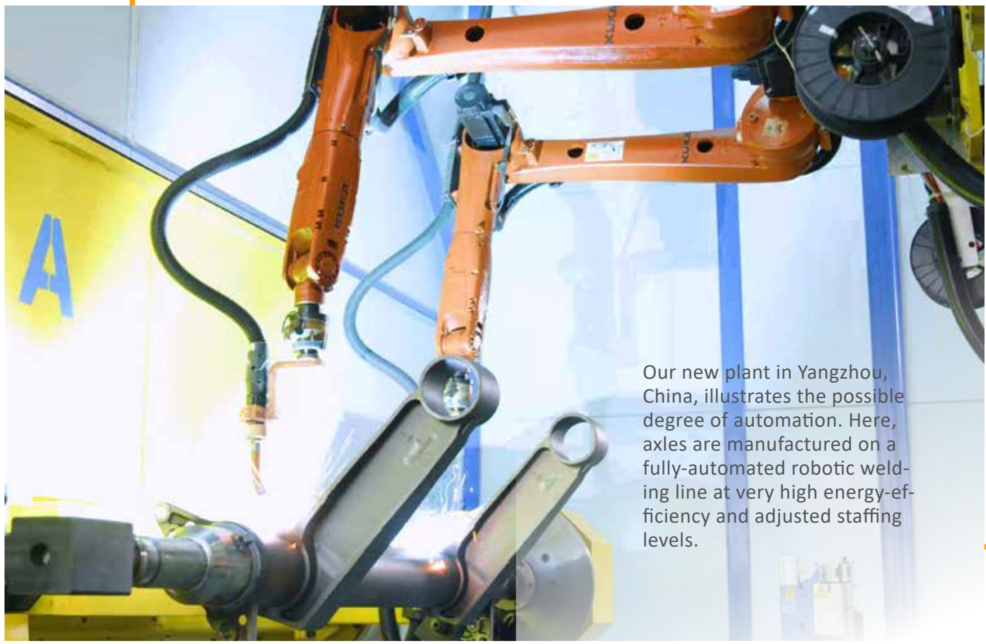
Production System
Building the solid foundation of a lean production system that minimises waste, ensures our standards and enables continuous improvement cycles to achieve a world class production environment.

EFFICIENT, AUTOMATED, ENVIRONMENTALLY FRIENDLY

The SAF-HOLLAND Operational Excellence System is supplemented by the “SAF-HOLLAND Global Manufacturing Concept Strategy” with the two areas of “Global Footprint Optimisation” and “Automation”. Both areas are closely linked to our Corporate Social Responsibility (CSR) strategy of being environmentally friendly and conserving resources in all our endeavours. The potential for automation and the elements of Industry 4.0 are currently being discussed in various strategic workshops.

The plant closures in China, Malaysia and the USA were a first step towards optimising the global SAF-HOLLAND footprint. Further investigations are ongoing and will be elaborated by the global Operations Team led by Dr. Philipp.

“For all new plant and machinery we pay attention to a number of factors, such as a high level of occupational safety, energy efficiency and noise-reduction. In each case, we also play through the scenarios between a possible global machine standard versus individual local procurement,” explains Dr. Philipp.



Our new plant in Yangzhou, China, illustrates the possible degree of automation. Here, axles are manufactured on a fully-automated robotic welding line at very high energy-efficiency and adjusted staffing levels.

We rely on a healthy combination of clear goals and local flexibility in our group-wide pursuit of improvement. After all, our locations differ from one another in terms of the composition of their workforce, the maturity of the production processes and the existing systems. To ensure that the locations steer towards the same goal despite their unequal starting positions, we have issued them with road maps and supplementary manuals containing recommended good practices. The road maps initially serve as a self-assessment for each location. Where do we stand in terms of the six “core areas”? At the same time, these specifically indicate which topics have priority.

«THE SAF-HOLLAND OPERATIONAL EXCELLENCE SYSTEM OFFERS OUR GLOBAL TEAM A STANDARDISED APPROACH TO DRIVE CONTINUOUS IMPROVEMENT, FOCUSING ON THOSE MANUFACTURING ASPECTS THAT LEAD TO WORLD CLASS SAFETY, PRODUCTIVITY AND QUALITY.»

— **Keith Belevender,**
Vice President HSEQ Americas

«EVERY JOB IS A SELF-PORTRAIT OF THE PERSON WHO DID IT, AUTOGRAPH YOUR WORK WITH EXCELLENCE. OPERATIONAL DISCIPLINE IS BORN IN THE WILL TO DO THINGS RIGHT THE FIRST AND EVERY TIME.»

—**Jesus Ayala Gonzalez**
Manager Quality Assurance

Thanks to the road maps our entire group possesses a uniform and transparent assessment system that comprises six quality levels. This allows us to measure and compare progress at our locations at any time. In addition, the improvement process is defined with a first milestone by the year 2025.

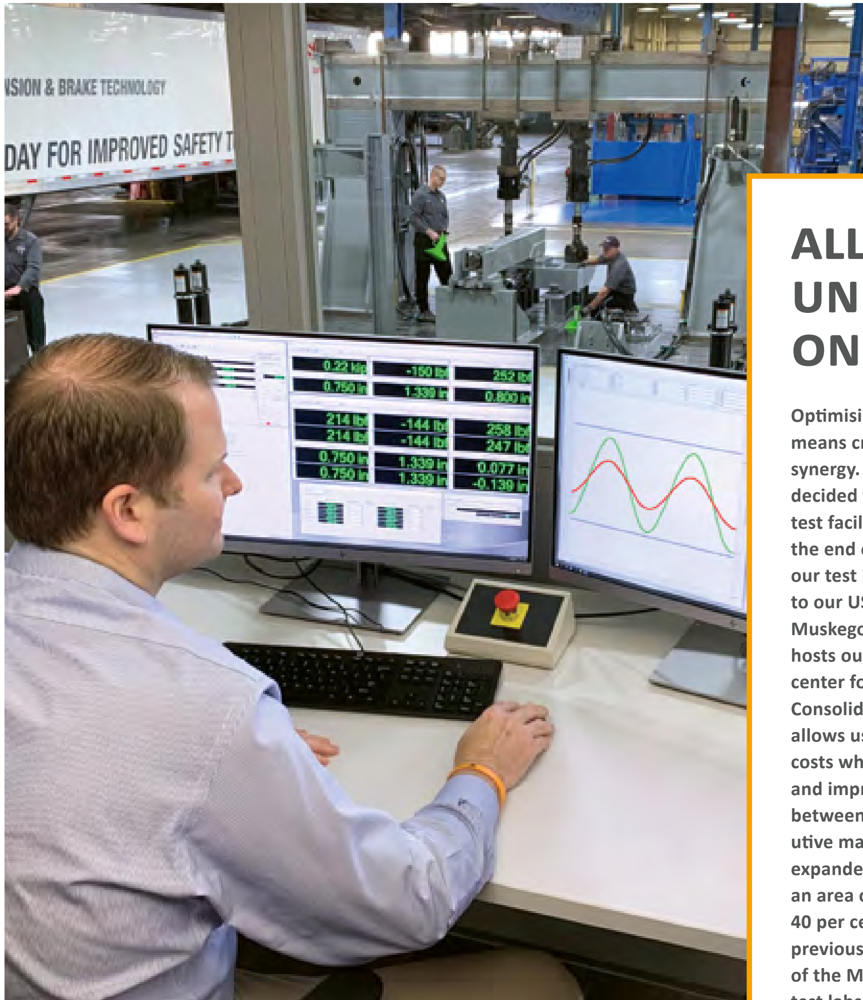
Will the market see any of these developments during this time? "I'm very sure of that," says Dr. Philipp. "Our customers will benefit immensely because we will raise our quality and delivery reliability to an even higher level. The operational and non-operational improvements will also have an impact on earnings in the medium term, so our shareholders and other stakeholders will also benefit from our initiative."

PROGRAM FORWARD 2.0

OUR BIGGEST LEVER FOR VALUE GROWTH

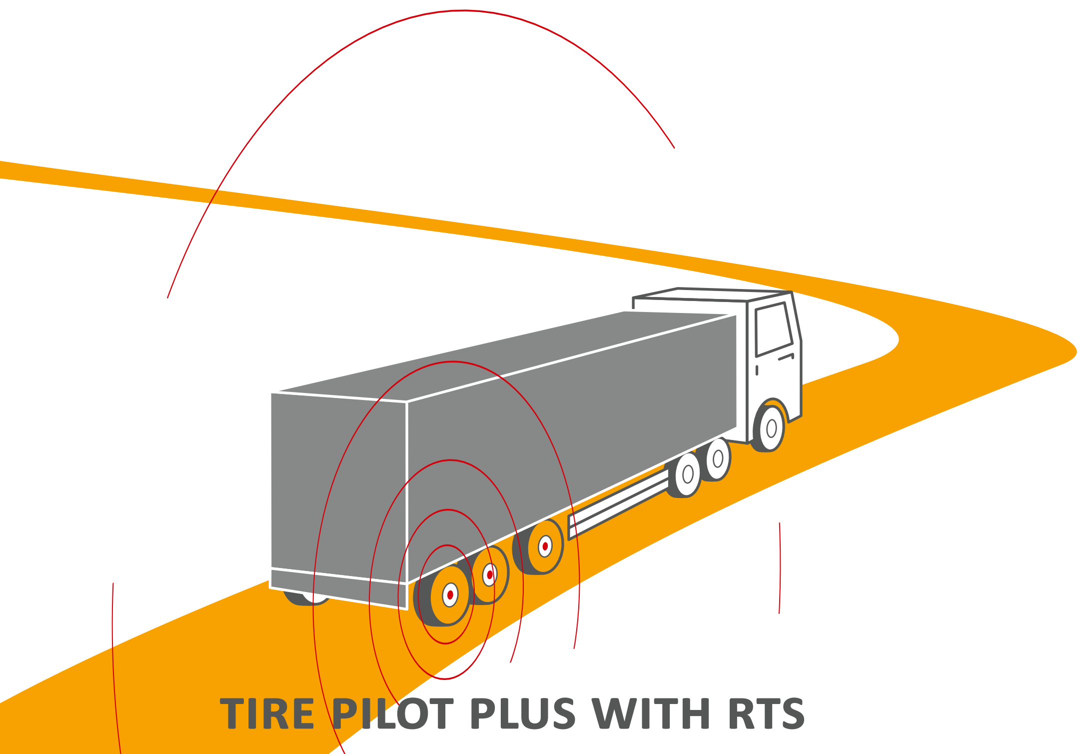
The Americas region is pivotal for the future success of SAF-HOLLAND. That is why we started a major restructuring project: Program FORWARD 2.0 will lead to a streamlined product portfolio, operations that are more efficient and much better operating results.

Road transports play a crucial role in all North and South American countries, making this a highly interesting market region for us. No wonder that our Americas region plays a crucial role for the future success of our Group. Spanning both North and South American continents, this region generated sales of EUR 332.3 million in 2020. About 1,400 employees in four countries keep our business running in 12 facilities sites.



ALL TESTING UNDER ONE ROOF

Optimising our business also means creating every possible synergy. That is why we have decided to consolidate two of our test facilities under one roof. At the end of 2020, we have moved our test lab in Holland, Michigan, to our US headquarters in Muskegon, Michigan, which also hosts our technical engineering center for the Americas region. Consolidating these two facilities allows us to lower overhead costs while creating efficiency and improving communications between engineering and executive management. The newly expanded test center covers an area of 100,000 sq. ft. – a 40 per cent increase over the previously combined spacing of the Muskegon and Holland test labs. Around 20 employees conduct tests based on real driving events, providing valuable feedback for our product development.



TIRE PILOT PLUS WITH RTS

Tire Pilot Plus, our solution for constant optimal trailer tire pressure, is quickly gaining favor by fleets in the American market. But we see additional potential in this product and plan to make it even more attractive to our customers. For example, fleet managers want to remotely perform pressure status checks in real-time using their preferred telematics system – even when the trailer is not coupled with the tractor. In 2021, we will deliver a solution with the technology to do all of this: Tire Pilot Plus with RTS (as in Real Time Sensing).

With a broad range of applications for trucks and trailers, we hold the first or second market position in every one of our six product groups. Our stable and profitable aftermarket business balances the more cyclical revenues of our OEM customers. Over the last decades, we have expanded our product range significantly and added multiple brands to our portfolio. This resulted in more than 11,000 model variations in North America. While this variety is impressive, it has had some negative effects on our bottom line.

That is why we have started Program FORWARD 2.0 at the beginning of 2020. This restructuring program aims to reduce the complexity of our product portfolio and to increase our business efficiency. In the course of Program FORWARD 2.0, we are going to reduce the number of variations from over 11,000 to about 5,000. As we will focus only on the most sought-after and profitable applications, we expect to maintain around 97 per cent of sales with this optimised portfolio.

To the same end, Program FORWARD 2.0 is also about modularising our product lines: Using common building blocks for a number of different applications, we can run our business more efficiently. This affects all steps of the value chain, from suppliers to operations, tooling and changeovers. This will enable us to reduce our inventories and to optimise our operating cash flow.

«PROGRAM FORWARD 2.0 IS A RESTRUCTURING INVESTMENT THAT IS ALREADY PAYING OFF.»

___ **Kent Jones**
President Americas

How will our customers profit from this program? Making our production less complex, more efficient and more flexible means that we can improve our customer experience metrics. More than ever, we will be able to deliver the right products at the right time in the best possible quality to our OEM customers, to optimise their fleet's performance.

Program FORWARD 2.0 is also good for our shareholders. It ensures profitable growth through a stable business with a strong market share. Improving our overall cost structure, we will significantly lower our break-even in the Americas region. And we have already produced results: Even in the midst of the COVID-19 pandemic downturn, we have been able to reduce costs significantly. In fact, we are convinced that an improved performance in the Americas region is the biggest valuation lever for SAF-HOLLAND.

__INNOVATIONS

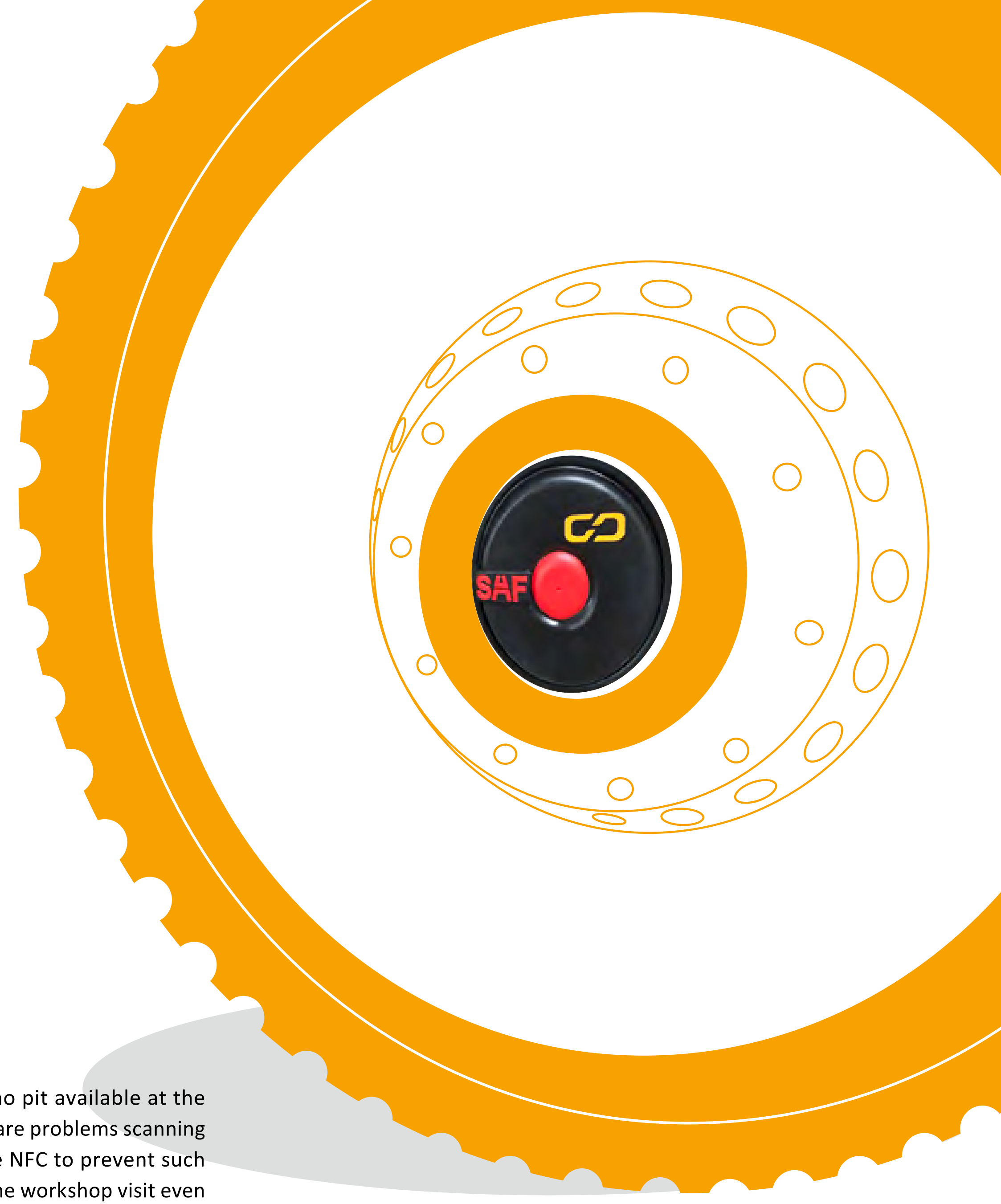
OUR PRODUCTS LEARN TO SPEAK

In the future, things will be even more efficient in the workshop – thanks to Near Field Communication (NFC). Our axles and chassis systems can be identified directly via an app on a mobile device. Information on the best possible maintenance and repair is provided free of charge.

When trailers or trucks roll into the workshop mechanics start the detective work. It is not always obvious at first glance which parts are from which manufacturer, particularly when the semitrailer comes in directly from an assignment. A dirty chassis makes it difficult to identify which products have been installed.

We apply QR codes directly to our products to ensure that our chassis, fifth wheels and landing gears can be clearly identified in the workshop. In the workshop pit, the affixed codes can be easily read by smartphone and users are directed to the corresponding product page in our “Parts on Demand” online store. The workshop crew therefore quickly knows which SAF-HOLLAND product they are dealing with and which spare parts are available.

But what if there is no pit available at the moment – or if there are problems scanning the QR code? We use NFC to prevent such problems and make the workshop visit even more efficient.

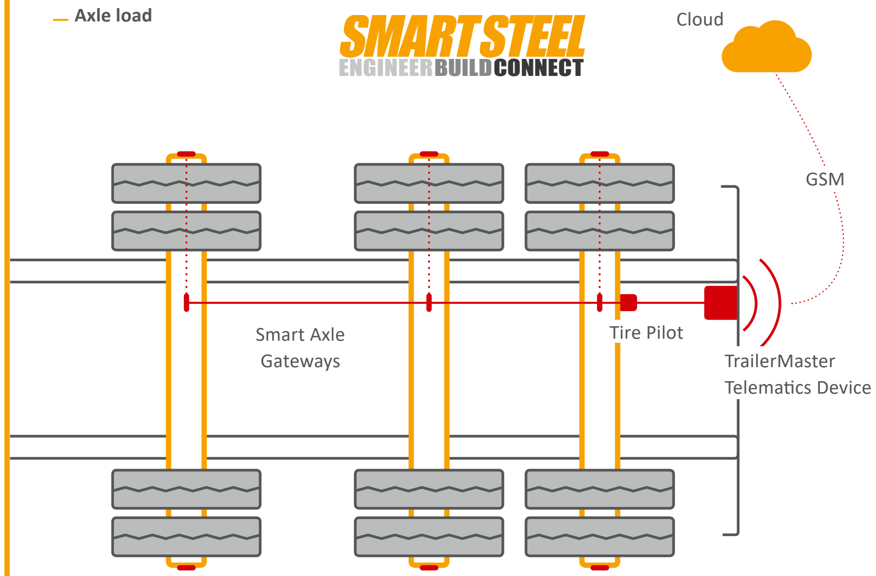


DRIVE MEASURABLY

NFC functionality is just one example of how we are making chassis components smarter and smarter. With our focus on innovation, we have been working for years to ensure that trailers become increasingly digital, electrified and autonomous. In the future, for example, we will equip our axles with sensors on request to improve safety and efficiency when driving. We call this approach "Smart Steel". In real time, the sensors determine:

- Condition of the brakes, especially the state of wear
- Tire temperature
- Wheel bearing temperature
- Tire pressure
- Axle load

If one of these values exceeds a critical mark, drivers, fleet managers and dispatchers are informed. This improves road safety. And in combination with a telematics system, fleet managers have full control over their trailers at all times. They can optimally plan service intervals and workshop visits, extend operating times, and thus minimise the total cost of ownership of their trailers.



With NFC, we turn the smartphone into a workshop assistant. For this purpose, our proven "SH Connect" app is undergoing a comprehensive upgrade. It shows whereabouts information on our products can be found on the vehicle. If NFC is activated and the app opened, the smartphone will recognise which SAF-HOLLAND product is installed at a distance of just a few centimetres. Users also receive all available product information via the app, such as instructions for installation, control, operation and repair, as well as certificates, repair videos and brochures, further information, documentation and videos for correct installation and removal. Ordering spare parts is also possible via the app, as is filling out complaints forms.

"SH Connect" will thus become a central digital contact point for our aftersales customers. And more digital offerings are already in the works. For example, we will make the complete range of information about our products available on a customer platform on our national websites.

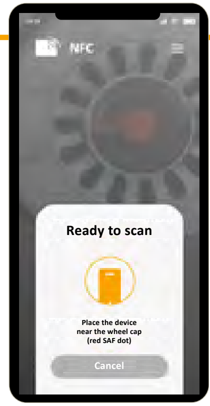
Our Head of Digital & Innovation, Thomas Piroth, is proud of the new digital offerings: "For decades, the red SAF-HOLLAND dot has stood for quality and reliability – now it's getting smart, too. With NFC, we are using a standard technology with broad acceptance to provide our customers with even faster and more targeted support. All important information at a glance: from ordering spare parts to the interactive repair video. And all of this is directly mobile and without having to crawl under the vehicle."

«TRANSPORT PROFESSIONALS INVEST IN DIGITAL TRAILER SOLUTIONS IF THEY INCREASE SAFETY AND OPTIMISE UPTIME. AND SAF-HOLLAND INNOVATIONS MEET THESE DEMANDS.»

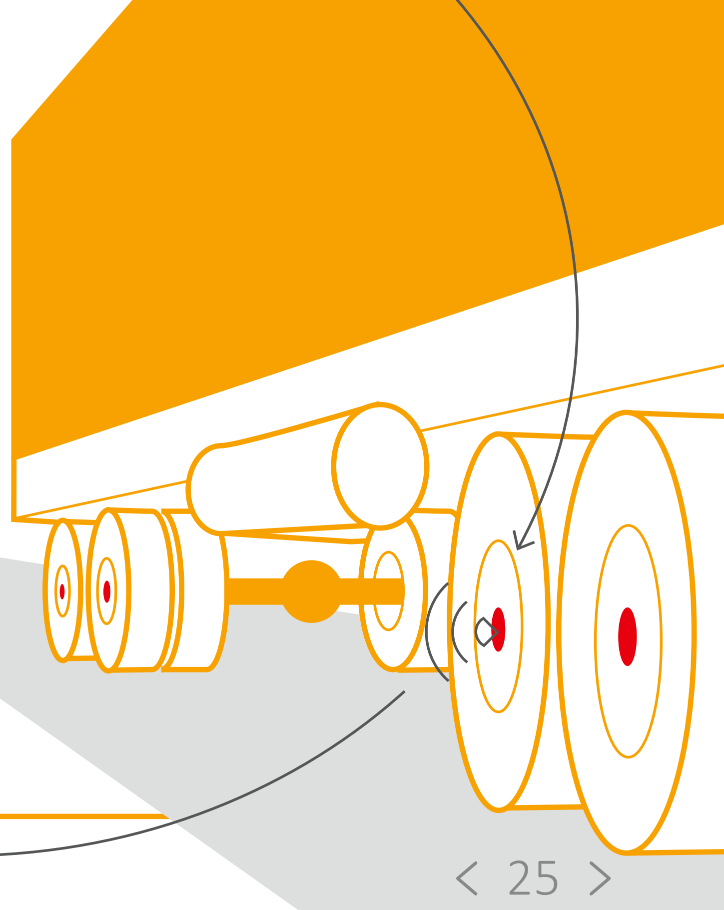
__ **Christoph Günter**
President EMEA and Senior Vice President Global R&D

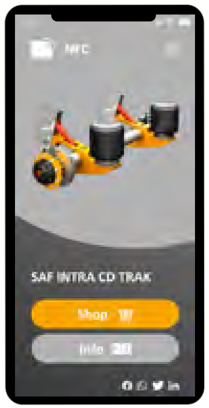
NFC

Contactless payment is probably the best-known use of this technology: near field communication (NFC) enables contactless data exchange over short distances of a few centimetres. This is made possible by electromagnetic induction and the fact that only small amounts of data are transmitted via NFC. NFC is based on RFID technology (Radio Frequency IDentification). Items are equipped with small transponders (so-called tags) that can be read without the need for contact. RFID technology is used in credit cards and smartphones as well as in machine communication within the framework of Industry 4.0.



The NFC function is activated on a smartphone. The “SH Connect” app shows exactly where the NFC tag is located on the trailer. Now the app is ready to read the tag.





“SH Connect” has recognised the product. The axle is shown in the display. Users can order the product directly or call up further information.

As a mobile application, SH Connect offers quick help while on the move: e.g. when searching for workshops or ordering spare parts.

Android iOS

IN DISCUSSION WITH DR. MARTIN KLEINSCHMITT

CORPORATE GOVERNANCE 2.0

What does good governance contribute to corporate success? Dr. Martin Kleinschmitt, Chairman of the Supervisory Board of SAF-HOLLAND SE, on the growing challenges for the governing body and the increasing expectations of the capital market.

Dr. Kleinschmitt, from the Supervisory Board's point of view important milestones in the 2020 financial year were no doubt the change in the company's legal form and the relocation of its headquarters to Germany. You are now chairman of a supervisory board in the German two-tier governance system. How has the work of the Supervisory Board changed in your view?
The conversion of the Luxembourg-based SAF-HOLLAND S.A. into a Luxembourg SE in February 2020 and the subsequent relocation of the registered office from Luxembourg to Bessenbach as of July 1, 2020 were important milestones for our work on the Supervisory Board. We now operate in a classic two-tier system with a supervisory board and a management board, which differs in many respects from the previous single-tier system of a Luxembourg company with a board of directors. We very much welcome the fact that SAF-HOLLAND, a company with significant German roots, now also has its

headquarters in Germany. Irrespective of the company's registered office, SAF-HOLLAND has anyway been listed exclusively on the Frankfurt Stock Exchange since its IPO in July 2007, which is why German law has already applied to us in some areas. Now that we have moved to Germany, we no longer have to orient ourselves to two different legal systems.

What has changed? All members of our Supervisory Board are very familiar with the German system. Some things have become rather simpler for us as a result. We are a comparatively small Supervisory Board, characterised among other things by very close and trusting cooperation. We are constantly refining our competence profile and make sure that the different profiles of our members complement each other well. We have extended our industry and technology expertise with the addition of Matthias Arleth. As part of our regular training program we also looked at new technologies and their impact on the commercial vehicle and commercial vehicle supplier industry.

What other corporate governance milestones in financial year 2020 can you report on?
We have continued to develop the structure of our committees and placed their leadership in new hands. Ingrid Jägering – Chief Financial Officer of LEONI AG, a listed company – a proven and independent financial expert, who was already elected to the Supervisory Board in the previous financial year, now serves as Chairwoman of the Audit Committee. New to the Supervisory Board is Matthias Arleth, whose primary occupation is Deputy Chairman of the Managment Board of the automotive supplier, Webasto SE. He chairs the Remuneration and Nomination Committee, which was created at the beginning of 2020 by merging the Nomination Committee with the Remuneration Committee.

In addition to the new committee structure, another project worth mentioning in the context of corporate governance is the assessment of the quality of the audit of the financial statements, which has been added to the German Corporate Governance Code as a new recommendation (D.11). We also had our work on the Supervisory Board and its effectiveness assessed externally as part of our self-assessment and defined the priorities and measures for financial year 2021.

The appointment and dismissal of members of the Management Board is one of the Supervisory Board's central tasks. Accordingly, we undertook intensive preparations for the selection process to fill the vacant CFO position. With the appointment of Inka Koljonen, we have a more diverse Management Board, making us a trend-setter in

«WE ARE CONSTANTLY REFINING OUR COMPETENCE PROFILE AND MAKE SURE THAT THE DIFFERENT PROFILES OF OUR MEMBERS COMPLEMENT EACH OTHER WELL.»

— **Dr. Martin Kleinschmitt**
Chairman of the Supervisory Board

Germany and in our industry. Inka Koljonen has a pronounced industry expertise as well as extensive investor relations knowledge. Accordingly, she will communicate the appeal of our share even better and intensify dialogue with our investors. The Virtual Investor & Analyst Day in November 2020 is, in our view, a good example of our improved capital market communication and represents a new chapter in the dialogue with our investors.

«ANOTHER KEY ELEMENT OF GOOD CORPORATE GOVERNANCE IS FOSTERING A CULTURE OF OPEN DISCUSSION ON THE SUPERVISORY BOARD THAT ALSO ALLOWS DIFFERING OPINIONS TO BE AIRED.»

__**Dr. Martin Kleinschmitt**
Chairman of the Supervisory Board

In your view, what are the success criteria for good corporate governance and, in particular, good supervisory board work? How does the Supervisory Board of SAF-HOLLAND distinguish itself in particular?
We place a permanent focus on the continued development of good governance. Both the Management Board and the Supervisory Board are composed in a complementary manner and thus contribute in the best possible way to the success of the company. With Ingrid Jägering and myself, we have two independent financial experts on the Supervisory Board. Moreover, all board members have executive board or C-level experience and many years of international operating experience in SAF-HOLLAND's core markets. We bring this to bear in our exchange with the Management Board and act as a sparring partner for them. For example, we have developed a model whereby one member of the Supervisory Board is the main contact for one member of the Management Board or Executive Committee. This has proved successful and further strengthened the trust between the Supervisory Board and the Management Board. Another key element of good corporate governance is fostering a culture of open discussion on the Supervisory Board that also allows differing opinions to be aired. It is precisely in crisis situations such as the COVID-19 pandemic that it becomes apparent how well a committee functions. In this context, we had the Management Board report to us on the current operational situation at very regular intervals – also to ensure that the health of our employees is being protected in the best possible way. We very much hope that we on the Supervisory Board will be able to meet in face-to-face meetings once again very soon. After all, the informal exchange surrounding such meetings is also very important to us.

Dr. Kleinschmitt, the capital market's expectations of supervisory boards are rising. What goals are you therefore pursuing with a view to the next financial years?
We will continue to work steadily on optimising our Supervisory Board work. We have defined focus areas that we want to discuss and follow up on intensively with the Management Board in 2021. And we will also take account of the higher demands placed on the areas of corporate social responsibility and sustainability during our work.

_To our Shareholders

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Alexander Geis
Chairman of the Management Board

DEAR SHAREHOLDERS,

Within an incredibly short space of time, the global COVID-19 pandemic upturned our entire lives – both privately and professionally. And it also heavily affected the financial year 2020 at SAF-HOLLAND. The good news first: Your company successfully mastered this stress test and, moreover, laid the groundwork for profitable growth in the future.

We responded rapidly and decisively to the pandemic, establishing comprehensive rules of conduct and hygiene standards, which we regularly tailor to match the dynamically changing course of the infection. As a result we managed to keep the case rate in our global workforce at an extremely low level. At the same time, we managed to flexibly adapt production to meet customer demand and ensure our delivery capability. The entire workforce of SAF-HOLLAND displayed tremendous team spirit and dedication in this challenging year. I am particularly proud that we could remain a reliable partner for our customers at all times. At this point, I would like to express my special thanks to all employees.

The impact of the COVID-19 pandemic is reflected particularly in our revenues. Due to market conditions and COVID-19, Group sales came to EUR 959.5 million, 25.3 per cent down on the previous year's level of EUR 1,284.2 million. Our OE business was hit particularly hard, with sales declining by 29.8 per cent or EUR 285.7 million to EUR 673.4 million in the reporting period from January to December 2020. The share of Group sales accounted for by the OE business therefore decreased from 74.7 per cent to 70.2 per cent. By contrast, sales in our spare parts business only decreased by 12.0 per cent or EUR 38.9 million to EUR 286.2 million. The share of the spare parts business in total sales increased from 25.3 per cent to 29.8 per cent accordingly.

In spite of the sharp decline in sales, we generated an adjusted EBIT margin of 6.1 per cent (previous year: 6.2 per cent). As a result, we not only surpassed our original margin guidance of 3 to 5 per cent issued in March 2020 – we were one of the very few companies who had the courage to issue any kind of guidance at this stage – but also the raised margin guidance of 5 to 6 per cent from November. The higher proportion of the high-margin spare parts business in total sales and sustained savings in selling and administrative expenses had a positive impact.

Furthermore, in terms of financing, we are on a better footing than we were one year ago. At the end of 2020 we had a total liquidity of EUR 371 million available (previous year: EUR 243 million). As an aside, I would also like to highlight the fact that we successfully placed our promissory note loan in March 2020. Because of the high demand and resulting over-subscription, the final placement of EUR 250 million exceeded the original target volume by EUR 150 million. The pleasing response from debt investors and the attractive terms and conditions of the promissory note loan once again confirm the outstanding rating enjoyed by the SAF-HOLLAND Group as well as the faith in our strategic alignment as an innovative partner to the international commercial vehicle industry.

In spite of the generally healthy liquidity position, the Management Board will propose to the Annual General Meeting scheduled for June 10, 2021, not to pay a dividend for the financial year 2020. This will secure our financial headroom going forward and, at the same time, give due consideration to the fact that we were able to realise savings in personnel expenses from the reimbursement of social security contributions under the short-work furlough scheme and that the employees at the Bessenbach plant have also made a financial contribution to securing jobs and improving competitiveness within the framework of supplemental collective agreement. In the coming years, we intend to then return to paying a dividend with a payout ratio of 40 to 50 per cent of the after-tax profit attributable to SAF-HOLLAND.

In light of the extreme difficulty at forecasting the future development of the pandemic, the Management Board and Supervisory Board have decided to hold the first Annual General Meeting since transferring the registered office from Luxembourg to Bessenbach as a virtual meeting. I warmly invite you to attend this meeting and hope that we will be able to meet once again in person next year.

In addition to improving our operating performance, we focused intensively on our Strategy 2025 in the reporting period, presenting it at the Virtual Investor & Analyst Day on November 25. The new mid-range strategy is based on five pillars:

— Growth and portfolio optimisation
— Technology as a core enabler
— Global backbone
— Operational excellence
— People focus

The associated objectives are clearly outlined. We want to generate profitable growth and improve the adjusted EBIT margin from 6.1 per cent, at present, to around 8 per cent by 2023 at the latest while steadily improving our cash generation. Assuming that our investment policy remains as disciplined as it has been, this will lead to a significant improvement of the net debt to EBITDA ratio. In the final instance, this will raise the enterprise value of your company, SAF-HOLLAND.

The positive development of our business has also been rewarded by the capital markets, at least since the publication of the half-year financial report in August 2020. You can rest assured that we will do our utmost this financial year once again to offer you compelling investment prospects for the future.

We are in an excellent position, both strategically and financially. We have a robust and promising business model. We have a presence on all the relevant commercial vehicle markets of the world. We are technological leaders in numerous product lines. The digitisation of our business is also advancing steadily and we have an outstanding team. All of these factors equip us well for the future.

Dear shareholders, at this point I would like to express my gratitude for your support and your faith in us. I am very happy that you join us on our journey.

Please, stay healthy!

Sincerely

yours,

Alexander Geis
Chairman of the Management Board

REPORT OF THE SUPERVISORY BOARD

Dr. Martin Kleinschmitt
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

The year 2020 was dominated by the COVID-19 pandemic and its impacts on the widest aspects of both life and business. As a global player, we were unable to shield ourselves from these effects, and the pandemic consequently also affected the work of the Supervisory Board. As a result, our meetings focused on closely monitoring the personal protection measures for our employees, our operational performance, and the impact of the pandemic on our business activities. The proportion of virtual meetings of the Supervisory Board has also increased significantly due to the pandemic and the associated contact and travel restrictions, and we have had to adapt our collaboration to accommodate this new reality. In retrospect, we succeeded very well. We were also pleased to observe that the transformation of the company that has been initiated, the activities in the area of operational excellence, and the focus on cash management and our solid financial profile have made the company more resilient to crises and more agile just at the right time. By acting quickly with the right measures, the Management Board succeeded at minimising the impact on SAF-HOLLAND's profitability, despite the cyclical nature of our industry, while at the same time preparing the company for the future once the pandemic has passed.

Beyond the economic challenges of 2020, a significant milestone in the financial year from the perspective of the Supervisory Board was the change in legal form of SAF-HOLLAND S.A. into an SE and the subsequent transfer of the registered office from Luxembourg to Germany. With the transition in the governance structure to the two-tier German system, the work of the Board of Directors ended and, upon becoming registered in July 2020, the new Supervisory Board of SAF-HOLLAND SE began its work with a new composition and based on new governance rules. I gladly accepted the election as Chairman of the Supervisory Board of the company.

In addition to the key points posed by the crisis and change in legal form already mentioned, the appointment of Inka Koljonen as the new CFO of SAF-HOLLAND SE also marked an important step. With Inka Koljonen, the three-member Management Board of SAF-HOLLAND SE is now complete and we were able to implement our goal of greater diversity on the Management Board.

In the course of transferring the registered office to Germany, we also adjusted the composition of the Supervisory Board. Two members of the Board of Directors stepped down, Jack Gisinger by resignation and Anja Kleyboldt who left upon the change in legal form, I would like to take this opportunity to thank both of them once again for their many years of trusting cooperation and their great commitment to the company. Matthias Arleth was elected as a new member of the Supervisory Board by the Annual General Meeting, thus completing the Supervisory Board as its fifth member. With Matthias Arleth, we have succeeded in further strengthening the technology and industry expertise on the Supervisory Board – which was already expanded by the appointment of Ingrid Jägering in the previous financial year – and further developing our competence profile accordingly. We supplemented this with an advanced training event for the Supervisory Board in the fields of technology and innovation and will maintain this focus next year.

I am optimistic that we have been able to take the right steps for the long-term success of the company. We have taken into account that the global economy will continue to be characterised by uncertainty and volatility. For this reason, we will focus even more intensely on the steady development of the company to secure the company's success for both us and our stakeholders in light of the global economic, ecological and technological challenges facing us.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Supervisory Board – like the Board of Directors – conscientiously carried out its duties in the 2020 financial year in accordance with the law, Articles of Association and Rules of Procedure. Both boards regularly advised the Management Board and, prior to the change in legal form, the Group Management Board, on operational management and oversaw the conduct of business. The Management Board informed the Supervisory Board promptly, regularly and comprehensively about all material events and developments related to the company, both in writing and verbally. The spotlight is placed on the development of orders, sales and earnings as well as status reports on central corporate programmes and initiatives. In addition, the Management Board and Supervisory Board closely consulted each other on the strategic alignment of the SAF-HOLLAND Group. Market developments, research and development, but also such topics as the risk position, risk management, compliance and the Group's financial situation and planning, were discussed and analysed jointly. In addition, the Supervisory Board addressed sustainability issues and the non-financial statement of the SAF-HOLLAND Group. In this context, the Supervisory Board 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 Supervisory Board. When resolutions had to be passed between meetings, this was done via circularisation. The Management Board also reported in writing or verbally in the intervals between the meetings. In my role as Chairman of the Supervisory Board, I maintained intensive and regular contact with the Chairman of the Management Board. In addition, as Chairwoman of the Audit Committee, Ingrid Jägering regularly exchanged views with the CFO on current developments.

Members of the Supervisory Board of SAF-HOLLAND SE and their appointments to the boards of other companies

Member	Year of birth	Nationality	First appointment	Term expires in	Main professional activity	Memberships on other boards: (a) listed companies (b) non-listed companies (c) Group companies
Dr. Martin Kleinschmitt	1960	German	04/2013	Annual General Meeting 2024	Partner Noerr LLP Management Board Noerr Consulting AG	(a) No mandates (b) G&H Bankensoftware AG (Germany) (since 2017) – Chairman of the Supervisory Board (c) SAF-HOLLAND GmbH (since 04/2014) – Chairman of the Supervisory Board
Martina Merz	1963	German	04/2014	Annual General Meeting 2024	CEO thyssenkrupp AG	(a) VOLVO AB (Sweden) (since 04/2015) – Member of the Board of Directors (b) No mandates (c) No mandates
Matthias Arleth	1967	German	07/2020	Annual General Meeting 2024	Deputy Chairman of the Management Board of Webasto SE	(a) No mandates (b) No mandates (c) No mandates
Ingrid Jägering	1966	German	10/2019	Annual General Meeting 2024	CFO LEONI AG	(a) Hensoldt AG (since 09/2020) – Member of the Supervisory Board – Chairwoman of the Audit Committee (b) – HENSOLDT Holding (Germany) (until 09/2020) – Member of the Supervisory Board – Member of the Audit Committee (c) SAF-HOLLAND GmbH (since 07/2020) – Member of the Supervisory Board

Members of the Supervisory Board of SAF-HOLLAND SE and their appointments to the boards of other companies

Member	Year of birth	Nationality	First appointment	Term expires in	Main professional activity	Memberships on other boards: (a) listed companies (b) non-listed companies (c) Group companies
Carsten Reinhardt	1967	German	04/2017	Annual General Meeting 2024	Independent senior advisor	(a) Garrett Motion Inc. (USA) (since 10/2018) – Member of the Board of Directors – Chairman of the Remuneration Committee (b) Grundfos Holding A/S (Denmark) (since 10/2016) – Vice Chairman of the Board of Directors – Member of the Audit Committee – Member of the Remuneration and Executive Development Committee – Member of the M&A Committee (b) Tegimus Holding GmbH (Germany) (since 12/2017) – Chairman of the Advisory Board (b) Beinbauer Automotive GmbH & Co. KG (Germany) (since 05/2018) – Member of the Advisory Board (b) WEZAG GmbH (Germany) (since 10/2016) – Member of the Advisory Board (b) Michigan Capital Advisors (USA) (since 01/2017) – Member of the Advisory Board (b) Braemar Energy Ventures (USA) (since 08/2017) – Member of the Strategic Advisory Board (c) No mandates
Anja Kleyboldt (until 06/2020)	1969	German	04/2012		Head of Business Unit Industry Arnold AG	(a) No mandates (b) SAF HOLLAND GmbH (Germany) (until 06/2020) – Member of the Supervisory Board (c) No mandates
Jack Gisinger (until 05/2020)	1948	US-American	04/2017		Freelance advisor	No mandates

MEETINGS OF THE SUPERVISORY BOARD

The Board of Directors held three meetings in the financial year 2020 prior to the transfer of the registered office. The newly constituted Supervisory Board held five meetings during the course of the year after commencing its activities. Due to the COVID-19 pandemic and the resulting contact restrictions as well as temporary border closures, only two of a total of eight meetings could be held as face-to-face sessions. Two meetings were held as telephone conferences and four meetings were held as video conferences. The committees met eight times in total. When resolutions had to be passed urgently between meetings, this was done in circularisation proceedings. Attendance at the Supervisory Board meetings came to 100 per cent and 97 per cent for the committee meetings. The overall attendance rate of 99 per cent was therefore very high.

Detailed summary of the attendance of the individual members of the Board of Directors and the Supervisory Board at board and committee meetings:

Summary of attendance

Member	Full board	Audit committee	Remuneration and nomination committee	Overall ratio
Dr. Martin Kleinschmitt	8/8	4/4	4/4	100%
Martina Merz	8/8		3/4	92%
Carsten Reinhardt	8/8	4/4	3/3	100%
Ingrid Jägering	8/8	4/4		100%
Matthias Arleth (from 05/20)	5/5		1/1	100%
Anja Kleyboldt (until 06/20)	3/3			100%
Jack Gisinger (until 05/20)	3/3		3/3	100%
Overall ratio	**100%**	**100%**	**93%**	**99%**

The key items on the agenda of the meeting on March 16, 2020 were the separate and consolidated financial statements, the Group management report and the independent auditor's report for the financial year 2019. The Board of Directors approved the financial statements after examining them thoroughly. By approving the separate 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.

The Supervisory Board also approved the agendas for the two extraordinary general meetings and the 2020 Annual General Meeting, which included the proposal for the reappointment of PricewaterhouseCoopers (PwC) as the external auditor for the 2020 financial year. Other proposals for resolutions to be passed by the Annual General Meeting in connection with the change in legal form and transfer of the registered office to Germany were the capital increase as well as the new Articles of Association of SAF-HOLLAND SE based in Germany. The Supervisory Board was also proposed to the Annual General Meeting for election. Furthermore, we addressed the fields of global sourcing, the aftermarket, the future structure of the engineering organisation and an update to our strategy in the meeting. Various resolutions on remuneration were also passed, particularly with regard to remuneration of the Group Management Board for financial year 2019. The declaration of compliance as of March 9, 2020 was previously passed in a resolution by circularisation. We approved the recommendation of the Audit Committee to place a promissory note loan.

The meeting on April 6, 2020, was conducted as a conference call. The focus of the meeting was primarily on the impacts of the COVID-19 pandemic on the Group. The COVID-19 legislation and its implications for the Annual General Meeting were also discussed.

The main points on the agenda of the meeting on May 8, 2020, were the quarterly statement for the first quarter of 2020 and a more in-depth analysis of the key indicators and their possible development before the backdrop of various recovery scenarios. The Board of Directors approved divestments and measures to consolidate subsidiaries, heard reports on the development of the Cash-is-King programme and the Operational Excellence initiatives and took a deep dive into the performance of the Americas region as well as addressing strategy.

At the constituent meeting of the Supervisory Board, I was elected Chairman of the Supervisory Board and Martina Merz was elected Deputy Chairwoman of the Supervisory Board. Alexander Geis, Dr. André Philipp and Inka Koljonen were appointed members of the Management Board. The Supervisory Board committees – the Audit Committee and the Remuneration and Nomination Committee – were also formed and their members appointed, and the revised Rules of Procedure for the Supervisory Board were adopted, which can be viewed on the company's website. Furthermore, the Supervisory Board approved new service contracts with the members of the Management Board to reflect various changes currently required by good corporate governance. In the framework of two resolutions passed by circularisation on June 19, 2020, we adopted the Rules of Procedure of the Management Board and the Information Policy of the Supervisory Board of SAF-HOLLAND SE.

The meeting on August 10, 2020 focused firstly on the adoption of the half-year financial report for 2020 and the Strategy 2025. Moreover, a new allocation of board functions was passed and other personnel measures requiring approval were adopted.

The meeting on September 25 could again be held as a face-to-face meeting. We once again addressed the impact of the COVID-19 pandemic on the company as well as the current status of key Group programmes. We also looked at the future organisational model as well as the topics of products, technology and engineering and how the departments are anchored in the organisation. During a product presentation held in parallel to the meeting, we were able to deepen our knowledge of the current portfolio. Transactions requiring approval at this meeting included an investment project in Russia. Finally, the President of the Americas region presented a deep dive report on current developments in the region. Thereafter – without the participation of the Management Board – we addressed the internal organisation of the Supervisory Board and the results of the management performance evaluation, defining a sparring partner structure under which the members of the Supervisory Board can act as sparring partners for individual members of the Management Board in an advisory capacity as part of their role.

On the eve of the Supervisory Board meeting on November 12, 2020, we addressed various future issues and trends in the commercial vehicle industry as part of a training programme. The main items on the agenda of the meeting itself were the financial statements for the third quarter of 2020, an update on the current business development of the Group, a deep dive into the China region and an update on various projects in the area of human resources.

The final meeting of the year took place on December 8, 2020. As is customary, the focus was on the budget for the upcoming year, the mid-range planning and the performance targets for the members of the Management Board. Based on the recommendations and preparation made by the Remuneration and Nomination Committee, additional resolutions were passed in connection with the goal agreements for the Management Board for the year 2021 as well as succession planning for the upper management levels. Another item on the agenda was the self-assessment of the Supervisory Board, which was conducted by external and independent experts. In addition, a resolution was passed setting a target of at least 40 per cent for female representation on the Supervisory Board and 25 per cent on the Management Board by June 30, 2025 at the latest.

In accordance with the recommendations of the latest German Corporate Governance Code, the Supervisory Board holds a number of its face-to-face meetings without the members of the Management Board attending. This rule was also applied for the majority of the video conferences held in the financial year.

WORK OF THE COMMITTEES

The Supervisory Board uses committees to make its work more effective. To facilitate this, the committees are delegated individual decision-making powers to the extent permitted by law.

Adjustments were made to the structure and management of the committees of the Supervisory Board in the financial year. For example, the former remuneration committee and the nomination committee were combined into one committee at the beginning of the year. This committee was chaired by Martina Merz until the registered office was transferred to Germany before being taken on by Matthias Arleth at the constituent meeting in May 2020. All issues related to the composition, succession and remuneration of the Management Board and the Supervisory Board will be bundled in this committee in future. The work of the North America Special Committee was concluded as scheduled. Consequently, the Supervisory Board has organised its work outside the full board in two committees: (1)

the Audit Committee and (2) the Remuneration and Nomination Committee. Special committees may be established by the Supervisory Board as needed to address any particular issues.

The composition of the committees of the Supervisory Board is as follows:

Audit Committee:
- Ingrid Jägering (Chairwoman)
- Dr. Martin Kleinschmitt
- Carsten Reinhardt

Remuneration and Nomination Committee:
- Matthias Arleth (Chairman)
- Martina Merz
- Dr. Martin Kleinschmitt

Audit Committee

The Audit Committee met four times in the reporting year. The main matters addressed by the committee included the audit of the financial statements, the financial statements themselves, the recommendation for the election of the independent auditor, accounting, financial and non-financial reporting, risk management, internal audits, financing and refinancing issues, legal and compliance, tax issues as well as the dividend distribution policy and investor dialog. Further points of focus were the effectiveness of the internal control system and the implications of IDW AuS 340 (rev.) for early risk detection. Prior to July 2020 the contents of the meetings were presented to the Board of Directors and after July 2020 to the Supervisory Board within the course of the oral reports to the board by the committees and – where necessary – submitted to the board for a decision. The independent auditor attended the meeting at which the independent auditor's report was explained. In addition, the Chair of the Audit Committee regularly contacts the independent auditor, also outside of the meetings. The independent auditor reports to the Audit Committee immediately on any significant audit findings and events that come to his attention during the execution of the audit. Furthermore, he informs the Audit Committee of any circumstances that he becomes aware of during the execution of the audit indicating non-compliance with the Declaration of Compliance with the German Corporate Governance Code issued by the Management Board and Supervisory Board. Two financial experts have been appointed to the Audit Committee.

In accordance with Recommendation D. 11 of the German Corporate Governance Code, the quality of the independent audit of the financial statements of SAF-HOLLAND was evaluated independently and internally and externally in the reporting year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee met four times in 2019 by means of conference calls. Among other tasks, it prepared recommendations for the future composition of the Supervisory Board and was intensively involved in finding a successor for the CFO. It discussed amendments to the service contracts with the members of the Management Board due to a number of changes in the field of corporate governance and drew up its recommendations for the Supervisory Board. It prepared all the resolutions on remuneration issues for the Management Board including both the financial and non-financial goals. In addition, it prepared the Management Board succession planning on behalf of the Supervisory Board, considering any changes in the composition of the Management Board and Executive Committee that have occurred during the reporting year.

CORPORATE GOVERNANCE

SAF-HOLLAND SE has the legal form of a European Company (Societas Europaea, SE). As an SE with its registered office in Germany, SAF-HOLLAND SE is subject to European and German SE regulations and continues to be subject to German stock corporation law. As a company listed on the stock exchange in Germany, the corporate governance of SAF-HOLLAND SE is based on the latest version of the German Corporate Governance Code. Our corporate governance is further determined by our Articles of Association, rules of procedure and internal policies.

SAF-HOLLAND SE has a dual governance system, which provides for a strict separation of personnel and functions between the Management Board as the executive body and the Supervisory Board as the overseeing body (two-tier board). The Management Board manages the company, while the Supervisory Board monitors and advises the Management Board. Both bodies work closely together in a spirit of trust for the benefit of the company.

SAF-HOLLAND SE is a financial holding without any active operating business of its own. The management of the company's business by the Management Board focuses primarily on the strategic orientation of

SAF-HOLLAND and overseeing the operations of each of its direct and indirect operating subsidiaries.

In 2020 the Supervisory Board once again looked closely at the topic of corporate governance and making the work of its committees even more professional. The 2020 Declaration of Compliance with the recommendations of the German Corporate Governance Code was issued by the Management Board and Supervisory Board of SAF-HOLLAND SE on March 22, 2021. The current Declaration of Compliance is available on the company's homepage.

The Chairman of the Supervisory Board also conducted individual discussions with investors on corporate governance issues over the course of the reporting year.

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

AUDIT OF THE SEPARATE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTS REVIEW MEETING

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the independent auditor elected by the Annual General Meeting, audited the separate financial statements and the consolidated financial statements, including the combined management report for the financial year 2020, and rendered an unqualified audit opinion thereon. It was found that the separate financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the SAF-HOLLAND Group.

After preparation by the Audit Committee, the Supervisory Board addressed the separate financial statements, the consolidated financial statements, including the proposal for the appropriation of profit made by the Management Board and the combined management report for the financial year 2020 and discussed them in depth with the Management Board at its meeting on March 22, 2021. The independent auditor reported on the findings of its audit to the Audit Committee and was available to respond to questions. In line with the committee's recommendation, the Supervisory Board agreed with the results of the audit and approved the separate financial statements and consolidated financial statements for the financial year 2020.

According to the concluding summary of the audit of the separate financial statements and the consolidated financial statements, the combined management report, including the corporate governance statement and the proposal for the appropriation of profit made by the Supervisory Board and the Audit Committee, no reservations were held. The Supervisory Board follows the Management Board's proposal for the appropriation of retained earnings and, as in the previous year, proposes to the Annual General Meeting scheduled for June 10, 2021 that no dividend is paid for the 2020 financial year.

The Supervisory Board 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 2020 financial year.

Bessenbach, March 22, 2021

On behalf of the Supervisory Board

Dr. Martin Kleinschmitt
Chairman of the Supervisory Board

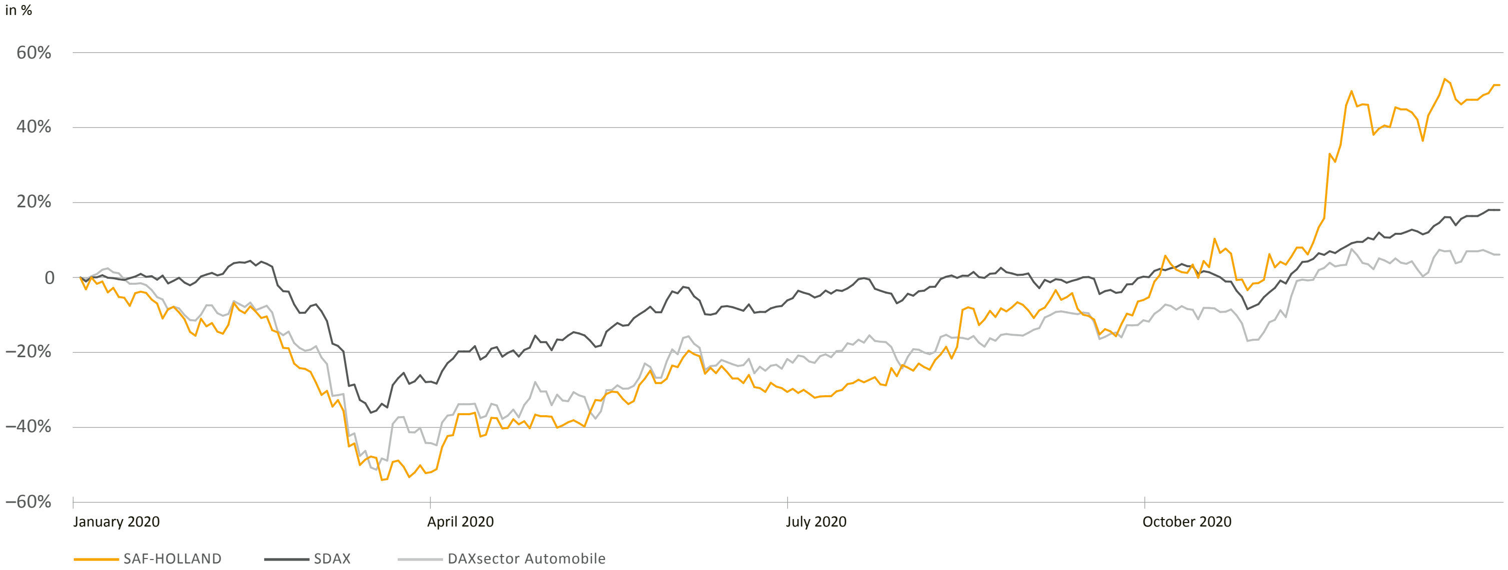
SAF-HOLLAND ON THE CAPITAL MARKET

DEVELOPMENT OF STOCK MARKETS AND SHARE PRICE IN 2020

SAF-HOLLAND'S SHARE OUTPERFORMS BENCHMARK INDEXES

The development of the world's stock markets was heavily affected in 2020 by the spread of the COVID-19 pandemic, which broke out in February. Among other factors, rising case numbers and extensive lock-downs in the Euro zone, the United States and China, coupled with a fall in the price of oil and a slump in corporate profits resulted in a stock market crash in the first quarter of 2020. However, in the wake of the Fed cutting the key rate twice unexpectedly and commencing with an unlimited asset purchase programme, as well as the expanded asset purchase programme of the European Central Bank (PEPP) and very expansive monetary policies worldwide with comprehensive COVID-19 rescue packages and the rapid recovery of the Chinese economy, the stock markets rose again in the following months, creating a "V" shaped trend line. Nevertheless, later developments in case numbers and the associated restrictions repeatedly placed a burden on the markets in the following months. After announcement of COVID-19 vaccines and the first approvals obtained in the fourth quarter, the markets recovered once again.

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



The SAF-HOLLAND share started modestly the year 2020 and was not able to shield itself from the effects of the pandemic starting in February. On March 23, 2020 the share hit its low point for the year at EUR 3.32. As the year progressed, the share price generally paralleled the recovery seen in the benchmark and industry indexes. Positive corporate announcements on earnings in the second and third quarters as well as raising the guidance for the financial year 2020 in November gave the share price fresh wind. Market participants viewed the increase in the EBIT margin guidance and the much improved cash generation in a challenging environment particularly positively. The SAF-HOLLAND share reached its annual high of EUR 11.46 on December 17, 2020. On December 30, 2020, the SAF-HOLLAND share closed the year at a price of EUR 11.20. This represents a rise of roughly 51.4 per cent on the closing price for 2019. The share therefore outperformed the leading DAX index and the SDAX selection index, which rose by 3.6 per cent and 18.0 per cent over the same time frame respectively. Likewise, the industry index, the DAXsector Automobile Performance Index, with a gain of 6.1 per cent was well below the performance set by our share.

Key share information

WKN/ISIN	SAFH00/DE000SAFH001
Ticker symbol	SFQ
Number of shares	45,394,302
Designated Sponsors	Commerzbank AG, HSBC Trinkaus & Burkhardt AG
Annual high/low[1)]	EUR 11.46 / EUR 3.32
Closing price[1]	EUR 11.20
Market capitalisation	EUR 508.4 million

[1] Xetra-Closing price.

TRADING VOLUME IN SAF-HOLLAND SHARES CONTINUES TO GROW

The average daily trading volume in SAF-HOLLAND shares – a key investment criterion, particularly for institutional investors – continued to grow in the year 2020. The most significant trading venue for SAF-HOLLAND shares remains the Xetra trading platform, which accounted for 40.9 per cent of the volume traded in the year 2020 (previous year: 40.2 per cent). On average, 219,309 shares were traded on Xetra on a daily basis (previous year: 178,593 shares), corresponding to an increase in trading volume of 22.8 per cent. In euro terms, SAF-HOLLAND shares with a total value of EUR 1.4 million traded hands on the exchanges each day on average (previous year: EUR 1.6 million).

IMPROVED POSITION IN THE INDEX RANKING

Based on the year-end share price, the free float market capitalisation of SAF-HOLLAND SE on December 30, 2020 came to EUR 508.4 million (previous year: EUR 335.9 million). As a result, the company was ranked 148th (previous year: 158th) by market capitalisation on December 30, 2020 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 142nd (previous year: 133rd).

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 trailer and truck markets. Issues relevant to the market, such as new technologies and increasing digitisation in the international trailer and truck markets are addressed regularly. In addition, SAF-HOLLAND maintains intensive dialogue with its shareholders, potential investors and analysts. Due to the COVID-19 pandemic, these talks were held virtually from March onwards via video conference and conference calls, virtual roadshows and virtual capital market conferences.

VIRTUAL INVESTOR AND ANALYST DAY MEETS WITH GREAT INTEREST

The Virtual Investor and Analyst Day on November 25, 2020, received a great reception from investors and analysts. At this four-hour-long event, which was broadcast from the SAF-HOLLAND Academy in Aschaffenburg, the CEO, Alexander Geis, presented the new Strategy 2025. Inka Koljonen presented her views of the agenda from her perspective as the new CFO and COO Dr. André Philipp presented the Operational Excellence-Programme at SAF-HOLLAND. Christoph Günter, Senior Vice President Global R&D, outlined the current focus of development within the SAF-HOLLAND Group and the latest trends in the commercial vehicle industry. Updates from the regions rounded off the programme.

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

The SAF-HOLLAND share continues to be regularly monitored and analysed by a number of analysts. At the end of 2020 a total of seven 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 three recommendations to hold the share or rating it neutral. Two analysts recommended reducing holdings of the share. The analysts' price targets ranged between EUR 6.00 and EUR 16.00. The average price target came to EUR 10.56.

Analyst ratings as of December 31, 2020

Bank	Rating
Commerzbank	Reduce
Deutsche Bank	Hold
Hauck & Aufhäuser	Buy
Kepler Cheuvreux	Reduce
Oddo BHF	Neutral
Stifel	Hold
Warburg Research	Buy

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 Spain, the USA, the Netherlands and Germany.

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, 2020:

Shareholder name	Country of origin	% share of notified voting rights
Bestinver Gestion	Spain	5.19%
Times Square Capital	USA	5.19%
Kempen Oranje Participaties	Netherlands	5.07%
Union Investment Privatfonds	Germany	5.04%
DWS Investment	Germany	3.62%
Dimensional Fund Advisors	USA	3.52%

The members of the Management Board and the Supervisory Board of SAF-HOLLAND SE together held a total of 1.0 per cent of the outstanding shares as of December 31, 2020.

ANNUAL GENERAL MEETING APPROVES ALL PROPOSED RESOLUTIONS

The fourteenth Annual General Meeting on May 20, 2020 approved all of the resolutions proposed by the Management Board with a large majority. These included in particular the presentation of the financial statements and the consolidated financial statements for the financial year 2019, including the management report and the Group management report as well as the report of the independent auditor, discharge of the members of the Board of Directors and the approval to appoint Ingrid Jägering to the Supervisory Board.

EXTRAORDINARY GENERAL MEETINGS PASS A RESOLUTION TO CONVERT THE COMPANY INTO A EUROPEAN COMPANY AND TRANSFER THE REGISTERED OFFICE TO GERMANY

The Extraordinary General Meeting on February 14, 2020 approved the Terms of Conversion, the restatement of the company's articles of association and the conversion of the company into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE with a large majority.

The two Extraordinary General Meetings of SAF-HOLLAND SE on May 20, 2020 approved the plan to transfer the registered office and the restatement of the articles of association it entailed with the new registered office in Bessenbach, Germany, with a large majority.

Within the framework of the new articles of association, the board system of the company was converted from a monistic system to the dualistic system customary in Germany, consisting of a Management Board as the management body and a Supervisory Board as the surveillance authority. The transition was executed upon the entry of SAF-HOLLAND SE in the commercial register at the Local Court in Aschaffenburg and conclusion of the transfer of the registered offices on July 1, 2020.

The Supervisory Board of SAF-HOLLAND SE comprises the former members of the Board of Directors, Ingrid Jägering, Dr. Martin Kleinschmitt, Martina Merz and Carsten Reinhardt. The Deputy Chairman of the Management Board of Webasto SE, Matthias Arleth, joined the Supervisory Board as a new member. The members of the Supervisory Board are elected for four years.

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.

EXTENSIVE INFORMATION AVAILABLE ON THE INVESTOR RELATIONS WEBSITE

A comprehensive suite of up-to-date information on the SAF-HOLLAND share is published on the Investor Relations website of SAF-HOLLAND 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 recordings of telephone conferences and the Investor and Analyst Day as well as an overview of the latest consensus estimates of the analysts currently monitoring the SAF-HOLLAND share. The telephone numbers and digital contact details of the Investor Relations team are also stated on the website.

SUMMARY OF CORPORATE BONDS AND COMPANY RATINGS

SAF-HOLLAND CONVERTIBLE BONDS EXPIRED

The convertible bonds issued by SAF-HOLLAND in 2014 with a total nominal value of EUR 100.2 million listed on the open market of the Frankfurt Stock Exchange, matured on September 12, 2020.

INVESTMENT GRADE RATING “BBB” CONFIRMED

On June 4, 2020 SAF-HOLLAND published the combined rating report from Euler Hermes Rating GmbH which confirms the investment grade “BBB” rating. The outlook of the rating agency for the coming twelve months is “negative”. In its rating, Euler Hermes Rating particularly emphasises the sustainable growth prospects from the increasing global transport volumes and the Group’s leading market positions in the markets for axle and suspension systems for trailers in the EMEA region and India as well as fifth wheels in the Americas region and the structurally growing, less cyclical, high-margin spare parts business. It also positively assesses the high barriers to market entry.

At the same time, the assessment of the slightly increased market risk reflects the high dependency on the cyclical commercial vehicle sector and the intense competition, which currently is being exacerbated by the COVID-19 pandemic.

Euler Hermes Rating rates the financial risk of SAF-HOLLAND as low to moderate, with reference to its stable earnings power, high internal financing potential and solid financing base.

_Combined Management Report

FUNDAMENTAL INFORMATION ABOUT THE GROUP

COMPANY PROFILE

In terms of its market shares, SAF-HOLLAND SE is one of the world's leading manufacturers and suppliers of chassis-related assemblies and components primarily for trailers, but also for trucks and buses.

The product range primarily consists of axle and suspension systems, fifth wheels, kingpins and landing gears and is marketed under the SAF, Holland, Neway, KLL, V.Orlandi and York brands.

SAF-HOLLAND`s Product Brands

SAF: Trailer axles and suspension systems	Holland: Towing and lifting technology	Neway: Suspensions for vocational trucks and buses
KLL: Air suspensions for trucks and buses and axles and suspension systems for trailers in South America	V.Orlandi: Cuppling systems for trucks, semi-trailers, trailers and special applications	York (Simply miles ahead · Since 1950): 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 AND 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) of trailers and commercial vehicles across 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 centres through its global distribution network. SAF-HOLLAND is one of the few suppliers in the trailer and truck industry that is internationally positioned in almost all markets – Americas, EMEA and APAC.

ORGANISATIONAL STRUCTURE OF THE GROUP

We conducted our operating business in the 2020 financial year in three regions, which also constitute the reportable segments in the sense of IFRSs:

— EMEA
— Americas
— APAC

The regions cover both original equipment business and the aftermarket business with spare parts. Each segment bears full responsibility for its performance and has been equipped with the resources it needs to carry out its operating activities. 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 organised centrally and managed directly by the Management Board.

LEGAL STRUCTURE OF THE GROUP

SAF-HOLLAND SE[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% SAF-Holland Russland OOO
- 100% SAF-HOLLAND do Brasil Ltda.
  - 57.5% KLL Equipamentos para Transporte Ltda.
- 100% V.ORLANDI S.p.A.[2]
  - 100% Orlandi Russia
- 100% SAF-HOLLAND South Africa Ltd.
- 100% SAF AL-KO Axle Co. (Xiamen formerly Jinan) , Ltd. (in liquidation)
- 100% SAF-Holland RUS OOO
- 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 (India) Pty Ltd, India
  - 100% SAF-Holland (Thailand) Co. Ltd, Thailand
  - 100% YTE Special Products Pte Ltd, Singapore
    - 100% Qingdao YTE Special Products Co Ltd, China
- 100% Corpco Tech, China
- 93.6% Axscend Group Ltd, United Kingdom[3]
  - 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% 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 24, 2020 SAF-HOLLAND SE
[2] SAF-HOLLAND GmbH acquired the remaining 30 per cent stake in V.ORLANDI S.p.A. in January 2020.
[3] SAF-HOLLAND GmbH increased its stake in Axscend Group Ltd to 93.6 per cent in the course of 2020.

At an extraordinary general meeting of SAF-HOLLAND S.A. held on February 14, 2020, a resolution was passed to convert the legal form into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE. On May 20, 2020, a further extraordinary general meeting passed a resolution to transfer the registered office to Germany, which was legally executed upon entry in the commercial register on July 1, 2020. The shares of SAF-HOLLAND SE are traded only 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 regional subsidiaries and majority shareholdings.

In addition, SAF-HOLLAND Inc. has held a strategic equity interest since 2006 of just over one-third in the French company Castmetal FWI S.A. The remaining shares in the associated company are held by the SAFE-Group, a producer of technical components made of cast steel and plastic injection moulding for various industrial applications. This associated company supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market.

CHANGES TO THE GROUP'S STRUCTURE

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

SAF-HOLLAND GmbH increased its shareholding in Axscend Group Ltd. to 93.6 per cent in the course of 2020.

The following four companies were dissolved in 2020: York Transport Equipment Pty Ltd (Australia), YTE Transport Equipment (SA) Pty Ltd (South Africa), York Transport Equipment (Shanghai) Co. Ltd. (China) and V.Orlandi Australia Pty. Ltd.

Further information on this can be found in the report on economic position in the section on "Significant events" and in the notes to the consolidated financial statements.

BUSINESS MODEL

Our core competence lies in developing 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 light-weight solutions enable us to offer weight-savings and therefore make a contribution towards lowering the CO_2 emissions of truck and trailer combinations.

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 approximately 58 per cent of Group sales with OEM customers in the trailer industry. In addition, fleet operators count among the customers. As the final customers, they set the specifications of the trailers themselves, such as the axle and suspension systems. By maintaining direct contact with end customers, SAF-HOLLAND is in constant exchange with fleet operators, ensuring that the company always has the right solution for the ever-changing customer requirements. The business with OEM customers in the trucking industry accounts for approximately 12 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 30 per cent of Group sales. With roughly 12,000 spare parts and service stations, alongside dealers and repair shops, SAF-HOLLAND possesses a dense spare parts and service station network in the global industry. The guaranteed, rapid supply of spare parts is one of the criteria sought by fleet operators when selecting suppliers, making it a barrier to entry for potential competitors at the same time. Because demand in the aftermarket business trails that of the original equipment business, cyclical fluctuations in the original equipment business can be cushioned, thereby contributing to the resilience of SAF-HOLLAND's business model.

LOCATIONS AND DIVISION OF LABOUR WITHIN THE GROUP

SAF-HOLLAND is present in all of the world's important trailer and truck markets (North and South America, Europe, China, India), operating a total of 22 production and assembly locations spread over six continents as of the end of 2020. In addition to the plants in its core markets of North America, Europe and China, SAF-HOLLAND also maintains production facilities in countries such as Turkey, Brazil, South Africa, India and Australia. The production facilities in Cincinnati, USA, and Kuala Lumpur, Malaysia, were closed in 2020. Development activities are concentrated at the sites in Bessenbach (Germany), Muskegon (USA) and Yangzhou (China). A complete overview of the production and development locations can be found in the SAF-HOLLAND Worldwide section.

SALES MARKETS AND MARKET SHARE

The business development of SAF-HOLLAND depends on the sales of trailers and heavy-duty trucks in Europe, North and South America, China and India. More information can be found in the report on economic position under the section on the industry-specific environment.

SAF-HOLLAND's core markets – Europe and North America – generally feature oligopolistic competitive structures. In these markets, SAF-HOLLAND is one of the three leading suppliers in the two relevant product segments, trailer axles and fifth wheels. In Europe, SAF-HOLLAND is the market leader in axles and suspension systems for trailers. Moreover, in North America, SAF-HOLLAND occupies a leading position in fifth wheels, landing gear and kingpins.

ECONOMIC AND REGULATORY FACTORS

One of the factors influencing SAF-HOLLAND's business is the development of global transportation volumes. In the view of SAF-HOLLAND, the volume of goods transported globally should return to its original growth trajectory once the COVID-19 pandemic has run its course. This is driven by the global mega-trends: growth of the global population, advancing urbanisation and globalisation of the economy. For instance, the expansion of road networks in emerging markets enables growth in the transportation of goods. The demographic and economic developments such as a growing middle class in these countries is leading to higher transport volumes and therefore higher demand for tractors, trailers and buses.

In addition, regulatory requirements may be of relevance. These are aimed at reducing the fuel consumption and emissions of commercial vehicles as well as the mechanical loads placed on the roads. In particular, this stimulates demand for weight-reduced components, such as those offered by SAF-HOLLAND. New legal requirements are also leading to more stringent safety requirements. For example, since 2020 a limit has been set on the maximum load of semi-trailers in China. In these cases, products assembled from lightweight components from the portfolio of SAF-HOLLAND allow manufacturers to meet the new weight restrictions. Legal restrictions on the transport of hazardous goods (such as those in China from 2020) could 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 this opens up promising opportunities, as the products can contribute to meeting more stringent safety standards.

PERFORMANCE INDICATORS

GROUP INTERNAL CONTROL SYSTEM

The Management Board of SAF-HOLLAND SE uses a variety of instruments to assess the latest developments in its business and derive the associated decisions on its future strategy and investment decisions. The objective is to exploit all potential for commercial or entrepreneurial success.

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 Management Board monitors the achievement of financial performance indicators by analysing budget deviations and making forecasts. The progress made in achieving the strategic objectives is reviewed and analysed regularly in the meetings of the Management Board.

MANAGEMENT INDICATORS

The most important financial performance indicators used to manage the Group include:

- Sales
- Adjusted EBIT margin (ratio of earnings before interest and taxes, adjusted for depreciation and amortisation of property, plant and equipment and intangible assets from purchase price allocations as well as restructuring and transaction costs to sales)
- Capex ratio (ratio of capital expenditure on property, plant and equipment and intangible assets to sales)

SAF-HOLLAND plans, calculates and monitors these three indicators at both Group level and at segment level. However, from a Group perspective, most significance is given to the consolidated indicators (bottom-up approach).

OTHER PERFORMANCE INDICATORS

To assess its commercial performance, SAF-HOLLAND also applies additional indicators, both for management and financial reporting purposes. However, in contrast to the above indicators, no forecast is issued for these indicators as they are less significant for corporate management. They include, among others:

- Adjusted gross margin (ratio of adjusted gross profit to sales)
- Adjusted EBITDA margin (ratio of earnings before interest, taxes, depreciation and amortisation, especially the depreciation and amortisation of assets arising from purchase price allocations as well as restructuring and transaction costs, to sales)
- Net working capital ratio (ratio of inventories and trade receivables less trade payables to sales of the last twelve months)
- Net cash flow from operating activities after tax
- Cash conversion rate (ratio of net cash flow from operating activities before tax to EBITDA)
- Operating free cash flow (net cash flow from operating activities after taxes less investments in property, plant and equipment and intangible assets plus proceeds from the sale of property, plant and equipment)
- Net financial debt (total interest-bearing loans and borrowings and lease liabilities less cash and cash equivalents)

— Debt ratio (ratio of net financial debt to EBITDA)

— Equity ratio (ratio of equity to total assets)

— Return on capital employed (ratio of adjusted EBIT for the past twelve months to total equity plus financial liabilities (excl. refinancing costs, incl. lease liabilities) plus pensions and similar obligations less cash and cash equivalents).

INDUSTRY AND COMPANY-SPECIFIC LEADING INDICATORS

In the view of SAF-HOLLAND, the key early indicators specific to the company are the order intake and the order backlog. These indicators are gathered by the respective Group companies on a daily basis and serve as an indicator of the utilisation of capacity to be expected and the likely development of sales and earnings.

In addition, management continuously monitors and analyses 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

STRATEGY 2025: LONG-TERM APPRECIATION IN VALUE AS CORPORATE OBJECTIVE

Strategy 2020, which had the objective of transforming the company into a global player, has now been succeeded by the new Strategy 2025.

The objective of Strategy 2025 is on raising the value of the company for the long term and includes: profitable sales growth, raising the adjusted EBIT margin to around 8 per cent by 2023 at the latest, improving the generation of cash flow and optimising the gearing ratio (ratio of net debt to EBITDA).

Strategy 2025 is based on five main pillars:

Growth and corporate structure: In recent years the company has continued to build up its global presence and its product portfolio. This includes the acquisitions of KLL, York, V.Orlandi, Axscend, PressureGuard and the Stara Group, all of which were realised in the period from 2016 to 2019. In this period, the North American and Chinese production networks were also consolidated. The focus in the coming years lies on optimising the global footprint, bundling Group-wide competencies and realising greater economies of scale and improving profitability in the process.

Technology as a central driver: To ensure the long-term success of the portfolio of products and services, SAF-HOLLAND began looking at innovations in the two most-relevant product lines of axles and suspension systems and fifth wheels at an early stage that address the three global megatrends of digitalisation, electrification and autonomous vehicles. These innovations include products that combine mechanics with sensors and electronics (e.g. TrailerMaster), the TRAKe axle family and automated coupling systems (SAF-HOLLAND Automatic Coupling). Alliances and partnerships with other companies play an important role in this regard. It is planned to establish global competence centres for the core products to enhance efficiency.

Global backbone: SAF-HOLLAND aims to expand its global reach by strengthening its position in the areas of global standardisation and harmonisation, digitalisation of operational processes and development activities, purchasing and compliance, and by further improving and developing its global infrastructure and leadership model.

This will lay the foundation for future product platforms and machine acquisitions, strengthen core know-how and realise ongoing cost reductions.

Operational Excellence: SAF-HOLLAND seeks to continuously improve its business processes in order to maximise safety, quality, flexibility and quantity. This also involves protecting the environment and conserving scarce resources. The health and safety of our employees have been assigned top priority. The SAF-HOLLAND Operational Excellence System supports these improvement measures in the various areas and is closely enmeshed with financial targets. With our Operational Excellence System (OpEx-System) we will establish global policies and set a clear focus on our future development. We define what "best-in-class" means and draw up detailed road maps for each step of implementation, providing orientation and guidance for our improvement activities along the way. The OpEx-RoadMaps lay the foundation for corporate-wide standards in all six core areas (Leadership & Culture; Safety, Health & Environment; Total Quality; Material Supply; Product Development & Engineering; Production System), but particularly in Leadership & Culture and the Production System.

Focus on employees: As the company moves toward becoming an employer of choice, it will build up a skilled and motivated workforce, measured on its own assessments, by investing in its employees and encouraging them to engage in lifelong learning. SAF-HOLLAND believes that its future growth is based on relationships, collaboration and integrity. In addition to increasing employee engagement and efficiency, another aim of Strategy 2025 is to increase the proportion of female managers and female representation overall. Other components in the area of human resources involve raising the degree of training given to each employee and fostering employee loyalty.

RESEARCH & DEVELOPMENT

INNOVATIVE SOLUTIONS SECURE TECHNOLOGICAL LEADERSHIP

Measured on its market share and patents, SAF-HOLLAND is one of the technology leaders on the commercial vehicle 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 2020 financial year amounted to EUR 19.5 million, slightly down on the previous year when they came to EUR 20.8 million. In addition, capitalised development costs amounted to EUR 2.8 million (previous year: EUR 4.9 million). Relative to Group sales, the R&D ratio comes to 2.3 per cent (previous year: 2.0 per cent). As of December 31, 2020, the Group employed a total of 166 people worldwide (previous year: 177) in the areas of development, design and testing.

Market requirements and customer needs differ across the various commercial vehicle markets (North and South America, Europe, China, India). In order to meet these legal requirements and approval criteria, another key focus of development activity lies on adapting existing solutions to meet regional requirements in addition to developing new products. SAF-HOLLAND has developers and engineers situated in all of the markets listed above. Close proximity to our customers ensures that the market expertise obtained by the local entities flows directly into the development of our products.

Multi-year overview of research and development

	2020	2019	2018	2017	2016
R&D expenses including capitalised development costs (in EUR millions)	22.3	25.7	23.9	24.6	23.4
R&D ratio (expenses as a percentage of sales)	2.3	2.0	1.8	2.2	2.2
Capitalisation ratio (in percentage)	12.5	19.2	18.1	17.2	15.7
Depreciation & amortisation	–6.2	–3.5	–2.3	–2.2	–2.0
Number of employees in the areas of development, design and testing	166	177	199	175	192

OPTIMISING 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), helping to ensure that fleet operations are as efficient as possible from the perspective of the customer. The focus of development work lies on the issues of safety, longevity, lightweight construction and the mega-trends affecting the commercial vehicles industry of digitalisation, electrification and autonomous vehicles. At SAF-HOLLAND, the safety and quality of products is given the utmost priority. Day-to-day quality inspections, which commence in the development phase already, are of fundamental importance. The zero-defect strategy (no customer complaints) in place at SAF-HOLLAND is a key factor in the development of long-lived products, with measures being implemented in the product development phase to minimise product defects. To reduce vehicle 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. In this way, SAF-HOLLAND empowers its customers to reach their own sustainability goals.

The electrification, automation and, most of all, 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 SAF-HOLLAND's long-term product strategy, SMART STEEL – ENGINEER, BUILD, CONNECT. In addition, networking intelligent systems and analysing 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 optimised and idle time minimised. Fleet operators can also access accurate, real-time information about the position of the trailer, the payload and the condition of the load, allowing them to further optimise their tour planning and service scheduling.

THE SENSORED AXLE – A PRECURSOR TO AUTOMATED DRIVING

The new "smart" axle from SAF-HOLLAND helps to keep the chassis always in an optimal operating condition. The optimal condition relates to the full functionality of all the monitored components (such as the temperature of the wheel bearings, brakes and tire pressure) and therefore the fitness of the axle for operation. It also measures the payload of the trailer.

This is a joint development by SAF-HOLLAND and its subsidiary Axscend, combining joint expertise in the areas of chassis components and telematics. The sensed axle consists of several sensors integrated into the axles, as well as a communication and telematics unit that digitises the sensor data and communicates it to a cloud. There, intelligent software can process and analyse the data. The system thus knows the status of the vehicle at all times and can react to it in real time. Continuous monitoring can, for example, prevent vehicle downtimes and form the basis for possible predictive maintenance in the future. The data collected via such monitoring also forms the basis for highly automated driving (monitoring of operating status and performance and operational capability of the components without the need for a driver). Thus, the intelligent axle provides additional safety, allows targeted, predictive maintenance, and reduces operating costs as well as the consumption of resources. From a few sensors in the right places, a wide range of applications can be derived to increase added-value for the customer when the data is combined with intelligent software. The package of sensors and telematics is expected to be available to initial pilot customers from the 2nd half of 2021.

SAF TRAKR AND SAF TRAKE – ELECTRIFIED AXLES FOR TRAILERS

Electrification offers great potential to reduce the environmental impact and CO_2 emissions, not only of passenger and commercial vehicles, but also of trailers. SAF-HOLLAND has developed two electric trailer axles for this purpose: SAF TRAKr and SAF TRAKe. During a trip and when braking, the SAF TRAKr generates energy that is temporarily stored in a battery system to subsequently power peripheral devices. One important application is trailers with refrigeration units. The SAF TRAKr offers the advantage here of operating the trailer's refrigeration unit solely on electricity, making the refrigeration unit's diesel generator and the associated fuel tank superfluous. No exhaust gases are produced when a refrigeration unit runs on electricity and noise emissions are significantly lower, allowing inner-city delivery at night. In addition, all-electric operation also enhances driver comfort, while driving, loading and unloading, and during rest periods. Compared to purely battery-electric systems, the SAF TRAKr system has the advantage that the battery size can be significantly smaller, thus reducing weight, costs and installation space. In addition, the external charging time of the battery is ideally reduced to zero, as the TRAKr keeps the battery in an optimal state of charge while driving. The optimum situation is a fully charged battery, which has stored as much energy as possible. Compared to a non-electrified refrigerated trailer, the entire SAF TRAKr system including axle, battery and control system weighs only approximately 70 kg more, taking into account the elimination of the diesel generator and the diesel tank. This does not significantly reduce the payload of the trailer.

The SAF TRAKe, on the other hand, has a significantly higher maximum output and can support the tractor's powertrain by providing a maximum torque of 4,200 Nm when needed. SAF TRAKe can be used whenever greater traction is required, such as on hill climbs or during acceleration, or if the road and weather conditions require it. With the SAF TRAKe, energy can also be recuperated while driving and thus used for traction assistance or electrically-powered peripheral equipment. SAF-HOLLAND cooperates on a number of different committees aimed at securing the legal foundation for the approval of vehicles with traction assistance pursuant to ECE-R13. Outside of Europe, such as in North America, Australia/New Zealand and Africa, trailers with SAF TRAKe can already be registered.

ALSO INNOVATIVE DURING THE PANDEMIC

SAF-HOLLAND maintained its sustained innovative strength, even during a year dominated by the COVID-19 pandemic, underscored by the fact that it submitted, once again, a double-digit number of priority applications. A priority application is the term describing the initial filing of a patent or patent family at a patent office. These are usually accompanied by a number of partial or supplemental applications. In the 2020 financial year, 15 priority applications were submitted (previous year: 24).

Number of priority applications

	2020	2019	2018	2017	2016
Number of priority applications	15	24	38	50	36

REPORT ON ECONOMIC POSITION

ECONOMY AND INDUSTRY ENVIRONMENT

MACROECONOMIC ENVIRONMENT: COVID-19 PANDEMIC IMPACTS GLOBAL ECONOMY

In the year 2020 the global economy was impacted by the COVID-19 pandemic. While growth of 2.6 per cent was still expected in global gross domestic product (GDP) at the beginning of the year, by the end of the year global economic output was ultimately 3.5 per cent below the level of the previous year. The gross domestic product (GDP) of the United States also decreased by 3.5 per cent, although, in the second half of the year, the economy was already able to recover despite a rise in new infections. In the euro area, the renewed tightening of the COVID-19 restrictions in the autumn once again plunged the economy into recession. As a result, GDP dipped by 7.3 per cent in the euro area in 2020. China, an important emerging market for SAF-HOLLAND, returned to its original growth trajectory comparatively early (+1.7 per cent), while in India economic output was 7.0 per cent below the previous year's level.

Economic development in key markets

in %

	2019	2020
Euro zone	1.3	–7.3
Germany	0.5	–5.0
United States	2.2	–3.5
Brazil	1.1	–5.1
Russia	1.3	–4.0
China	6.2	1.7
India	5.3	–7.0
World	3.0	–3.5

Source: Commerzbank, Economic Research January 2021 / October 2020

SECTOR DEVELOPMENT: WEAKER TRUCK AND TRAILER MARKETS IN THE REPORTING PERIOD

The global truck and trailer markets declined in 2020 due to the market conditions and COVID-19. The regions of most relevance to SAF-HOLLAND – Europe, North and South America and India – saw a double-digit contraction in production figures in some cases, despite recovery trends in the second half of the year. In North America, the order backlog at the end of December was again well above the low recorded in the first half of 2020 and above the previous year's levels. In China, too, another region of great relevance for SAF-HOLLAND, trailer production recovered from a weak first quarter over the subsequent months.

EUROPEAN TRUCK REGISTRATIONS BELOW THE LEVEL OF THE PREVIOUS YEAR

New registrations of heavy-duty trucks (over 16 tons) in 2020 were 27.3 per cent below 2019 levels in the European Union, according to the industry association ACEA (European Automobile Manufacturers Association), despite the economic recovery towards the end of the year. The largest markets by volume, France and Germany, reported declines of 25.8 per cent and 26.0 per cent in the year 2020, respectively, compared to 32.3 per cent and 33.5 per cent in the first nine months of the year. It should be noted, however, that the European truck market is only of minor importance for SAF-HOLLAND.

EUROPEAN TRAILER MARKET CONTRACTS MORE RAPIDLY THAN EXPECTED

After a decline in production of around 7 per cent in 2019, the negative trend continued through into 2020. For example, despite a slight overall recovery that set in during the third quarter of 2020, approximately 23 per cent fewer trailers have been manufactured than the year before, according to the market research firm CLEAR International Consulting (CLEAR). At the beginning of the year, industry experts had expected a decline in trailer production of only 5 to 10 per cent.

NORTH AMERICAN TRUCK MARKET WITH SIGNIFICANTLY LOWER UNIT SALES

After a phase of growing production from 2016 to 2019, production of Class 8 trucks in 2020 was already forecast to fall significantly due to cyclical effects. According to ACT Research, production of heavy-duty trucks decreased by approximately 38 per cent year-on-year to around 214,000 units due to market conditions and COVID-19. In this regard, the markets in the USA and Canada recorded falls in production of Class 8 trucks of around 37 and 41 per cent respectively. However, due to high order intake in the fourth quarter (+133 per cent compared to Q4 2019), the order backlog has since recovered significantly, increasing by just over 44 per cent by the end of 2020 to approximately 178,000 trucks (end of 2019: approximately 124,000 trucks).

TRAILER MARKET IN NORTH AMERICA UNABLE TO ESCAPE THE WEAK MARKET

Compared to 2019, the North American trailer market softened, despite the continuing trend toward disc brake technology. According to ACT Research, approximately 245,000 trailers were manufactured, a decrease of nearly 39 per cent. Here, too, as in the heavy-duty truck market, the market began to recover during the fourth quarter of 2020. As a result, approximately 5 per cent more trailers were produced than the average over the first three quarters in 2020. At the same time, the order backlog increased from around 118,000 units (end of Q3 2020) to around 204,000 units at year-end 2020.

SOUTH AMERICAN TRUCK AND TRAILER MARKET DISPLAYS CONFLICTING TRENDS

The economic recovery of the Brazilian economy that was still expected at the beginning of the year (economic growth GDP of 1.6 per cent was forecast in the Commerzbank Economic Briefing from March 2020) was not realised due to the negative impacts of coronavirus SARS-CoV-II. As a result, Brazil, the most important South American market for trailers and heavy-duty trucks from the perspective of SAF-HOLLAND, recorded a fall of roughly 20 per cent in the production of heavy-duty trucks while the production of trailers was up 6 per cent on the previous year.

DECLINING DEMAND FOR TRAILERS IN CHINA

Following a significant decline in demand for trailers and heavy-duty trucks in the first quarter of 2020, demand improved noticeably in the following three quarters as a result of the economic recovery. Overall, truck production in 2020 was approximately 50 per cent above the previous year's level, while trailer production was down (–5 per cent).

SHARP SLUMP IN PRODUCTION IN INDIA

Last year's weakness in the Indian commercial vehicle market – exacerbated by the COVID-19 pandemic – continued in 2020. In the past twelve months, around 60 per cent fewer trailers and trucks were manufactured than in the same period of the previous year.

TARGET ACHIEVEMENT

REVISED TARGETS ACHIEVED OR SLIGHTLY SURPASSED

The Group sales of SAF-HOLLAND of EUR 959.5 million – corresponding to a decline in sales of 25.3 per cent – lie within the target corridor announced in the ad hoc announcement of November 17, 2020 and the nine-month report for the 2020 financial year, both of which forecast a decline of 20 per cent to 30 per cent in Group sales. The original forecast from March 2020 had assumed a decline in sales in the low double-digit percentage range, but this was adjusted in the publication of the Q1/2020 quarterly statement to a range of between -20 to -30 per cent after considering the impacts of the COVID 19 pandemic.

SAF-HOLLAND's adjusted EBIT margin of 6.1 per cent lies slightly above the range of 5 to 6 per cent revised in the ad hoc announcement issued on November 17, 2020. In the original forecast from March 2020, the Management Board anticipated an adjusted EBIT margin of between 3 and 5 per cent.

The capex ratio came to a value of 2.5 per cent of Group sales and therefore corresponds with the target of around 2.5 per cent specified in the 2020 half-year financial report. The original forecast from March 2020 had assumed a capex ratio of around 3 per cent.

SIGNIFICANT EVENTS IN THE 2020 FINANCIAL YEAR

NEW SEGMENTATION IN CORPORATE MANAGEMENT

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

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 trailer-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, after already acquiring a stake of 70 per cent in the first quarter of 2018.

EXTRAORDINARY GENERAL MEETING APPROVES RESOLUTION TO CHANGE 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 COMPLETED

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 oversubscription, the final amount exceeded the target volume of EUR 100 million by EUR 150 million.

The tranches of the promissory note loan feature fixed as well as variable interest 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 fell due on September 12, 2020 (volume: EUR 99.8 million) and the 5-year tranches of the promissory note issued in November 2015 that fell due on November 27, 2020 (volume: EUR 52.0 million).

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

SITE-SPECIFIC ADJUSTMENT OF PRODUCTION TAKING INTO ACCOUNT THE RESPECTIVE REQUIREMENTS

On March 30, 2020 SAF-HOLLAND announced that it is adjusting the production in its global production network on a site-specific basis, taking into account the respective requirements. This affects the two German plants in Bessenbach and Singen as well as the production and assembly plants in Turkey, Italy, Brazil, India and South Africa as well as some sales companies. The measures range from introduction of partial short time work in Germany to temporary site closures – largely by official order. The duration and extent of the production cuts will be adjusted flexibly.

EULER HERMES RATING CONFIRMS INVESTMENT GRADE RATING

On June 4, 2020 SAF-HOLLAND SE published the combined rating report from Euler Hermes Rating GmbH. The report confirms the investment grade rating.

In its rating, Euler Hermes Rating highlights in particular the sustainable growth prospects from the increasing global transport volumes and the Group's leading market positions in the markets for axle and suspension systems for trailers in the EMEA region and India as well as fifth wheels in the Americas region and the structurally growing, less cyclical, high-margin spare parts business. It also positively assesses the high barriers to market entry.

At the same time, the assessment of the slightly increased market risk reflects the high dependency on the cyclical commercial vehicle sector and the intense competition, which currently is being exacerbated by the COVID-19 pandemic.

Euler Hermes Rating rates the financial risk of SAF-HOLLAND as low to moderate, with reference to its stable earnings power, high internal financing potential and solid financing base.

SAF-HOLLAND SE COMPLETES TRANSFER OF ITS REGISTERED OFFICE TO GERMANY

With the entry into the commercial register of the local court of Aschaffenburg on July 1, 2020 SAF-HOLLAND SE completed the transfer of its registered office from Luxembourg to Bessenbach with legal effect.

As a result, the revised version of the articles of association passed by resolution of the extraordinary general meeting of May 20, 2020 also came into force. According to the revised version of the articles of association, the organisational structure of the company is based on the dualistic board system comprising the Management Board as the executive body and the Supervisory Board, which is charged with oversight, along with the Annual General Meeting. In addition, due to the revised version of the articles of association, the shares of SAF-HOLLAND SE were converted from nominal value shares to no-par value shares. The number of shares remained unchanged, but their notional value was increased from EUR 0.01 to EUR 1.00 per share. As a result of the resolved capital increase from company funds, the company's share capital now amounts to EUR 45,394,302.00 and is divided into 45,394,302 no-par value shares with a notional value of EUR 1.00 each.

At the time of the transfer of the registered office, the Management Board of SAF-HOLLAND SE consisted of Alexander Geis (Chairman of the Management Board and provisional CFO) and Dr. André Philipp (Member of the Management Board and Chief Operating Officer). The Supervisory Board of SAF-HOLLAND SE comprises the former members of the Board of Directors, Ingrid Jägering, Dr. Martin Kleinschmitt, Martina Merz and Carsten Reinhardt. The Deputy Chairman of the Management Board of Webasto SE, Matthias Arleth, has been appointed to the Supervisory Board as a new appointee. The members of the Supervisory Board are elected for four years.

NEW ISIN DE000SAFH001 WITH HIGH RECOGNITION

Subsequent to the transfer of the registered office, the shares of SAF-HOLLAND SE continue to be traded solely on the Frankfurt Stock Exchange. Since July 15, 2020, these have been listed under ISIN DE000SAFH001 and WKN SAFH00.

INKA KOLJONEN THE NEW CHIEF FINANCIAL OFFICER (CFO) SINCE SEPTEMBER 1, 2020

Effective September 1, 2020 the Supervisory Board appointed Inka Koljonen to the Management Board and as Chief Financial Officer. Within the SAF-HOLLAND Group, Ms. Koljonen is responsible for finance, accounting and controlling, IT, legal affairs and compliance, internal audit, investor relations and corporate communications.

Inka Koljonen succeeds Dr. Matthias Heiden, who left the company on June 30, 2020.

GUIDANCE FOR ADJUSTED EBIT MARGIN RAISED FOR THE FINANCIAL YEAR 2020

On November 17, 2020 the Management Board of SAF-HOLLAND SE raised the forecast for the adjusted EBIT margin for financial year 2020.

From this date, SAF-HOLLAND SE forecast its adjusted EBIT margin to lie in a range between 5 and 6 per cent for the 2020 financial year (previous guidance: between 3 and 5 per cent).

The forecast for Group sales (decline of 20 to 30 per cent compared to the previous year) and the capex ratio (investments of around 2.5 per cent of Group sales) remains unchanged.

INVESTOR AND ANALYST DAY 2020

In November 2020, SAF-HOLLAND SE presented its Strategy 2025 at a virtual Investor and Analyst Day.

The objective of Strategy 2025 is to raise the value of the company over the long term.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

in EUR thousands	Q1–Q4/2020	Total Adjustments	Q1-Q4/ 2020 adjusted	in % of sales	Q1–Q4/2019	Total Adjustments	Q1-Q4/2019 adjusted	in % of sales
Sales	959,519	–	959,519	100.0%	1,284,155	–	1,284,155	100.0%
Cost of sales	–790,673	9,985	–780,688	–81.4%	–1,082,414	15,857	–1,066,557	–83.1%
Gross profit	**168,846**	**9,985**	**178,831**	**18.6%**	**201,741**	**15,857**	**217,598**	**16.9%**
Other income	2,632	–641	1,991	0.2%	4,010	–2,167	1,843	0.1%
Other expenses	–2,489	2,489	–	0.0%	–2,971	2,971	–	0.0%
Impairment of goodwill	–	–	–	0.0%	–6,692	6,692	–	0.0%
Selling expenses	–56,119	7,549	–48,570	–5.1%	–70,754	7,688	–63,066	–4.9%
Administrative expenses	–63,246	7,979	–55,267	–5.8%	–71,289	13,086	–58,203	–4.5%
Research and development costs	–19,468	336	–19,132	–2.0%	–20,794	490	–20,304	–1.6%
Operating profit	**30,156**	**27,697**	**57,853**	**6.0%**	**33,251**	**44,617**	**77,868**	**6.1%**
Share of net profit of investments accounted for using the equity method	946	–	946	0.1%	1,948	–	1,948	0.2%
EBIT	**31,102**	**27,697**	**58,799**	**6.1%**	**35,199**	**44,617**	**79,816**	**6.2%**
Finance income	2,275	–	2,275	0.2%	2,099	–	2,099	0.2%
Finance expenses	–14,047	–	–14,047	–1.5%	–13,087	–	–13,087	–1.0%
Finance result	**–11,772**	**–**	**–11,772**	**–1.2%**	**–10,988**	**–**	**–10,988**	**–0.9%**
Result before taxes	**19,330**	**27,697**	**47,027**	**4.9%**	**24,211**	**44,617**	**68,828**	**5.4%**
Income taxes	–5,154	–7,379	–12,533	–1.3%	–13,914	–5,158	–19,072	–1.5%
Income taxes in %	26.7%		26.7%		57.5%		27.7%	
Result for the period	**14,176**	**20,318**	**34,494**	**3.6%**	**10,297**	**39,459**	**49,756**	**3.9%**

EXTRAORDINARY ITEMS

SAF-HOLLAND eliminates certain income and expenses for the management of its operations. The adjusted earnings presented below correspond to the management perspective.

The figures in this report have been rounded using commercial principles. In isolated instances, this can lead to rounding differences in the sum totals and percentages.

In the 2020 financial year net expenses of EUR 27.7 million (previous year: EUR 44.6 million) were eliminated from earnings before interest and taxes (EBIT). These consist of restructuring expenses of EUR 15.6 million (previous year: EUR 25.3 million), depreciation and amortisation of EUR 10.2 million (previous year: EUR 9.7 million) arising from purchase price allocations and measurement effects arising from put options of EUR 1.9 million (previous year: EUR 3.0 million). In addition, expenses of EUR 6.7 million recorded in the comparable period of the previous year associated with the impairment of goodwill in the China region were also eliminated. The restructuring expenses primarily consist of severance payments, costs for the conversion of the parent company into a European Company and the transfer of the registered office to Germany, costs for the restructuring programme FORWARD 2.0 and costs for closing down locations (see segment reporting).

Net expenses totalling EUR 10.0 million were eliminated within the cost of sales in financial year 2020 (previous year: EUR 15.9 million). These consist of restructuring expenses of EUR 7.2 million (previous year: EUR 13.6 million) and depreciation and amortisation of EUR 2.8 million (previous year: EUR 2.2 million) arising from purchase price allocations.

Net income totalling EUR 0.6 million (previous year: EUR 2.2 million) was eliminated within other income in 2020. These relate to valuation effects from put options. In the previous year, these consisted of restructuring income from the sale of a building in the course of the merger of SAF-HOLLAND Australia and York Transport Equipment Pty. Ltd. (Australia) of EUR 2.2 million.

The measurement effects from call and put options of EUR 2.5 million (previous year: EUR 3.0 million) were eliminated from other expenses.

Net expenses totalling EUR 7.5 million were eliminated from selling expenses in financial year 2020 (previous year: EUR 7.7 million). These consist of depreciation and amortisation of EUR 7.0 million (previous year: EUR 7.0 million) arising from purchase price allocations and restructuring expenses of EUR 0.6 million (previous year: EUR 0.7 million).

Moreover, expenses of EUR 8.0 million (previous year EUR 13.1 million) were eliminated from general administrative expenses, almost all of which relate to restructuring expenses.

With regard to research and development costs, an amount of EUR 0.3 million (previous year EUR 0.3 million) was eliminated, consisting almost solely of depreciation and amortisation arising from purchase price allocations.

The weighted average Group tax rate used to calculate the net result for the period was set at 26.7 per cent (previous year: 27.7 per cent).

RESULTS OF OPERATIONS

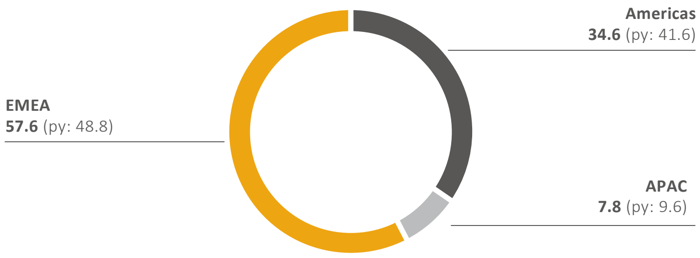
The development presented below describes the changes in the most significant line items of the income statement in the reporting year after eliminating the extraordinary items discussed above.

GROUP SALES DOWN BY 25.3 PER CENT ON THE PREVIOUS YEAR DUE TO MARKET CONDITIONS AND COVID-19

Due to market conditions and COVID-19, Group sales in the financial year 2020 came to EUR 959.5 million, 25.3 per cent below the previous year's level of EUR 1,284.2 million. Currency effects amounted to EUR –22.6 million and resulted primarily from changes in the exchange rates of the Russian ruble, the Brazilian real and the US dollar against the Euro. After eliminating the effects of exchange rates and acquisitions, sales decreased by 23.6 per cent to EUR 980.6 million.

Group sales by segment 2020

in %



SHARE OF SPARE PARTS BUSINESS INCREASES BY 4.5 PERCENTAGE POINTS

Sales in the OE business decreased by 29.8 per cent or EUR 285.7 million to EUR 673.4 million in the reporting period from January to December 2020 due to market conditions and the impacts of COVID-19. The share of total sales accounted for by the OE business decreased from 74.7 per cent to 70.2 per cent.

in EUR thousands	Q1–Q4/2020	Q1–Q4/2019	Change absolute	Change in %
Original equipment business	673,353	959,090	–285,737	–29.8%
Spare parts business	286,166	325,065	–38,899	–12.0%
Group sales	**959,519**	**1,284,155**	**–324,636**	**–25.3%**
Original equipment business in % of Group sales	70.2%	74.7%		
Spare parts business in % of Group sales	29.8%	25.3%		

By contrast, sales in the spare parts business, which is less volatile and dependent upon use of the vehicle fleets, only decreased by 12.0 per cent or EUR 38.9 million to EUR 286.2 million. Consequently, the share of the spare parts business in total sales increased from 25.3 per cent to 29.8 per cent.

ADJUSTED GROSS MARGIN IMPROVES TO 18.6 PER CENT

Adjusted gross profit decreased to EUR 178.8 million in the financial year 2020 (previous year: EUR 217.6 million) on account of sales. This includes write-downs on inventories of EUR 8.9 million. Due to the higher share of the high-margin spare parts business, discontinuation of OE products with a negative margin and savings in purchasing, the adjusted gross margin came to 18.6 per cent, which lies above the gross margin achieved in the comparable period of the previous year of 16.9 per cent.

ADJUSTED EBIT MARGIN AT 6.1 PER CENT DESPITE IMPACT OF CORONA

In spite of the 25.3 per cent decrease in sales, SAF-HOLLAND generated an adjusted EBIT of EUR 58.8 million in financial year 2020 (previous year: EUR 79.8 million). This corresponds to an adjusted EBIT margin of 6.1 per cent (previous year: 6.2 per cent). The sustained savings in selling and administrative expenses had a positive effect, which was more than offset by cost stickiness.

FINANCIAL RESULT STABLE

The financial result remained virtually unchanged in the reporting period from January to December 2020 at a minus of EUR –11,8 million (previous year: a loss of EUR –11,0 million). Financial income improved by EUR 0.2 million to EUR 2.3 million mainly due to realised capital gains on foreign currency loans and dividends. Financial expenses increased by EUR 1.0 million to EUR 14.0 million, primarily due to the amortisation of transaction costs, interest expenses incurred from the earlier on refinancing of the convertible bond by the new promissory note loan and interest expenses on leases.

ADJUSTED RESULT FOR THE PERIOD ALMOST 31 PER CENT DOWN ON THE PREVIOUS YEAR

When calculating the adjusted net profit for the period, a Group's weighted average tax rate of 26.7 per cent (previous year: 27.7 per cent) was applied. The adjusted net profit for the period decreased by 30.7 per cent to EUR 34.5 million in the 2020 financial year (previous year: EUR 49.8 million).

Based on approximately 45.4 million ordinary shares outstanding, unchanged on the previous year, adjusted basic earnings per share for the reporting period from January to December 2020 amounted to EUR 0.76 (previous year: EUR 1.10).

SEGMENT REPORTING

EMEA

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019	Change absolute	Change in %
Sales	**552,927**	**626,236**	**–73,309**	**–11.7%**
EBIT	**45,720**	**50,486**	**–4,766**	**–9.4%**
EBIT margin in %	8.3%	8.1%		
Additional depreciation and amortisation of property, plant and equipment and intangible assets from PPA	4,637	4,611	26	0.6%
Valuation effects from call and put options	–613	–	–613	–
Restructuring and transaction costs	2,932	5,043	–2,111	–41.9%
Adjusted EBIT	**52,676**	**60,140**	**–7,464**	**–12.4%**
Adjusted EBIT margin in %	9.5%	9.6%		
Depreciation and amortisation of property, plant and equipment and intangible assets (excluding PPA)	19,555	17,178	2,377	13.8%
in % of sales	3.5%	2.7%		
Adjusted EBITDA	**72,231**	**77,318**	**–5,087**	**–6.6%**
Adjusted EBITDA margin in %	13.1%	12.3%		

EMEA REGION: ADJUSTED EBIT MARGIN AT ROUGHLY THE SAME LEVEL AS THE PREVIOUS YEAR DESPITE COVID-19

In the EMEA region, sales declined in financial year 2020 by 11.7 per cent to EUR 552.9 million (previous year: EUR 626.2 million) due to market conditions and COVID-19. After eliminating the effects of exchange rates and consolidation effects, sales decreased by 10.5 per cent to EUR 560.2 million.

Despite the decline in sales, the EMEA region generated an adjusted EBIT of EUR 52.7 million (previous year: EUR 60.1 million) in the reporting period from January to December 2020 and an adjusted EBIT margin of 9.5 per cent (previous year: 9.6 per cent). The spare parts business had a positive impact on the gross margin whereas the impact of the OE business was slightly positive. This includes inventory write-downs of EUR 3.2 million in response to the decrease in inventory turnover because of the COVID-19 pandemic.

The restructuring expenses of EUR 2.9 million consist mainly of severance payments and the costs of changing the legal form of the parent company to a European Company and transferring the registered office to Germany.

AMERICAS REGION: EBIT MARGIN OF 4.1 PER CENT IN SPITE OF A 38 PER CENT DECREASE IN SALES

Americas

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019	Change absolute	Change in %
Sales	**332,294**	**534,455**	**–202,161**	**–37.8%**
EBIT	**2,470**	**15,714**	**–13,244**	**–84.3%**
EBIT margin in %	0.7%	2.9%		
Additional depreciation and amortisation of property, plant and equipment and intangible assets from PPA	2,352	2,484	–132	–5.3%
Valuation effects from call and put options	2,489	2,971	–482	–16.2%
Restructuring and transaction costs	6,148	8,031	–1,883	–23.4%
Adjusted EBIT	**13,459**	**29,200**	**–15,741**	**–53.9%**
Adjusted EBIT margin in %	4.1%	5.5%		
Depreciation and amortisation of property, plant and equipment and intangible assets (excluding PPA)	17,235	13,334	3,901	29.3%
in % of sales	5.2%	2.5%		
Adjusted EBITDA	**30,694**	**42,534**	**–11,840**	**–27.8%**
Adjusted EBITDA margin in %	9.2%	8.0%		

In the Americas region, sales declined in financial year 2020 by 37.8 per cent to EUR 332.3 million (previous year: EUR 534.5 million) due to market conditions and COVID-19. After eliminating the effects of exchange rates, sales decreased by 35.7 per cent to EUR 343.8 million.

In spite of the decline in sales of 37.8 per cent, the Americas region generated a positive adjusted EBIT of EUR 13.5 million (previous year: EUR 29.2 million) and an adjusted EBIT margin of 4.1 per cent (previous year: 5.5 per cent). The spare parts business had a positive impact on the gross margin whereas the OE business had a negative impact. This includes inventory write-downs of EUR 4.9 million in response to the decrease in inventory turnover because of the COVID-19 pandemic and the realignment of the product portfolio under the programme FORWARD 2.0.

The sustained savings in selling and administrative expenses had a positive effect, which was more than offset by cost stickiness.

In addition it should be noted that the figure in the previous year of EUR 29.2 million significantly benefited from the contractually agreed passing on of the rise in the price of steel in 2018 coupled with lower purchase prices for steel.

The restructuring expenses of EUR 6.1 million mainly consist of severance payments related to the extensive lay-offs at US locations and the costs of the FORWARD 2.0 restructuring programme.

APAC REGION: BURDENED BY LOCK-DOWN AND DELAYED RAMP-UP AT PRODUCTION FACILITIES

APAC

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019	Change absolute	Change in %
Sales	**74,298**	**123,464**	**–49,166**	**–39.8%**
EBIT	**–17,088**	**–31,001**	**13,913**	**–44.9%**
EBIT margin in %	–23.0%	–25.1%		
Additional depreciation and amortisation of property, plant and equipment and intangible assets from PPA	3,195	2,578	617	23.9%
Impairment	–	6,692	–6,692	–100.0%
Valuation effects from call and put options	–	–	–	–
Restructuring and transaction costs	6,557	12,207	–5,650	–46.3%
Adjusted EBIT	**–7,336**	**–9,524**	**2,188**	**–23.0%**
Adjusted EBIT margin in %	–9.9%	–7.7%		
Depreciation and amortisation of property, plant and equipment and intangible assets (excluding PPA)	2,537	3,801	–1,264	–33.3%
in % of sales	3.4%	3.1%		
Adjusted EBITDA	**–4,799**	**–5,723**	**924**	**–16.1%**
Adjusted EBITDA margin in %	–6.5%	–4.6%		

The APAC region generated sales of EUR 74.3 million in financial year 2020 (previous year: EUR 123.5 million) due to market conditions and COVID-19. After eliminating the effects of exchange rates, sales decreased by 38.0 per cent to EUR 76.6 million compared with the previous year. The reason for this sharp contraction in sales was mainly the lockdown in China, Australia, India and Singapore, which lasted a number of weeks, the ceased export business as a result of the trade dispute between China and the USA and the delay in ramping-up the new Chinese plant in Yangzhou due to COVID-19.

Adjusted EBIT improved by EUR 2.2 million to EUR –7.3 million. The adjusted EBIT margin amounted to –9.9 per cent (previous year: –7.7 per cent). Both the OE business and the spare parts business had a negative impact on the gross margin. The sustained savings realised in selling and administrative expenses had a positive effect.

The restructuring expenses of EUR 6.6 million mainly consist of the costs incurred from liquidating the Chinese subsidiary Corpco Beijing Technology and Development Co., and the closures of the Xiamen plant and a number of subsidiaries of the York Group in the course of the post-merger integration measures.

NET ASSETS

in EUR thousands

	12/31/2020	12/31/2019	Change absolute	Change in %
Non-current assets	**495,372**	**520,805**	**–25,433**	**–4.9%**
of which intangible assets	239,900	257,926	–18,026	–7.0%
of which property, plant and equipment	207,123	216,736	–9,613	–4.4%
of which other (financial) assets	48,349	46,143	2,206	4.8%
Current assets	**425,114**	**458,439**	**–33,325**	**–7.3%**
of which inventories	126,424	168,129	–41,705	–24.8%
of which trade receivables	95,347	126,000	–30,653	–24.3%
of which liquid assets	170,982	131,166	39,816	30.4%
of which other (financial) assets	32,361	33,144	–783	–2.4%
Balance sheet total	**920,486**	**979,244**	**–58,758**	**–6.0%**

TOTAL ASSETS DECREASED BY 6 PER CENT

Total assets decreased by EUR 58.8 million or 6.0 per cent compared to the end of the 2019 financial year and amount to EUR 920.5 million as of December 31, 2020. The decrease is due to intangible assets and property, plant and equipment, inventories and trade receivables.

The decrease in property, plant and equipment and intangible assets is largely due to lower closing exchanges rates in the Russian ruble, the Brazilian real and the US dollar against the Euro. Thanks to targeted working capital management, inventories were scaled back by EUR 41.7 million or 24.8 per cent in a year-on-year comparison. Trade receivables were also cut back in comparison to the close of 2019, falling EUR 30.7 million or 24.3 per cent. The Cash is King project had a decisive impact in this regard.

The increase of EUR 39.8 million in cash and cash equivalents is mainly attributable to the improvement in operating free cash flow.

EQUITY RATIO AT 32.6 PER CENT

in EUR thousands

	12/31/2020	12/31/2019	Change absolute	Change in %
Equity	**300,463**	**318,007**	**–17,544**	**–5.5%**
Non-current liabilities	**448,896**	**326,081**	**122,815**	**37.7%**
of which interest-bearing loans and bonds	322,529	195,793	126,736	64.7%
Finance lease liabilities	35,766	25,521	10,245	40.1%
of which other non-current liabilities	90,601	104,767	–14,166	–13.5%
Current liabilities	**171,127**	**335,156**	**–164,029**	**–48.9%**
of which interest-bearing loans and bonds	1,539	153,393	–151,854	–99.0%
Finance lease liabilities	7,849	8,126	–277	–3.4%
of which trade payables	107,172	110,366	–3,194	–2.9%
of which other current liabilities	54,567	63,271	–8,704	–13.8%
Balance sheet total	**920,486**	**979,244**	**–58,758**	**–6.0%**

In comparison to December 31, 2019, equity has decreased by EUR –17.5 million to EUR 300.5 million. The net profit for the period of EUR 14.2 million increased equity. Exchange differences arising from the currency translation of foreign operations and the remeasurement of defined benefit obligations had the contrary effect. Coupled with the 6.0 per cent decrease in the balance sheet, this leads to a slight increase in the equity ratio to 32.6 per cent (December 31, 2019: 32.5 per cent)

Non-current liabilities increased by EUR 122.8 million in comparison to December 31, 2019 to EUR 448.9 million. The main factor was the issue of the promissory note loan in March and September 2020.

The decrease in current liabilities is largely due to the repayment of the convertible bond on September 12, 2020 and a reduction in the amount drawn from the syndicated bank loan.

NET WORKING CAPITAL IMPROVED BY 2.4 PERCENTAGE POINTS

Net working capital

in EUR thousands

	12/31/2020	12/31/2019	Change 12/31/2019 to 12/31/2020	Change in %
Inventories	126,424	168,129	–41,705	–24.8%
Trade receivables	95,347	126,000	–30,653	–24.3%
Trade payables	–107,172	–110,366	3,194	–2.9%
Net working capital	114,599	183,763	–69,164	–37.6%
Sales (last 12 month)	959,519	1,284,155	–324,636	–25.3%
Net working capital ratio	11.9%	14.3%		

The net working capital ratio, measured as the ratio of net working capital to Group sales over the last 12 months, improved year-on-year from 14.3 per cent to 11.9 per cent. A decrease in inventories and trade receivables was countered by lower trade payables. This was offset by the decline in 12-month sales due to market conditions and COVID-19.

FINANCIAL POSITION

Key duties of financial management in the SAF-HOLLAND Group are to secure solvency at all times, constantly optimise the costs of capital and reduce the risks of financing measures. Financial management for the SAF-HOLLAND Group is situated centrally at SAF-HOLLAND GmbH.

In March 2020, SAF-HOLLAND placed a promissory note loan with a total volume of EUR 250 million. The loan has tranches to be repaid in 3, 3.5, 5, 7 and 10 years and is equipped with both fixed and variable interest rates. The funds were used to repay the funds drawn on the syndicated bank loan (EUR 85 million), the fixed 5-year and 10-year tranches of the promissory note loan issued in 2015 (EUR 52 million and EUR 32.5 million respectively) and also the convertible bond at SAF-HOLLAND SE (EUR 99.8 million).

The syndicated loan has an agreed credit line of EUR 200 million. As of December 31, 2020, no funds were drawn on this loan. The syndicated loan has a financial covenant attached that is measured on net financial debt to EBITDA.

The issue of the promissory note loan contributes to smoothing out the maturity profile and to broadening the investor base of the SAF-HOLLAND Group. The promissory note loan was placed with a total of 20 banks and institutional investors in Germany and abroad.

The rating agency, Euler Hermes currently grades SAF-HOLLAND SE as Investment-Grade in the BBB category with a negative outlook. SAF-HOLLAND intends to maintain its existing financing structures and financial indicators to shore up its solid investment grade rating.

Financial position

in EUR thousands

	Q1–Q4/2020	Q1–Q4/2019
Cash flow from operating activities	137,922	90,546
Cash flow from investing activities (property, plant and equipment/ intangible assets)	–23,675	–47,727
Operating free cash flow	**114,247**	**42,820**
Cash flow from investing activities (acquisition of subsidiaries)	–	–10,852
Total free cash flow	**114,247**	**31,967**
Other	–59,281	–70,019
Change in net financial liabilities	**54,966**	**–38,052**

HIGH OPERATING FREE CASH FLOW

The net cash flow from operating activities in the 2020 financial year came to EUR 137.9 million, 52.4 per cent above the level of the comparable period of the previous year of EUR 90.5 million. The increase is mainly attributable to the positive contribution from working capital management. The Cash-is-King project initiated in April 2020 played a major role in this regard. As a result, it was possible to sustainably reduce overdue receivables in all regions and improve the management of inventories. In addition, it should be considered that the volume of factoring decreased slightly from EUR 39.9 million in the previous year to EUR 39.5 million as of December 31, 2020.

The net cash flow from investing activities in property, plant and equipment and intangible assets of EUR –23.7 million lay EUR 24.1 million, or 50.4 per cent, below the comparable figure for the previous year. The focus of investing activities was on the further automation of production processes at various locations in the Americas region and Germany.

The operating free cash flow improved from EUR 42.8 million to EUR 114.2 million. The cash outflow associated with the purchase of the remaining shares in V. Orlandi of EUR 21,2 million and the increase in the stake held in the Axscend Group Ltd. to 93.6 per cent for a price of EUR 1.1 million is presented under the line item "Other".

NET FINANCIAL DEBT SCALED BACK BY 21.8 PER CENT

Net financial debt (including lease liabilities) decreased by EUR 55.0 million to EUR 196.7 million as of December 31, 2020 compared to the reporting date of December 31, 2019. As of December 31, 2020 SAF-HOLLAND carries cash and cash equivalents of EUR 171.0 million (December 31, 2019: EUR 131.2 million).

The Group is exposed mainly to liquidity risks, credit risks, interest rate risks and foreign currency risks. The risk management of the Group has the objective of limiting the risks posed by operating and financing activities. This is primarily done using derivative and non-derivative hedging instruments. More details can be found in Note 7.1 to the consolidated financial statements on financial instruments and financial risk management.

GENERAL STATEMENT ON THE ECONOMIC POSITION OF THE COMPANY

Given the circumstances, the Management Board is satisfied with the course of business in 2020. The target corridor for Group sales, which was last revised on November 17, 2020 was reached. At 6.1 per cent, the adjusted EBIT margin lay slightly above the adjusted corridor of 5.0 to 6.0 per cent.

Net working capital management was a key factor for the operating free cash flow of EUR 114.2 million. In the opinion of the Management Board, the financial profile of SAF-HOLLAND remains very robust as of the reporting date of December 31, 2020 with an equity ratio of 32.6 per cent and net debt (including finance lease liabilities) of EUR 196.7 million.

The 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 development.

SEPARATE FINANCIAL STATEMENTS OF SAF-HOLLAND SE

INCOME STATEMENT OF SAF-HOLLAND SE

EURO			Q1–Q4/2020	Q1–Q4/2019
1.	Sales		256,549	–
2.	Other operating income		28,063	–
	Gross revenue for the period		**284,612**	**–**
3.	Cost of materials			
	b)	Expenses for purchased services	6,560	
4.	Personnel expenses			
	a)	Wages and salaries	1,350,138	38,645
	b)	Social security and post-employment expenses	92,966	7,040
		thereof post employment expenses EUR 14,984 (previous year: kEUR 0)		
5.	Other operating expenses		2,678,298	2,739,919
			4,127,962	**2,785,605**
6.	Income from investments		5,000,000	7,500,000
	thereof from affiliated undertakings EUR 5,000,000 (previous year: kEUR 7,500)			
7.	Income from long-term loans		2,932,781	3,496,368
	thereof from affiliated undertakings EUR 2,932,781 (previous year: kEUR 3,496)			
8.	Interest and similar expenses		1,765,306	996,418
	thereof from affiliated undertakings EUR 973,362 (previous year: kEUR 0)			
	thereof expenses from discounting EUR 1,081 (previous year: 0.00)			
			2,324,125	**7,214,346**
9.	**Result before other taxes**		**2,324,125**	**7,214,346**
10.	Other taxes		297,021	329,548
11.	**Net profit/ loss of the year**		**2,027,104**	**6,884,798**
12.	Profit brought forward		17,007,012	10,122,215
13.	**Retained earnings**		**19,034,116**	**17,007,012**

BALANCE SHEET OF SAF-HOLLAND SE

EURO			12/31/2020	12/31/2019
Assets				
A.	**Fixed Assets**			
I.	Financial assets			
	1.	Shares in affiliated undertakings	313,238,381	313,238,381
	2.	Amounts owed by affiliated undertakings	42,893,803	74,973,773
			356,132,184	**388,212,154**
B.	**Current assets**			
I.	Receivables and other assets			
	1.	Amounts owed by affiliated undertakings	8,802,246	7,500,000
	2.	Other assets	32,010	3,300
			8,834,256	**7,503,300**
II.	Cash on hand, cash at banks and checks		2,434,094	443,733
			11,268,350	**7,947,033**
C.	**Prepayments**		**66,576**	**187,832**
Total assets			**367,467,110**	**396,347,019**

EURO			12/31/2020	12/31/2019
Equity and liabilities				
A.	**Equity**			
I.	Subscribed share capital		45,394,302	453,943
II.	Share premium		231,914,541	276,854,899
III.	Retained earnings			
	1.	Legal reserve	45,361	45,361
	2.	Other reserve	720,087	720,087
			765,448	**765,448**
IV.	Retained earnings		19,034,116	17,007,012
			297,108,407	**295,081,303**
B.	**Provisions**			
	1.	Provisions for pensions and other similar benefits	14,984	–
	2.	Other provisions	2,420,940	648,705
			2,435,924	**648,705**
C.	**Liabilities**			
	1.	Bonds	–	100,104,335
		thereof convertible bonds EUR 0,00 (previous year: kEUR 99,800)		
	2.	Trade payables	3,877	73,398
	3.	Liabilities to affiliated undertakings	67,720,030	25,000
	4.	Other creditors	198,872	414,278
		thereof from taxes EUR 129,531 (previous year: kEUR 414)		
			67,922,779	**100,617,012**
Total equity and liabilities			**367,467,110**	**396,347,019**

BUSINESS AND MACROECONOMIC ENVIRONMENT

SAF-HOLLAND SE holds, manages directly and indirectly held investments, exercises the management and holding function and provides administrative, financial, commercial and technical services for its associated companies.

The company is a member of the global SAF-HOLLAND Group and is based in Bessenbach.

REPORT ON ECONOMIC POSITION

RESULTS OF OPERATIONS

In financial year 2020 SAF-HOLLAND SE generated sales of kEUR 257 k (previous year: EUR 0 million). Sales originate solely from rendering services for subsidiaries.

Other operating income of kEUR 28 (previous year: kEUR 0) arose from offering non-cash benefits.

The cost of materials includes the cost of purchased services of kEUR 7 (previous year: kEUR 0), which are mostly attributable to insurance premiums.

Due to employee transfers from SAF-HOLLAND GmbH to SAF-HOLLAND SE, personnel expenses rose by kEUR 1,397 from kEUR 46 to kEUR 1,443.

Other operating expenses amount to kEUR 2,933 and are thus at roughly the level of the previous year (kEUR 3,159).

The loss at EBIT level for the financial year comes to kEUR 3,843 (previous year: a profit of kEUR 3,205).

Investment income includes the dividend from SAF-HOLLAND GmbH of kEUR 5,000 (previous year: kEUR 7,500).

Income from loans decreased from kEUR 3,496 in 2019 to kEUR 2,933 due to the fact that a loan to SAF-HOLLAND GmbH was redeemed and the associated interest income was no longer received.

Interest and similar expenses increased by kEUR 769 to kEUR 1,765 in the financial year as the convertible bond was refinanced by means of an intercompany liability.

The net profit for the year came to kEUR 2,027 in the reporting year (previous year: kEUR 6,885).

NET ASSETS

Total assets as of December 31, 2020 come to kEUR 362,467 (previous year: kEUR 396,347), down kEUR 33,880 on the previous year.

Shares in affiliated undertakings have not changed on the previous year and remain at kEUR 313,238. The shares consist solely of the 100 per cent stake held in SAF-HOLLAND GmbH.

Loans to affiliated undertakings decreased by kEUR 32,080 to kEUR 42,894 and now only relate to loans to SAF-HOLLAND Inc. The decrease is due to the redemption of loans to SAF-HOLLAND GmbH of kEUR 32,080.

Provisions for pensions of kEUR 15 were recognised for the first time due to the transfer of employees from SAF-HOLLAND GmbH to SAF-HOLLAND SE.

The increase of other provisions from kEUR 1,772 to kEUR 2,421 can be chiefly attributed to provisions for employee bonuses (kEUR 857; previous year: kEUR 0) and the provision for the employee long-term incentive programme (kEUR 988; previous year: kEUR 0).

Liabilities to affiliated undertakings increased from kEUR 25 to kEUR 67,720 and consist solely of liabilities towards SAF-HOLLAND GmbH. The increase can be solely attributed to the repayment of the convertible bond by SAF-HOLLAND GmbH.

FINANCIAL POSITION

Equity increased from kEUR 295,081 to kEUR 297,108 due to the retained earnings of kEUR 19,034 (previous year: kEUR 17,007). The equity ratio increased by 6.4 percentage points to 80.85 per cent (previous year: 74.45 per cent).

More information on the financial position of the company can be found in the report on the economic position under results of operations, net assets and financial position.

The cash and cash equivalents of the company amount to kEUR 2,434 as of December 31, 2020 (previous year: kEUR 444). The increase on the previous year is mainly due to a VAT reimbursement arising from the tax group with SAF-HOLLAND GmbH.

The simplified cash flow from operating activities in the narrow sense is a follows:

in EUR thousands	2020	2019
Result for the period	2,027	6,885
Change in provisions	1,772	285
Simplified cash flow from operating activities in the narrow sense	3,799	7,170

OVERALL STATEMENT

In sum, the Management Board views the position of the company positively. The company is well equipped to continue mastering the economic challenges associated with its function successfully in future.

HUMAN RESOURCES

As of December 31, 2020 there were 21 employees at the company (previous year: 1).

SUPPLEMENTARY REPORT

On March 1, 2021 SAF-HOLLAND do Brasil Ltda., a subsidiary of SAF-HOLLAND GmbH, entered into purchase price negotiations with the owners of the remaining 42.5 per cent stake in KLL Equipamentos para Transporte Ltda.

OUTLOOK

MACROECONOMIC CONDITIONS AND SECTOR ENVIRONMENT

GLOBAL ECONOMY ON GROWTH TRAJECTORY DESPITE CORONAVIRUS

Despite further adverse effects from the COVID-19 pandemic, the economists at Commerzbank AG expect the global economy to grow by 5.3 per cent in 2021 (previous year: –3.5 per cent).

After contracting by 7.3 per cent in 2020, the Euro zone is expected to grow by 5.0 per cent in 2021, according to Commerzbank. The COVID-19 pandemic remains a risk factor. For Germany, the experts are projecting economic growth of 4.5 per cent this year (previous year: –5.0 per cent). Supported by economic stimulus programmes initiated by the new US President, GDP growth in the US economy is assumed to reach 5.0 per cent (previous year: –3.5 per cent).

While slightly higher year-on-year growth rates are expected for Russia (+2.3 per cent) and Brazil (+3.5 per cent), the Indian economy is expected to grow by 8.5 per cent (–7.0 per cent in 2020).

In China, the pace of growth should accelerate to 8.0 per cent in the current year (previous year: +1.7 per cent).

Economic development in key markets

in %	2020	2021
Euro zone	–7.3	5.0
Germany	–5.0	4.5
United States	–3.5	5.0
Brazil	–5.1	3.5
Russia	–4.0	2.3
China	1.7	8.0
India	–7.0	8.5
World	–3.5	5.3

Source: Commerzbank, Economic Research January 2021 / September 2020

SECTOR-SPECIFIC DEVELOPMENT: RECOVERY OF THE GLOBAL COMMERCIAL VEHICLE MARKETS

In the meantime, the prospects for 2021 have improved perceptibly on the commercial vehicle markets of most relevance for SAF-HOLLAND – North and South America, Europe and India. While the trailer and truck markets were still heavily impacted by the COVID-19 pandemic in the first half of 2020, some markets, such as North and South America and Europe, began to recover as early as the fourth quarter of 2020. According to ACT Research, higher production figures are expected for North America in 2021 due to rising orders and stocks of Class 8 trucks and trailers. While a decline is forecast for China, growth can be expected in Europe.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

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

While the EMEA region (approximately 4 per cent of Group sales) and the Americas region (approximately 8 per cent of Group sales) are the most relevant for the truck OE segment, in the trailer OE and aftermarket segments SAF-HOLLAND operates worldwide.

EUROPEAN TRUCK MARKET RECOVERS

Following a decline in the previous year, European production of heavy-duty trucks is expected to recover in 2021, according to analysts at Deutsche Bank. For example, the experts expect to see an increase of 15 per cent in the production of heavy-duty trucks. It should be noted, however, that the European truck market is only of minor importance for SAF-HOLLAND.

RISING DEMAND FOR TRAILERS IN EUROPE

It is assumed that the production of trailers will return to its growth trajectory in 2021. The market research company CLEAR International is projecting trailer production to increase by approximately 16 per cent to approximately 272,000 units.

GROWTH IN THE NORTH AMERICAN TRUCK MARKET

ACT Research expects Class 8 truck production numbers in North America to increase by roughly 41 per cent to approximately 302,000 units in 2021 following the cyclical downturn and COVID-19-related decline in 2020. While Mexico and Canada are expected to see an increase of around 64 per cent and 67 per cent respectively, growth of almost 38 per cent is forecast for the largest market by volume, the United States.

TRAILER MARKET IN NORTH AMERICA – HIGHER ORDER BACKLOG THAN IN PREVIOUS YEAR

The recovery in order intake on the North American trailer market, the first signs of which were seen in the third quarter of 2020, has already had an impact on the order backlog. At the end of 2020, for instance, order backlog was approximately 150 per cent higher than at the beginning of the second quarter of 2020 and roughly 70 per cent higher than the order backlog at year-end 2019. Against this background, SAF-HOLLAND expects approximately 32 percent more trailers to come off the production lines in 2021 than in the weaker previous year 2020.

POSITIVE OUTLOOK FOR COMMERCIAL VEHICLE MARKETS IN SOUTH AMERICA

After a decline in heavy-duty truck production in 2020, SAF-HOLLAND expects production to increase by around 30 per cent in the current year. The increase in production will be supported by an economic recovery in Brazil. After a contraction of 4.5 per cent in 2020, the International Monetary Fund (IMF) is forecasting economic growth of 3.6 per cent for 2021. For the trailer market, SAF-HOLLAND expects demand to exceed the previous year's level (up approximately 6 per cent).

DEMAND FOR TRAILERS IN CHINA DOWN SLIGHTLY ON THE PREVIOUS YEAR

In the view of SAF-HOLLAND, the stagnating demand for trailers that began in 2020 should continue through to 2021. Thus, despite anticipated economic growth of 8 per cent, a decline in trailer production in the range of approximately 5 to 10 per cent is projected by the Group for the current year. It is expected that the premium segment, in which SAF-HOLLAND operates, will not be able to fully shield itself from the market downturn, despite the new loading limits and safety requirements for trailers. However, in contrast to the trailer market, the Chinese truck market has no significance for SAF-HOLLAND. Here, a decline of roughly 15 to 20 per cent is projected for 2021 – after a production increase of around 50 per cent in 2020.

Following last year's decline in new truck and trailer registrations in Australia, SAF-HOLLAND expects the markets of the APAC region, which are important from a Group perspective, to recover in 2021. SAF-HOLLAND is forecasting growth of approximately 10 to 20 per cent for trailers and roughly 5 to 15 per cent for trucks.

Due to the nascent economic recovery, higher production of trucks (+30 per cent) and trailers (+40 per cent) is expected for the Indian market.

BUSINESS OUTLOOK

UNDERLYING ASSUMPTIONS

The assumptions underlying this outlook are for no change in the positioning and composition of SAF-HOLLAND SE as a group.

Furthermore, the following assumptions are based on the macroeconomic and sector-specific conditions described in the section on economic conditions and the sector environment. Moreover, the potential risks and opportunities (including the currently foreseeable impact on business due to coronavirus SARS-CoV-2) have also been considered.

It should also be noted that the economic impacts on SAF-HOLLAND from the current spread of COVID-19 cannot be suitably determined or reliably measured at present.

OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE PROSPECTIVE DEVELOPMENT OF BUSINESS

HIGHER GROUP SALES EXPECTED

As of the preparation date of this annual report, March 19, 2021, the Management Board of SAF-HOLLAND SE forecasts Group sales to range between EUR 1,050 million and EUR 1,150 million in financial year 2021 (2020: EUR 959.5 million).

ADJUSTED EBIT MARGIN OF 7 PER CENT EXPECTED

Under the above assumptions, SAF-HOLLAND is projecting an adjusted EBIT margin of around 7 per cent for the 2021 financial year (2020: 6.1 per cent).

CAPEX RATIO OF AROUND 2.5 PER CENT EXPECTED

In order to support its strategic objectives, the company is planning investments of approximately 2.5 per cent of Group sales once again for the 2021 financial year. This capital expenditure will focus primarily on continuing the introduction of a Global Manufacturing Platform, further automation and the programme FORWARD 2.0 as well as IT.

RISK AND OPPORTUNITY REPORT

As an international supplier to the commercial vehicles industry, SAF-HOLLAND is faced with a range of opportunities and risks that arise from the Group's business activities, its business strategy and its market environment. On the basis of a systematic management of opportunities and risks, SAF-HOLLAND pursues the goal of recognising opportunities and risks as early as possible, taking suitable action to exploit opportunities and managing risks responsibly.

THE NEW SAF-HOLLAND GROUP RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

SAF-HOLLAND SE used the transfer of its registered offices from Luxembourg to Germany on July 1, 2020 as an opportunity to introduce a modified risk and opportunities management system. This is embedded in the three lines of defence model and therefore clearly demarcates the various responsibilities at the level of the corresponding lines of defence.

Three Lines of Defense Model

Role of the Risk Management System within the ICS

INTERNAL CONTROL SYSTEM (ICS)		
1. Line of Defense	**2. Line of Defense**	**3. Line of Defense**
– Management Controls – Internal Controls – Management of Businesses and Functions is responsible (Sales, Procurement, Trading, Finance, IT, Administration, …)	– Financial Controlling – Risk Management – Compliance – Quality Management	– Internal Audit
Operations Risk Management	**Risk Monitoring**	**Independant Assurance**

In contrast to the former risk management system, the new system is a computer-based system that is extensively integrated in the organisation and uses a uniform assessment model. During its implementation, the focus was initially placed on risks. The systematic recognition and assessment of opportunities is planned for a later date.

ORGANISATION OF RISK MANAGEMENT AND RESPONSIBILITIES

The risk management of SAF-HOLLAND comprises all of its activities for the systematic management of risks. In this regard, risks are recognised and analysed at an early stage using a uniform system, from which measures are derived to optimise the risk position. Risk management is a central element of Group-wide corporate governance.

The Management Board of SAF-HOLLAND SE is responsible for installing an effective risk management system. Anchoring risk management within Group Controlling allows the risk management system to be integrated in a holistic fashion in the planning and reporting process. The main focus when using risk management instruments lies on assessing any possible deviation in the key performance indicator EBITDA (Group earnings before interest, taxes, depreciation and amortisation).

The primary responsibility for risks as well as risk recognition and risk management along the value chain lies with the persons responsible in the operating units and the central departments. The corporate risk manager at headquarters is responsible for defining and refining the processes and coordinating their execution. The risk manager draws up the quarterly risk reports and coordinates the assessment of the risk-bearing capacity. The corporate risk manager is also the addressee for ad hoc notifications and forwards these to the Management Board without delay.

The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. In addition, compliance by the Group entities and the Group's departments with the Group's internal risk management policies is integrated in the regular activities of the internal audit.

PROCESS OF COMPANY-WIDE RISK MANAGEMENT

The risk management process of SAF-HOLLAND comprises the core elements of risk recognition, risk assessment and risk management and monitoring. The risk management process is fully reflected in an integrated software solution. In this tool, the risk owners record the risks that have been recognised and assesses these. Thereafter, the software is used to review and approve the risks at the next level of the hierarchy and, depending on the risk category, escalate them for approval by the heads of the respective functions at corporate level. The process of risk recognition, assessment and management is accompanied by continuous monitoring and communication of the reported risks by the risk officers.

Risks are recognised at SAF-HOLLAND by the risk owners and risk managers at regional or Group level at the end of each quarter. It is their duty to regularly test whether all risks have been recorded. The quarterly risk inventory process is initiated by the corporate risk manager.

During the risk assessment, the recognised risks are determined using a systematic assessment process and quantified in terms of their financial impact and probability of occurrence.

Within the framework of risk management, suitable risk mitigation measures are worked out and initiated and their implementation tracked. These primarily include the strategy to avoid, reduce or hedge against risks. The latter involves drawing up measures that minimise the financial impact or likelihood of occurrence of the risks. The risks are managed in accordance with the principles of risk management, which are laid out in the Group's risk management policy.

The Group-wide recognition and assessment of risks is reported to the Management Board on a quarterly basis, broken down by risk category and region. The Supervisory Board is informed at least once a year of the risk position of the Group. In addition, any risks recognised during a quarter that are expected to have a substantial impact on the earnings of one of the Group's business units are reported to the Management Board on an ad hoc basis and communicated to the Supervisory Board if necessary.

In order to analyse the overall risk position of SAF-HOLLAND and initiate suitable countermeasures, individual risks at the local business units, the business segments and the Group as a whole are aggregated into a risk portfolio. The consolidated group for risk management corresponds to the consolidated group used for the consolidated financial statements. This allows individual risks to be aggregated into risk categories. In addition to facilitating individual risk management, this aggregation also allows trends to be recognised and managed, thus allowing the risk factors for certain risk categories to be influenced and reduced. Unless stated otherwise, the risk assessment applies to all three regional segments.

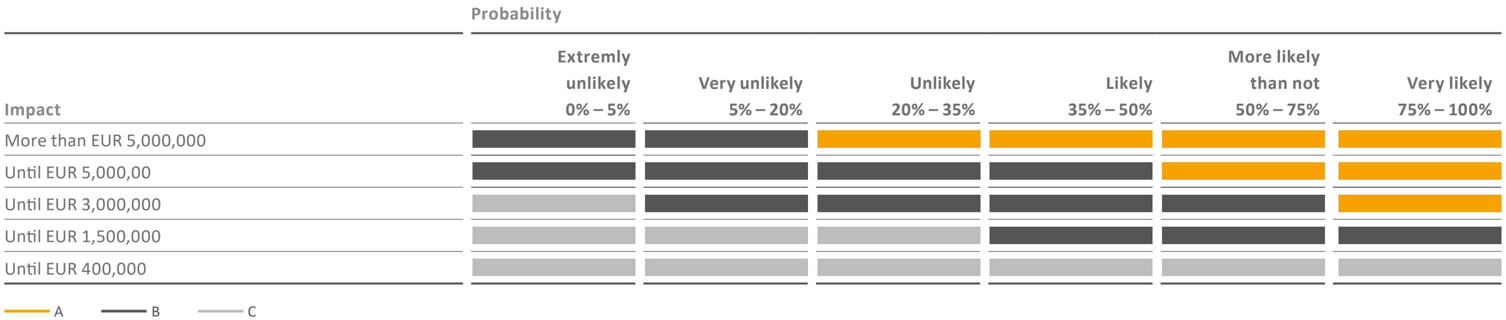
THE RISK PROFILE OF SAF-HOLLAND SE

In the course of drawing up and monitoring the risk profile, SAF-HOLLAND assesses risks on the basis of their financial impact and likelihood of occurrence. The financial impacts of risks are quantified on the basis of their impact on the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) after taking risk mitigation measures into account. The following five categories are used:

- Less than kEUR 400
- More than kEUR 400 and less than kEUR 1,500
- More than kEUR 1,500 and less than kEUR 3,000
- More than kEUR 3,000 and less than kEUR 5,000
- More than kEUR 5,000

- The probabilities used in the risk assessment are broken down into the following six categories:
- 0 to 5 per cent
- 5 to 20 per cent
- 20 to 35 per cent
- 35 to 50 per cent
- 50 to 75 per cent
- 75 to 100 per cent

Depending on the severity of the impact and the probability of occurrence, SAF-HOLLAND's risks are broken down into A, B and C risks.



OVERVIEW ABOUT MAJOR BUSINESS RISKS

All of the risks in the risk portfolio are classified to one of the main risk categories in order to consolidate and present the overall risk position in a clear manner. These are oriented on the globally recognised framework of the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO):

— Strategic risks / natural hazards
— Compliance risks
— Process and project risks
— Financial and reporting risks

The risks which could have the most serious impact on net assets, the financial position and results of operations or the reputation of SAF-HOLLAND over the next four years are described below relative to the severity of the risk. The sequence in which the risks are presented reflects the current assessment of the relevant severity of the risk for SAF-HOLLAND in descending order and therefore provides an indication of the current significance of these risks for the company.

COVID-19 pandemic– A-level risk– process and project risks

In response to the rise in the case numbers of COVID-19 in the late autumn of 2020, governments and local authorities once again installed countermeasures to contain the pandemic. These range from recommending social distancing and maintaining minimum hygienic standards through to a repeat of the lock-down measures and restrictions on opening certain sectors of the economy.

Depending on epidemiological trends and the availability of vaccines, governments are expected to relax economic restrictions in the course of the spring at the earliest. The extent and duration of the individual measures make it difficult to assess the impacts on our business and therefore whether the risk mitigation measures already initiated are sufficient or not. We could be confronted once again with unexpected closures of locations, factories or office buildings by our suppliers, customers or even within our own operations, which would particularly affect our original equipment business. From our perspective, the significant uncertainties associated with the COVID-19 crisis are its duration – including, for example, possible additional waves of infection or mutations of the virus – and the economic costs of the lock-down measures.

Other potential consequences are a rise in public and private sector debt, which will hamper any post-crisis economic recovery, serious disruptions to the financial system and insolvencies among our customers and suppliers. As early as March 2020, a cross-departmental task force was set up at Group level to advise the Management Board on the situation, prepare and coordinate the materials needed for their decisions and monitor communications and operational measures. In this regard, travel rules and a provision for mobile working were implemented at an early stage and measures taken to ensure social distancing, with the focus being on employee health and safety and business continuity.

Regardless of the scenarios and possible responses we have assessed in this complex risk field, a continuation of the COVID-19 pandemic could negatively impact the sales and margins of SAF-HOLLAND.

However, the business model of SAF-HOLLAND has at least proven to be very resilient in the volatile market environment of financial year 2020, primarily on account of its high-margin spare parts business. In addition, the programme launched at the end of September 2019 to sustainably reduce selling and administrative expenses made a positive contribution to cushioning us from the consequences of the pandemic. This risk did not exist in the previous year.

Defective cybersecurity – B-level risk – process and project risks

Information technology (IT) is a core component of our business model. We rely on our systems running efficiently without any disruptions. Moreover we rely on IT services from third-party providers. In the recent past we have observed an increase in cybersecurity threats and growing professionalism on the part of computer criminals. This represents a risk to the security of computer systems, networks and products as well as to the secrecy, availability and integrity of our data. Our IT environment could become compromised, for example by attacks on our networks or those of our IT service providers as well as by social engineering, data manipulation to critical applications or the loss of critical resources.

It cannot be guaranteed that the measures that we or our IT service providers take to ensure uninterrupted and efficient operation (e.g. firewalls, penetration testing, etc.) will be able to successfully protect our systems against these risks in all circumstances. Such attacks could have a negative impact on our operations, especially on our smart factories, which demonstrate a relatively high level of automation.

Risks associated with cyber risks that could have a direct impact on our products and services could also have a negative impact. For instance, we distribute products and systems with integrated digital and mechatronic solutions, but also offer digital and mechatronic solutions ourselves, such as the TrailerMaster information system, sensors in our products or electric trailer axles. If such products, systems and solutions become compromised or affected by disruptions, including any of the events described above, to name just a few, we may become liable to pay damages to our customers. Furthermore, our reputation may become tarnished.

Moreover, there is a risk that confidential or private data, including third-party data, are leaked, stolen, manipulated or compromised in some other way, including any of the security issues referred to above.

If information pertaining to our intellectual property is lost or stolen due to a data breach, this could have a negative impact on our competitive position and on our results of operations.

If confidential or private data is compromised, we may be confronted with contractual penalties or official fines or other sanctions under non-disclosure agreements or data protection legislation and regulations may be triggered.

Furthermore, cyber-attacks and other disruptions could lead to unauthorised access being wilfully obtained to our locations or systems, or these being used illegally. Likewise, they could culminate in a loss of production and delivery bottlenecks. This could have a negative impact on our reputation, our competitiveness and our financial performance.

We attempt to counter these risks with a range of measures, including employee training, monitoring our networks and systems with the use of cybersecurity teams and maintaining back-up and security systems, such as firewalls and virus scanners. The risk has risen in comparison to the previous year.

Risks of non-compliance with antitrust requirements – B-level risk – compliance risks

As a global player we are subject to a broad spectrum of legislative and regulatory requirements in a range of different jurisdictions which significantly affects our daily operations and processes. Litigation initiated against us due to an alleged breach of antitrust law could lead to penalties, such as criminal or administrative fines. Other consequences could involve sanctions, injunctions on our future actions, profit skimming, exclusion from directly or indirectly participating in certain transactions or public tenders, the loss of official concessions or other restrictions that could have negative legal consequences for us.

In its Code of Conduct, SAF-HOLLAND has made a commitment to comply with the law and the rules of fair trade. In addition, the company has commissioned a law firm specialised in antitrust law to evaluate any antitrust risks in detail and draw up corresponding guidelines to provide employees of SAF-HOLLAND specific rules of conduct. Likewise, it has been commissioned to provide employee training on these issues. The risk has risen in comparison to the previous year.

IT risks arising from disruptions to a component of the IT applications environment – B-level risk – compliance risks

IT risks could arise from a disruption of a component of the IT applications environment that could lead to an interruption of production. Such disruptions could arise in a heterogeneous applications environment – due to the lack of an all-encompassing applications architecture, shared guidelines and insufficient monitoring. In addition, a lack of personnel or insufficiently qualified personnel could have a negative impact for certain applications.

We attempt to counter these risks by harmonising the IT infrastructure and recruiting additional qualified personnel. The risk has risen in comparison to the previous year.

Deterioration in the economic, political and geopolitical environment – B-level risk – strategic risks / natural hazards

As a global player, our business is dependent on developments in the global economy. A global downturn – particularly in the markets we serve – could lead to us being unable to reach our sales and earnings targets. In addition, risks could arise from political and social changes, especially in countries where we manufacture and/or distribute our products.

Disputes over trade and tariffs as well as protectionism, particularly when pursued by the USA and China, could restrict global trade and dampen global economic growth. The underlying causes may lie in political tensions or trade wars between individual countries or regions, which could impact sales and results of operations as sudden and unforeseeable decisions are made.

Furthermore, slowing growth in the Chinese economy could have a negative impact on the business planning of SAF-HOLLAND for the Chinese market.

The situation of sovereign debt worldwide has been exacerbated due to the stimulus packages to cushion the consequences of the COVID-19 pandemic. The consequences of Brexit are also very difficult to assess at present.

Regardless of the scenarios and possible responses we have assessed in this complex risk field, the above developments could negatively impact the sales and margins of SAF-HOLLAND.

The business model of SAF-HOLLAND has proven to be very resilient, at least in this volatile market environment, primarily on account of its high-margin spare parts business. In addition, the programme launched at the end of September 2019 to sustainably reduce selling and administrative expenses made a positive contribution to cushioning us from the consequences of the pandemic. The risk has risen in comparison to the previous year.

Project-related risks due to the new factory in Russia – B-level risk – process and project risks

As a global player, we are exposed to various product- and country-specific regulations, laws and directives that affect our business activities and processes. For example, a new local content rule in Russia requires a minimum share of upstream local content to be used in production that is set to rise from 30 per cent to 80 per cent by January 2026. If we fail to meet this requirement, there is a risk that we will lose the majority of our sales on the Russian market to our competitors. For this reason, the company decided to construct a new facility in the north of Moscow.

With the construction of this new factory, SAF-HOLLAND is exposed to project-related risks in terms of planning, costing, executing and processing. There is a risk of delays, unexpected technical problems, higher levels of complexity than anticipated, inaccurate sales forecasts, capacity or delivery bottlenecks, quality problems or higher-than-expected start-up costs, or the failure to meet budgeted production costs. There may also be delays in customer acceptance and settlement dates.

In order to keep these risks under control, coordination between the SAF-HOLLAND departments concerned (in particular production, purchases, sales, quality assurance, development, and IT) and the corresponding departments on the customer and supplier side takes place during the start-up phase. Professional project management, project milestones, review stages for the respective project phases and extensive quality management measures, as well as the appropriate drafting of contracts, can limit these risks, but not completely eliminate them. In order to keep the costs of setting up the new factory as low as possible, used machines from Bessenbach and the international production network will be used. At the same time, this opportunity can be used to modernise the machinery at the Bessenbach location. This risk did not exist in the previous year.

IT risks arising from disruptions of IT infrastructure components – B-level risk – process and project risks

IT risks that might lead to a loss of productivity can also arise from a disruption of IT infrastructure components (networks, computer centres, hardware components, cloud operations/infrastructure-as-a-service). Such disruptions could be caused by aging IT infrastructure and the sheer diversity of hardware components due to the corporate acquisitions made in recent years. In addition, a lack of personnel or insufficiently qualified personnel could have a negative impact.

We counter such risks by setting up a mid-range programme to replace critical IT components and have entered into service level agreements with suppliers of an extended scope. The risk has risen in comparison to the previous year.

OVERALL STATEMENT OF THE MANAGEMENT BOARD: NO GOING CONCERN RISKS AT SAF-HOLLAND

From a current perspective there are no risks that could lead to overindebtedness or insolvency of the company. The maximum risk-bearing capacity of SAF-HOLLAND is set by compliance with the financial covenant “Net financial debt to EBITDA” agreed on in the syndicated loan agreement from October 2, 2019. Compliance with the financial covenant is continuously monitored in order to be able to take appropriate measures at an early stage if necessary and to avoid a breach of the covenants.

OVERVIEW OF SIGNIFICANT BUSINESS OPPORTUNITIES

The opportunity management system used by the SAF-HOLLAND Group is based on the risk management system. The objective of opportunity management is to recognise potential opportunities arising from positive developments in our business as early as possible and to exploit these in optimal fashion by taking suitable action. Seizing such opportunities will ensure that the planned targets are met or even outperformed. Within the framework of opportunities management, realisable opportunities that have not yet been used as planning inputs are considered.

BETTER THAN EXPECTED ECONOMIC DEVELOPMENT

If the general economic conditions should develop better than we expect, we assume that global demand for trucks and trailers will also develop better than we expect. Due to the associated increase in demand for our products that this would entail from truck and trailer OEMs, Group sales could rise more strongly than anticipated, with a positive impact on earnings arising from economies of scale.

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 global megatrends. The growing world population, especially in developing and emerging countries, as well as the globalisation of the economy, are leading to growing international trade. This makes a global transportation infrastructure a mandatory requirement. Urbanisation 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 increasing 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.

CONTINUOUS GROWTH IN DEMAND FOR SPARE PARTS

Due to the changes in sales volume in recent years, especially in SAF-HOLLAND’s core markets of Europe and North America, fleet sizes in these markets have increased. With the increasing age of these vehicles, demand for spare parts also rises. It follows that rising 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 more cost-effective parts specially designed for comparatively 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 comparatively older vehicles on the roads. These brands deliver the special qualities that characterise trucks and trailers in these markets: robustness, reliability and a low price.

OPPORTUNITIES ARISING FROM INDUSTRY-SPECIFIC MEGATRENDS

Autonomous driving, digitisation and alternative drive concepts open up growth opportunities for SAF-HOLLAND in the medium to long term. In the area of autonomous driving, the company already presented the SAF-HOLLAND Automated Coupling (SHAC) concept study at the IAA Commercial Vehicles in 2018. In close cooperation with our development partners, we are working on the development of a pilot vehicle which will then be 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.

We offer digitisation solutions for fleet managers via our UK subsidiary, Axscend. For example, the TrailerMaster information system provides operating data in real time and enables fleet managers to exploit their resources. From our perspective, the most important functionalities that can be integrated include: lighting function control, load testing and optimisation, maintenance condition testing, data evaluation from the tire pressure control system and electronic braking systems (EBS), patented performance data and real-time assessment of the brake system - which in the UK exempts operators from the obligation to have their trailers tested on test beds – and GPS data transmission for trailer tracking.

In the field of electric drives, we are advancing our SAF INTRA CD TRAK hydraulically driven axle concept with the two axle systems TRAKr and TRAKe. 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 engine 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, as the system can function without a running combustion engine. 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.

OPPORTUNITIES ARISING FROM NEW REGULATORY REQUIREMENTS

New commercial vehicle standards in China

The registration requirements for commercial vehicles in China have been 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 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 competitive solutions for these requirements and place the company in an advantageous position to 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) in the United States 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 2022 onwards. For smaller trailer manufacturers, the tightened regulations apply to models built in 2023 and thereafter.

Even stricter requirements are scheduled to be introduced in the coming years. 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 believes it has extensive expertise in both of these product areas and is therefore expected to benefit from these stricter regulations in the medium term.

New regulations in Germany and the European Union

Since the beginning of this year, the German Federal Ministry of Transport and Digital Infrastructure (BMVI) began funding the renewal of commercial vehicle fleets to the tune of EUR 500 million. More specifically, buyers of new commercial vehicles who have an old vehicle with a worse emissions class, can have it scrapped and replaced with a vehicle that meets the new safety and emissions standards and receive subsidies of up to EUR 15,000 per vehicle. In addition, innovative trailer technologies are subsidised by an amount of up to EUR 5,000 per vehicle. Applications may be submitted from January 26, 2021 to April 15, 2021. As a supplier of fifth wheels and axle systems as well as innovative trailer solutions, SAF-HOLLAND could benefit from a revival in demand.

As part of its Rail Freight Master Plan, the German government is encouraging freight traffic towards the German rail network by reducing track access charges by an amount of EUR 350 million annually in the period from July 1, 2018 to June 30, 2023. This measure is to be evaluated in 2021. An increase in government subsidies could lead to higher sales of vehicles suitable for intermodal transport and thus positively influence demand for SAF-HOLLAND's products.

The installation of a Tire Pressure Monitoring System (TMPS) has become mandatory upon the introduction of Regulation (EU) 2019/2144 on the type approval requirements for motor vehicles and their trailers, which came into force on January 5, 2020. From July 6, 2022, no new type approval can be obtained for vehicles that do not have the appropriate equipment and after July 7, 2024, no new vehicles can be registered without it. For SAF-HOLLAND, this could result in sales potential for its products such as its TrailerMaster telematics systems or SAF Tire Pilot.

INCREASING DEMAND FOR DISC BRAKE TECHNOLOGY

According to SAF-HOLLAND the majority of trailers in Europe have been equipped with disc brakes for many years. In contrast, SAF-HOLLAND sees trailers equipped with disc brakes in the US to still be in the minority. Traditional drum brakes still dominate the US market, despite being 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 semitrailer equipped with disc brakes, for example, needs 20 per cent less braking distance (dropping from 129 metres to 104 metres 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 and Canada. For example, in addition to XTRA Lease, which is ordering additional new trailers under a long-term lease agreement, a fleet order from a food wholesaler and another order from a Canadian fleet management company for axle systems with integrated disc brake technology were won. Additional staff were recruited 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 long-standing expertise. By employing disc brake technology in its axle systems, the Group could increase its added value per vehicle by 50 per cent or more.

OPPORTUNITIES THROUGH ACQUISITIONS

With the acquisitions of KLL, York and V.Orlandi, SAF-HOLLAND has already proven its ability to 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 business.

In the last few years, opportunities have presented themselves from potential sellers of family-run businesses but not, in our view, 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.

SAF-HOLLAND also pursued its strategic objectives by taking over the York Group in 2018, the market leader for trailer axles in India. 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 PENETRATING NEW MARKETS

In the 2020 financial year, SAF-HOLLAND generated 92.3 per cent of its sales in its traditional regions EMEA and Americas. It is the company's stated objective to raise its sales outside of these key regions in the mid-term.

To this end, SAF-HOLLAND has expanded its footprint 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 boom from the release of pent-up investment activity in infrastructure in these countries and the transportation sector in particular.

In addition, in 2018, the Group decided to expand its manufacturing capacity in China to take advantage of the high growth in modern axle and suspension systems for trailers expected by SAF-HOLLAND in the years ahead. With a low double-digit million-euro investment, a new central production center with a production area of around 46,000 m^2 was built in the Yangtze River Delta. Operations commenced in the fourth quarter of 2020. This is yet another example of how SAF-HOLLAND is laying the foundation for long-term, profitable growth in this region.

INTERNAL CONTROL SYSTEM FOR THE GROUP ACCOUNTING PROCESS

The primary goal of our internal control system (ICS) for the Group accounting processes is to ensure compliance of our financial reporting by making sure that the consolidated financial statements and the combined management report of the SAF-HOLLAND Group and the financial statements of the parent company SAF-HOLLAND SE comply with all relevant laws and regulations. It is the responsibility of the Management Board to design the ICS to the specific needs of the company. According to the allocation of executive functions, the CFO is responsible for finance and accounting. These departments define and review the accounting standards used throughout the Group and combine the information when compiling the consolidated financial statements. Significant risks for the accounting process arise from the need to communicate complete and accurate information within the given reporting deadlines. To ensure this, the needs must be clearly communicated and the units concerned must be assigned the resources needed to fulfil the requirements. Risks that could impact the accounting process can arise, for example, from transactions being recorded too late or incorrectly, or when accounting standards are not observed. The failure to record transactions also constitutes a potential risk.

To minimise such errors, the accounting process is based on a strict segregation of functions. The principle of dual control is rigorously observed during the compilation of the separate financial statements of the consolidated entities as well as the consolidation measures based on them.

The accounting process is fully integrated within the risk management system of SAF-HOLLAND SE. This ensures that accounting-related risks are recognised at an early stage and that measures to avoid or mitigate them can be taken without delay.

Accounting-related processes are regularly reviewed by the internal audit to ensure the effectiveness of the internal control system and risk management.

The IFRS Accounting Manual lays the foundation for corporate accounting processes and financial reporting. All Group entities must base their accounting processes on the standards described in the manual. Significant recognition and measurement policies, such as for non-current assets, inventories and receivables as well as provisions and liabilities are defined in a binding manner.

In addition, reporting mechanisms have been installed in the Group to ensure uniform treatment of extraordinary issues arising from operating activities. Reporting deadlines have been set for all entities to allow timely compilation of the consolidated financial statements and the Group management report.

The separate financial statements of the Group entities are compiled in accordance with local GAAP. Intercompany transfers of goods and services are recorded on separate accounts.

The balances of intercompany clearing accounts are settled on the basis of defined guidelines and time plans by means of balance confirmations. Group entities submit their financial reporting via the SAP-BPC reporting system.

Responsibility for the finance function is borne by both the financial officers at the Group's parent company as well as the regional CFOs in the respective regions in accordance with the regional segmentation of SAF-HOLLAND. These officers are integrated in the quality assurance process for the financial statements of consolidated entities. The Group Consolidation & Controlling department at corporate headquarters, which is responsible for compiling the consolidated financial statements, is responsible for overall quality assurance of the Group entities' separate financial statements included in the consolidated financial statements. Responsibility for the Group management report lies with Investor Relations, who also report directly to the Chief Financial Officer of SAF-HOLLAND.

The financial accounting systems used by the Group entities of SAF-HOLLAND are being successively harmonised. A chain of user authorisation rights applies in all systems. The nature, design and authorisation practices of user authorisations are decided on by local management after consulting the corporate IT department.

SUSTAINABILITY

Sustainability is an integral component of the corporate philosophy and business strategy of SAF-HOLLAND. Sustainability means operating in a sustainable manner and assuming our corporate social responsibility. SAF-HOLLAND is convinced that this approach will increase our innovative strengths and enhance our future viability. With its sustainability strategy the company ensures that sustainability issues are managed across the entire Group and make a meaningful contribution to the company's performance.

PUBLICATION OF THE CONSOLIDATED NON-FINANCIAL STATEMENT

SAF-HOLLAND will publish the 2020 Sustainability Report on March 25, 2021. The Consolidated Non-Financial Statement will be rendered upon publication of this report.

The 2020 Sustainability Report will be publicly available on the company's website at 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, a world-wide initiative for sustainability and corporate social responsibility, since 2018.

SUSTAINABILITY REPORTING TAKEN A STEP FURTHER

SAF-HOLLAND continued developing its sustainability reporting in the reporting year. By capturing sustainability data in greater resolution a foundation has been laid from which we can meet the growing reporting requirements.

In addition, all production locations are now integrated in the reporting. The 2020 Sustainability Report reflects the global production network of SAF-HOLLAND and provides disclosures on the Group as a whole.

REMUNERATION REPORT

The remuneration report explains the remuneration system for both the members of the Management Board and the members of the Supervisory Board and presents the individual remuneration paid to their individual members. It has been prepared in accordance with the requirements of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS) taking account of the recommendations of the German Corporate Governance Code (GCGC) and German Accounting Standards (GAS).

CHANGES TO THE MANAGEMENT BOARD

Effective September 1, 2020, Inka Koljonen was appointed to the Management Board of SAF-HOLLAND SE as the new Chief Financial Officer (CFO). The former CFO, Dr. Matthias Heiden left the company on June 30, 2020.

The Management Board is therefore made up of the CEO (Alexander Geis), the CFO (Inka Koljonen) and the COO (Dr. André Philipp). The Regional Presidents are members of the extended Executive Committee and are therefore not members of the Management Board.

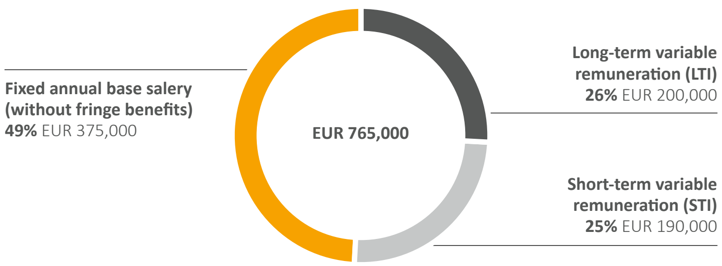
MANAGEMENT BOARD REMUNERATION

FUNDAMENTAL ASPECTS OF REMUNERATION

Every year the Supervisory Board reviews the remuneration of each individual member of the Management Board in terms of amount and structure. Resolutions on remuneration are generally prepared by the Remuneration and Nomination Committee.

The remuneration system for the Management Board is geared towards the sustainable and long-term development of the company. The remuneration system also promotes the business strategy and long-term development of the company. In accordance with the recommendation of the GCGC, the Supervisory Board ensures that variable remuneration is structured on a multi-year basis. This means that the long-term variable components exceed the short-term ones, generally by a small margin. At the same time, short-term variable remuneration also places sufficient emphasis on annual operating targets, which serve as the basis for future corporate development. Using the example of a member of the Management Board with a base salary of EUR 375,000, the target remuneration structure is as follows:

Target remuneration



The appropriateness of the remuneration is regularly reviewed by the Supervisory Board. For this purpose, the Supervisory Board is supported by an independent external expert in executive remuneration. The criteria for assessing the appropriateness of remuneration therefore lie in the individual tasks and performance of the members of the Management Board and the position of the company. In addition, the appropriateness of the remuneration elsewhere within the company is also reviewed (vertical remuneration comparison).

COMPARABILITY OF REMUNERATION

The average annual remuneration paid to a member of the Management Board consists of a fixed salary and both short and long-term variable components. The payments in the reporting year correspond to 11 times the average total annual remuneration of an employee at the German companies and approximately 3 times the total annual salary paid to members of the upper management team (Vice President level). The vertical remuneration comparison substantiates the appropriateness of the remuneration of the Management Board.

REMUNERATION SYSTEM

The remuneration consists of the following components:

Remuneration system

REMUNERATION COMPONENT	BRIEF SUMMARY	PURPOSE AND CONNECTION TO THE STRATEGY
1. Fixed annual base salary	— Fixed contractually agreed remuneration, paid monthly	— Ensures appropriate, fixed income to ensure no undue risk is taken — Attracts and retains board members who can develop and successfully implement the strategy on the basis of their experience and expertise
2. Fringe benefits	— Particulary use of a company car, subsidies for health and long-term care insurance	
3. Short-term variable remuneration	— As a rule, 75% financial and 25% non-financial performance targets — Maximum amount: 125% of the respective target — Payment in the following year	— Provides an incentive to board members to focus on successfully implementing the business priorities for the year
4. Long-term variable remuneration	— Grants of virtual share units — Performance targets: — Development of the share price — Business performance — Maximum amount (cap): 200% of the grant value — Payment: in the fifth year after granting	— Links the development of Management Board compensation directly to share price performance and thus to investor interest — Provides an incentive to Management Board members to raise the value of the company in the long term

The following criteria applied to the individual components of the Management Board's remuneration in the 2020 financial year:

1. 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 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.

2. Fringe benefits
The taxable fringe benefits granted to the Management Board consist primarily of the use of company cars and the premiums for occupational accident insurance and directors and officers (D&O) insurance. In addition, subsidies towards health and pension insurance are paid in accordance with the provisions of social security law.

3. 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. With the help of the individual targets, the individual performance of each Management Board member is taken into account when measuring remuneration. In terms of the business targets, the three parameters are Group sales, the net working capital ratio and the adjusted EBIT margin. In terms of goal attainment, the lower limit for the bonus is 75 per cent and the upper limit 125 per cent. If the sum of the weighted individual target achievement is below 75 per cent (threshold), then there is no pro rata payout of the bonus. In exceptional cases, the Supervisory Board may set a lower limit of 50 per cent. The amount of the incentive to be paid is calculated by multiplying the percentage of target achievement with the target bonus. In the year of joining and leaving the company, the Management Board member is entitled to a bonus on a *pro rata temporis* basis. The short-term variable remuneration is paid out in the following financial year.

Due to the special challenges posed by the COVID-19 pandemic and the particularly high workload placed on the Management Board, the Supervisory Board passed a resolution to grant the members of the Management Board a special bonus for the reporting year if the quantitative business targets laid out for the STI were not reached. The special bonus depends on reaching certain goals – with a particular focus on optimising net working capital and cash generation. Upon 100 per cent goal attainment the bonus matches the corresponding share of the quantitative goals set for the company. The agreed personal goals laid down in the annual bonus (STI) remain in place and are not affected by the special bonus.

In addition non-financial performance goals were set for the CEO, CFO and COO for the financial year 2021 that are oriented towards energy savings and the sustainability of the company's activities.

4. Long-term incentive (LTI)
The LTI is a variable remuneration component whose objective is the company's long-term appreciation in value, which sustainably links the interests of the company' management and executives with the interests of the shareholders of SAF-HOLLAND SE. 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 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 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 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 previously set for the performance period. The LTI is paid via the payroll and is 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		Multiplier according to target achievement curve		Average share price in November and December of the 4th year		Cap: 200% of the grant value

The members of the Management Board do not have a right to shares in SAF-HOLLAND SE 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." 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 Management Board leaves the company prior to the expiration of the performance period as a result of death, disablement, disability or reaching the contractually agreed retirement age, the member or his or her surviving dependents will receive any potential payout on a pro rata basis on the payment due date.

A potential payment may be temporarily withheld by the Supervisory Board should imminent or urgent financial factors at SAF-HOLLAND SE and/or a Group company make a payment impossible. Generally, the Supervisory Board 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.

The maximum payout under the terms of the Performance Share Unit Plan (PSUP) is 200 per cent of the allocation (maximum value) in each case. This cap in conjunction with the fixed base salary and the upper limit of 125 per cent of the short-term variable remuneration thereby constitute the maximum limit for the remuneration of the members of the Management Board.

The loss of all rights under the plan is limited to the case of termination for good cause by the company. In the event of the service contract being terminated for other reasons, the amount paid out corresponds to the amount that the member of the Management Board would be entitled to on the date of the payout after deducting the *pro rata temporis* amount for the interim. Notwithstanding the above rule, the phantom shares allocated for the years 2019, 2020 and 2021 will become vested. This means that they will not be reduced on a *pro rata temporis* basis if the service contract is terminated before the end of the respective assessment period.

During the measurement period, the company is entitled to take back any phantom shares already granted under the framework of the LTI, even if the agreed goals have been reached, or to withhold any phantom shares that should normally be granted. However, this claw-back mechanism is contingent upon the member of the Management Board being found, based on the evidence, culpable of a severe breach of his or her statutory and/or contractual duties and/or violating the internal policies of the company, even without any need to present evidence of the company incurring a loss due to such breach of conduct (claw-back and malus clause).

Asserting these claw-back or malus rights and the extent to which they are exercised lies at the discretion of the Shareholders' Meeting. The claw-back or malus rights are also enforceable even if the appointment to the Management Board or the employment relationship has already ended at the time the claw-back right is asserted. Claw-back or malus rights are generally not exercised if there has not been any financial loss or reputational harm to the company. Claw-back or malus rights lapse if more than 2.5 years have elapsed since the date of the violation.

If it is not possible to claw-back or withhold an amount not exceeding 50 per cent of the allocated phantom shares under the LTI, or not to the extent required, the company may also withhold STI payments as a secondary option. It is not permitted to claw-back any STI payments already granted.

REVIEW AND ADJUSTMENT OF REMUNERATION

A review of remuneration components is performed annually by the Supervisory Board. The Supervisory Board is entitled to issue a special bonus in the event that the Management Board takes on special tasks or performs particularly well. In the financial year 2020 Dr. André Philipp received a special bonus for his extraordinary efforts, particularly with regard to our Chinese activities.

As a sign of solidarity with the workforce, who were forced to accept lower wages and salaries under the short-work furlough scheme on account of the COVID-19 pandemic, the members of the Management Board voluntarily waived 15 per cent of their base salaries for the respective month from April through July 2020.

SEVERANCE PAYMENTS

The service contracts of the members of the Management Board have a term of three years. Whether a severance payment is granted or not in the event of premature termination of the service contract due to dismissal from the Management Board or due to any other premature termination lies at the discretion of the company. Any severance payment is limited to a maximum of two years' total remuneration (i.e. annual base salary, variable short-term incentive (STI) and variable long-term incentive (LTI)). The calculation of the fixed annual remuneration is based on the previous year or the current year. When considering variable remuneration (STI and LTI), the amount of variable remuneration allocated during the last financial year is to be applied.

No severance payment is made in the event of a termination of a contract with a member of the 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 Management Board.

In the event of a change of control, each member of the Management Board has a single right to resign from office upon three months' notice to the end of the respective month and to terminate the service contract on that same date. This singular right of termination only exists within one month of the date on which the Management Board member becomes aware that a change of control has actually taken place. In the event of premature termination of the service contract due to a change of control, the Management Board member has no entitlement to severance pay.

A change of control exists:

— if a third party or a number of third parties acting jointly acquire at least 30 per cent of the voting rights in the company or the shareholder of the company by acquiring shares or some other means, regardless of whether this triggers a duty to submit a takeover offer or not.

— in the case of a merger (Section 2 of the German law of reorganisations (UmwG)), the company is assigned to another party in accordance with Section 174 (1) and (2) No. 1 UmwG, or significant assets of the company are contractually assigned to a third party that is not a member of the SAF-HOLLAND Group.

— upon conclusion of a contract of control by the company as a dependent company.

The service contracts with Alexander Geis and Dr. André Philipp contain a post-contractual non-competition clause, which prohibits these Management Board members from working for or rendering services to a competitor for a period of one year after leaving the company. As consideration, they receive a non-contractual remuneration of 50 per cent of their last drawn contractual remuneration package in accordance with Section 74 (2) HGB. Severance payments shall be credited against the non-contractual remuneration.

LOANS TO MEMBERS OF THE MANAGEMENT BOARD

As in previous years, there were no loans or advances made to members of the Management Board in 2020.

REMUNERATION OF THE MANAGEMENT BOARD

The total remuneration paid to the members of the Management Board in the financial year 2020 comes to EUR 1,791,000.00 (previous year: EUR 1,860,000.00 related to CEO, CFO and COO).

Individual management remuneration for the 2020 financial year:

Pursuant to DRS 17

in EUR thousands

	Alexander Geis		Inka Koljonen		Dr. André Philipp		Dr. Matthias Heiden		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Non-performance related components	645	550	139	0	421	341	180	373	1,385	1,264
Performance- related components	70	140	0	0	46	0	107	100	223	240
Long-term incentive	73	178	0	0	37	0	73	178	183	356
Total remuneration	**788**	**868**	**139**	**0**	**504**	**341**	**360**	**651**	**1,791**	**1,860**

The amounts shown above represent the remuneration received.

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 Dr. Matthias Heiden is based on the period that ended upon termination of his duties on June 30, 2020. The remuneration of Inka Koljonen relates to the date on which she joined the company on September 1, 2020.

German Corporate Governance Code (GCGC): Grants awarded

in EUR thousands

	Alexander Geis				Inka Koljonen				Dr. André Philipp			
	2020 (Target)	2020 (Min)	2020 (Max)	2019	2020 (Target)	2020 (Min)	2020 (Max)	2019	2020 (Target)	2020 (Min)	2020 (Max)	2019
Base salary	650	650	650	459	125	125	125	0	359	359	359	325
Bonus compensation	0	0	0	75	0	0	0	0	50	50	50	0
Fringe benefits	27	27	27	16	14	14	14	0	30	30	30	16
Total	**677**	**677**	**677**	**550**	**139**	**139**	**139**	**0**	**439**	**439**	**439**	**341**
1-year variable remuneration	293	0	366	220	63	0	79	0	160	0	200	160
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	0	0	0	0	0	0	0	43
2017 – 2020 LTI Plan	0	0	0	0	75	0	150	0	0	0	0	85
2018 – 2021 LTI Plan	0	0	0	0	100	0	200	0	0	0	0	128
2019 – 2022 LTI Plan	0	0	0	340	125	0	250	0	0	0	0	170
2020 – 2023 LTI Plan	357	0	714	0	175	0	350	0	170	0	340	0
Total	**650**	**0**	**1,080**	**560**	**538**	**0**	**1,029**	**0**	**330**	**0**	**540**	**586**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**1,327**	**677**	**1,757**	**1,110**	**677**	**139**	**1,168**	**0**	**769**	**439**	**979**	**927**

German Corporate Governance Code (GCGC): Grants awarded

in EUR thousands

	Dr. Matthias Heiden				Total			
	2020 (Target)	2020 (Min)	2020 (Max)	2019	2020 (Target)	2020 (Min)	2020 (Max)	2019
Base salary	179	179	179	359	1,313	1,313	1,313	1,143
Bonus compensation	0	0	0	0	50	50	50	75
Fringe benefits	14	14	14	14	85	85	85	46
Total	**193**	**193**	**193**	**373**	**1,448**	**1,448**	**1,448**	**1,264**
1-year variable remuneration	100	0	125	200	616	0	770	580
Multi-year variable remuneration	0	0	0	0	0	0	0	0
2016 – 2019 LTI Plan	0	0	0	0	0	0	0	43
2017 – 2020 LTI Plan	0	0	0	0	75	0	150	85
2018 – 2021 LTI Plan	0	0	0	0	100	0	200	128
2019 – 2022 LTI Plan	0	0	0	170	125	0	250	680
2020 – 2023 LTI Plan	0	0	0	0	702	0	1,404	0
Total	**100**	**0**	**125**	**370**	**1,618**	**0**	**2,774**	**1,516**
Pension-related expenses	0	0	0	0	0	0	0	0
Total remuneration	**293**	**193**	**318**	**743**	**3,066**	**1,448**	**4,222**	**2,780**

Relative shares of the individual components in the total remuneration

In percent

	Alexander Geis		Inka Koljonen		Dr. André Philipp		Dr. Matthias Heiden	
	2020	2019	2020	2019	2020	2019	2020	2019
Base salary	50	45	34	0	52	50	64	49
1-year variable remuneration	23	22	28	0	23	24	36	28
Multi-year variable remuneration	27	33	48	0	25	26	0	23

Inflow pursuant to German Corporate Governance Code (GCGC)

in EUR thousands

	Alexander Geis		Inka Koljonen		Dr. André Philipp		Dr. Matthias Heiden		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Base salary	618[1]	459	125	0	341[1]	325	166[1]	359	1,250[1]	1,143
Bonus compensation	0	75	0	0	50	0	0	0	50	75
Fringe benefits	27	16	14	0	30	16	14	14	85	46
Total	**645**	**550**	**139**	**0**	**421**	**341**	**180**	**373**	**1,385**	**1,264**
1-year variable remuneration	70	140	0	0	46	0	107	100	223	240
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0
2015 – 2018 LTI Plan	0	178	0	0	0	0	0	178	0	356
2016 – 2019 LTI Plan	73	0	0	0	37	0	73	0	183	0
Total	**143**	**318**	**0**	**0**	**83**	**0**	**180**	**278**	**406**	**596**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0
Total remuneration	**788**	**868**	**139**	**0**	**504**	**341**	**360**	**651**	**1,791**	**1,860**

[1] including deducted voluntary salary sacrifice

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the members of the Supervisory Board is governed by Art. 16 of the Articles of Association of SAF-HOLLAND SE. It is commensurate to the tasks of the Supervisory Board and the situation of the company.

Under the current remuneration system, the members of the Supervisory Board receive a fixed annual remuneration after the end of the financial year, which means that the fixed annual remuneration for the year 2020 will be paid out in the year 2021. Performance-based or stock-based remuneration components are not granted.

— The members of the Supervisory Board receive a fixed annual fee of EUR 40,000.00.
— The Chairman of the Supervisory Board receives a fixed annual fee of EUR 100,000.00.
— The Deputy Chairwoman of the Supervisory Board receives a fixed annual fee of EUR 60,000.00.

This considers the greater amount of time invested by the chairman and his deputy.

Each chairperson of the Supervisory Board's committees receives a fixed fee of EUR 20,000.00 for their work on the committee in recognition of the additional work entailed. The ordinary members of the committees do not receive any fixed remuneration.

Each member of the Supervisory Board receives a per diem of EUR 1,000.00 for attending the meetings of the Supervisory Board and EUR 500.00 for each telephone conference. The chairpersons of committees do not receive any attendance fees for meetings or telephone conferences of the respective committees.

Members of the Supervisory Board who only sit on the Supervisory Board or one of its committees for part of the financial year or who occupy the position of Chairperson or Deputy Chairperson, receive the corresponding remuneration on a *pro rata temporis* basis.

The D&O group insurance also covers the members of the Supervisory Board. No advances or loans were made to current or former members of the Supervisory Board in 2020.

Due to the COVID-19 crisis, the Supervisory Board also voluntarily waived 15 per cent of their fixed annual fee for the second quarter of 2020.

The total remuneration paid to members of the Supervisory Board for 2020 – including the remuneration paid to the former members of the Board of Directors in place prior to the transfer of the registered offices from Luxembourg to Germany, effective July 1, 2020 – comes to EUR 371,900.00 (previous year: EUR 413,700.00).

The remuneration of the Supervisory Board for 2020 breaks down to the individual members as follows:

in EUR thousands	Supervisory Board	Audit Committee	Remuneration and Nomination Committee	Waiver of base salary Q2 2020	Total 2020
Dr. Martin Kleinschmitt	107.0	3.5	2.0	–4.1	108.5
Martina Merz	67.0	0.0	10.5	–3.3	74.2
Carsten Reinhardt	47.0	3.5	1.5	–1.8	50.2
Ingrid Jägering	47.0	20.0	0.0	–2.6	64.5
Matthias Arleth[1]	24.5	0.0	10.0	–0.1	34.4
Anja Kleybold[2]	22.5	0.0	0.0	–1.7	20.8
Jack Gisinger[3]	19.2	0.0	1.5	–1.3	19.4
Total	**334.2**	**27.0**	**25.5**	**–14.8**	**371.9**
of which base salary	296.7	20.0	20.0	–14.8	321.9
of which attendance fees	32.0	6.0	0.0	0.0	38.0
of which attendance fees (conference calls)	5.5	1.0	5.5	0.0	12.0

1 Member of the Supervisory Board since July 2020
2 Member of the Board of Directors until June 2020
3 Member of the Board of Directors until May 2020
Note: Reimbursement of expenses such as travel costs is not included in the above overview.

CORPORATE GOVERNANCE STATEMENT

At SAF-HOLLAND, corporate governance stands for responsible management and supervision geared towards sustainable value creation that includes all divisions of the SAF-HOLLAND Group. Transparent reporting and corporate communications, corporate governance aligned with the interests of all stakeholders, trusting cooperation between the Management Board, Supervisory Board and employees, and compliance with applicable law are the cornerstones of this corporate culture.

Due to the abolition of the corporate governance report by the new version of the German Corporate Governance Code that was issued on December 16, 2019, the Corporate Governance Statement pursuant to Sections 289f and 315d HGB has become the core reporting instrument on corporate governance.

In this statement, both the Management Board and the Supervisory Board report on corporate governance at SAF-HOLLAND.

The Corporate Governance Statement can be found on our website at https://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance-statement.

TAKEOVER-RELEVANT INFORMATION AND EXPLANATION

The disclosures required by Art. 9 (1) lit. c) ii) Regulation 2157/2001 (SE Regulation) in conjunction with Section 289a and Section 315a HGB as of December 31, 2020 are presented below.

I. COMPOSITION OF SUBSCRIBED CAPITAL

The share capital of SAF-HOLLAND SE amounted to EUR 45,394,302.00 as of December 31, 2020, split into 45,394,302 bearer no-par value shares, each with an imputed share in capital of EUR 1.00. All shares are equipped with the same rights and obligations.

II. RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

Each share entitles the bearer to one vote at the Annual General Meeting. The voting right may be subject to legal restrictions, such as Section 136 (1) AktG. We are not aware of any other restrictions affecting voting rights or the transfer of shares, such as those arising from agreements between individual shareholders.

III. HOLDINGS OF MORE THAN 10 PER CENT OF THE VOTING RIGHTS

At the time of reporting, the company had not received any notifications of shareholdings exceeding 10 per cent of the voting rights.

IV. SHARES EQUIPPED WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

There are no shares with special rights conferring powers of control.

V. EMPLOYEES WITH EQUITY INTERESTS

Employees who hold SAF-HOLLAND shares exercise their rights of control arising from shares directly in the same way as other shareholders in accordance with statutory provisions and the Articles of Association.

VI. STATUTORY PROVISIONS AND REQUIREMENTS OF THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The requirements for the appointment and dismissal of members of the Management Board as well as for any amendments to the Articles of Association are governed by the respective provisions of the applicable European and German laws, including the SE Regulation and the German Stock Corporation Act (AktG), as well as the Articles of Association.

The Management Board consist of at least two persons; the Supervisory Board may set a higher number of members for the Management Board (Art. 8 (1) of the Articles of Association). The members of the Management Board are appointed by the Supervisory Board for a maximum period of five years; reappointments are permitted (Art. 8 (3) of the Articles of Association). The Supervisory Board may appoint a Chairman or Spokesman of the Management Board and a Deputy Chairman or Deputy Spokesman (Art. 8 (2) sentence 2 of the Articles of Association). According to Art. 9 (1) lit. c) ii) of the SE Regulation in conjunction with Section 84 AktG, an appointment to the Management Board may be revoked by the Supervisory Board in the case of good cause, such as a gross breach of duty by the Management Board member. In the event that a necessary member of the Management Board is unable to serve, a court appointment may be made in urgent cases in keeping with Art. 9 (1) lit. c) ii) SE Regulation in conjunction with Section 85 AktG.

Amendments to the Articles of Association are governed by Art. 59 SE Regulation, Section 179 AktG and the Articles of Association. According to Art. 21 (3) sentence 2 of the Articles of Association, unless mandatory statutory provisions stipulate otherwise, resolutions to amend the Articles of Association must be adopted by a two-thirds majority of the valid votes cast or, if at least half of the share capital is represented, by a simple majority of the valid votes cast. Where statutory provisions require the majority of the share capital in addition to the majority of the votes cast for resolutions of a General Meeting, the simple majority of the share capital represented in the vote is sufficient, to the extent permitted by law. The Supervisory Board is authorised to make amendments to the Articles of Association which only concern their wording. (Sec. 179 (1) sentence 2 AktG and Art. 13 (3) of the Articles of Association).

VII. AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE SHARES

The Management Board is authorised, with the approval of the Supervisory Board, to increase the company's share capital in the period until May 19, 2025, once or several times by up to a total of EUR 22,697,151.00 through the issuance of new no-par value bearer shares against cash or non-cash contributions (Authorised Capital 2020).

In principle, the new shares are to be offered to the company's shareholders for subscription; they may also be subscribed by one or more credit institution(s) or companies within the meaning of Article 5 of the SE Regulation in conjunction with Section 186 (5) sentence 1 AktG with the obligation to offer them to the shareholders for subscription (so-called indirect subscription right).

However, the Management Board is authorised, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription rights for one or more capital increases under the Authorised Capital 2020

a) to the extent necessary to compensate fractional amounts

b) to the extent necessary to grant the holders and/or creditors of conversion and/or option rights or the debtors of conversion and/or option obligations under bonds issued by the company or a Group company subscription rights to new shares to the extent to which they would be entitled after exercising the conversion and/or option rights or after fulfilling the conversion and/or option obligations;

c) to acquire, in appropriate cases, companies, parts of companies or interests in companies or other assets, including claims, against transfer of shares;

d) insofar as, in the event of a cash capital increase, the part of the share capital attributable to the new shares, for which the subscription right is excluded does not exceed a total of 10 per cent of the share capital both at the time of the authorisation becoming effective and at the time of the authorisation being exercised, and the issue price of the new shares does not significantly fall below the stock exchange price of the company's shares of the same class within the meaning of Section 203 (1) and (2), Section 186 (3) sentence 4 AktG; the following shall be counted towards this 10 per cent threshold (i) the part of the share capital attributable to shares issued or sold as from May 20, 2020 in direct or analogous application of Section 186 (3) sentence 4 AktG, and (ii) the part of the share capital attributable to shares subject to conversion and/or option rights or conversion obligations from bonds and other instruments covered by Section 221 AktG, which are issued under exclusion of subscription rights in accordance with Section 186 (3) sentence 4 AktG as from May 20, 2020.

The part of the share capital attributable to the new shares for which the subscription right is excluded in accordance with clauses a) to d) above must not exceed a total of 20 per cent of the company's share capital both at the time of the authorisation becoming effective and at the time of its exercise. The above 20 per cent threshold with regard to all possibilities for excluding subscription rights in accordance with the above letters a) to d) shall include shares which (i) are used as from May 20, 2020 on the basis of an authorisation to use treasury shares in accordance with Sections 71 (1) no. 8 sentence 5, 186 (3) sentence 4 AktG under the exclusion of subscription rights, i.e. not via a sale on the stock exchange or via an offer directed to all shareholders, or (ii) relate to conversion and/or option rights or conversion obligations from bonds and other instruments covered by Section 221 AktG, which are issued under the exclusion of subscription rights as from May 20, 2020.

The Management Board is authorised to lay down the further contents of the share rights and the details of the execution of the capital increase.

VIII. SIGNIFICANT AGREEMENTS OF THE COMPANY THAT ARE CONTINGENT UPON A CHANGE OF CONTROL

The company issued two promissory note loans, one in 2015 and the other in 2020 of EUR 200 million and EUR 250 million, respectively, that will be paid out in multiple tranches and are repayable at different times. There are still tranches of EUR 14 million outstanding for the promissory note loan issued in 2015. In the case of a change of control, the contractual terms of the note issued in 2015 and the note issued in 2020, as described in detail in Article 13 (3) and (4) of the respective 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, together with SAF-HOLLAND Inc., is acting as a guarantor to IKB Deutsche Industriebank AG, with SAF-HOLLAND GmbH as the borrower. The loans of EUR 25 million and EUR 20 million 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.

In the event of a change of control, each member of the Management Board has a single right to resign from office upon three months' notice to the end of the respective month and to terminate the service contract on that same date. This singular right of termination only exists within one month of the date on which the Management Board member becomes aware that a change of control has actually taken place.

For further details, please refer to the corresponding disclosures in the notes to the consolidated financial statements (Note 6.13).

IX. COMPENSATION AGREEMENTS IN THE EVENT OF A TAKEOVER BID

No agreements exist between the company and the members of the Management Board that, in the event of a takeover bid, would provide for compensation arrangements for the 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 individual 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 from the perspective of 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.

_Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1–Q4/2020	Q1–Q4/2019[1]
Sales	(5.1)	959,519	1,284,155
Cost of sales	(5.2)	–790,673	–1,082,414
Gross profit		**168,846**	**201,741**
Other income	(5.3.1)	2,632	4,010
Other expenses	(5.3.5)	–2,489	–2,971
Impairment of Goodwill		–	–6,692
Selling expenses	(5.3.2)	–56,119	–70,754
Administrative expenses	(5.3.3)	–63,246	–71,289
Research and development expenses	(5.3.4)	–19,468	–20,794
Operating result		**30,156**	**33,251**
Share of net profit of investments accounted for using the equity method	(6.4)	946	1,948
Earnings before interest and taxes		**31,102**	**35,199**
Finance income	(5.3.6)	2,275	2,099
Finance expenses	(5.3.6)	–14,047	–13,087
Finance result		**–11,772**	**–10,988**
Result before income tax		**19,330**	**24,211**
Income tax	(5.4)	–5,154	–13,914
Result for the period		**14,176**	**10,297**
Attributable to:			
Equity holders of the parent		13,795	8,979
Shares of non-controlling interests		381	1,318
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans	(6.10)	–1,594	–126
Income tax effects on items recognised in other comprehensive income	(6.10)	355	21
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	(6.10)	–30,485	9,950
Other comprehensive income		**–31,724**	**9,845**
Comprehensive income for the period		**–17,548**	**20,142**
Attributable to:			
Equity holders of the parent		–17,122	18,859
Shares of non-controlling interests		–426	1,283
Basic earnings per share in EUR	**(7.2)**	**0.30**	**0.20**
Diluted earnings per share in EUR[1]	**(7.2)**	**0.30**	**0.19**

[1] The convertible bond was repaid during the year.

CONSOLIDATED BALANCE SHEET

kEUR	Notes	12/31/2020	12/31/2019
Assets			
Non-current assets		**495,372**	**520,805**
Goodwill	(6.1)	77,119	78,826
Other intangible assets	(6.1)	162,781	179,100
Property, plant and equipment	(6.2)	207,123	216,736
Investments accounted for using the equity method	(6.4)	15,400	16,522
Financial assets	(7.1)	1,289	1,147
Other non-current assets	(6.5)	2,483	2,868
Deferred tax assets	(5.4)	29,177	25,606
Current assets		**425,114**	**458,439**
Inventories	(6.6)	126,424	168,129
Trade receivables	(6.7)	95,347	126,000
Income tax receivables		3,449	4,066
Other current assets	(6.8)	26,743	25,741
Financial assets	(7.1)	2,169	3,337
Cash and cash equivalents	(6.9)	170,982	131,166
Balance sheet total		**920,486**	**979,244**

kEUR	Notes	12/31/2020	12/31/2019
Equity and liabilities			
Total equity	(6.10)	**300,463**	**318,007**
Equity attributable to equity holders of the parent		**297,819**	**304,981**
Subscribed share capital		45,394	454
Share premium		224,104	269,044
Legal reserve		–	45
Other reserve		–	720
Retained earnings		84,423	59,903
Accumulated other comprehensive income		–56,102	–25,185
Shares of non-controlling interests		2,644	13,026
Non-current liabilities		**448,896**	**326,081**
Pensions and other similar benefits	(6.11)	31,415	30,894
Other provisions	(6.12)	8,713	7,637
Interest bearing loans and bonds	(6.13)	322,529	195,793
Lease liabilities	(6.3)	35,766	25,521
Other financial liabilities	(6.15)	905	13,031
Other liabilities	(6.16)	1,551	691
Deferred tax liabilities	(5.4)	48,017	52,514
Current liabilities		**171,127**	**335,156**
Other provisions	(6.12)	11,945	12,552
Interest bearing loans and bonds	(6.13)	1,539	153,393
Lease liabilities	(6.3)	7,849	8,126
Trade payables	(6.14)	107,172	110,366
Income tax liabilities		4,022	244
Other financial liabilities	(6.15)	9,950	21,719
Other liabilities	(6.16)	28,650	28,756
Balance sheet total		**920,486**	**979,244**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR									Q1–Q4/2020
	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 01/01/2020	**454**	**269,044**	**45**	**720**	**59,903**	**–25,185**	**304,981**	**13,026**	**318,007**
Result for the period	–	–	–	–	13,795	–	13,795	381	14,176
Other comprehensive income	–	–	–	–	–	–30,917	–30,917	–807	–31,724
Comprehensive income for the period	**–**	**–**	**–**	**–**	**13,795**	**–30,917**	**–17,122**	**–426**	**–17,548**
Reclassification	44,940	–44,940	–45	–720	765	–	–	–	–
Transactions with non-controlling interests	–	–	–	–	9,960	–	9,960	–9,956	4
12/31/2020	**45,394**	**224,104**	**–**	**–**	**84,423**	**–56,102**	**297,819**	**2,644**	**300,463**

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).

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	Notes	Q1–Q4/2020	Q1–Q4/2019
Cash flow from operating activities			
Result before income tax		**19,330**	**24,211**
– Finance income	(5.3.6)	–2,275	–2,099
+ Finance expenses	(5.3.6)	14,047	13,087
+/– Share of net profit of investments accounted for using the equity method	(6.4)	–946	–1,948
+/– Other non-cash transactions	(7.3)	1,876	2,970
+ Amortisation and depreciation of intangible assets and property, plant and equipment	(5.3.8)	45,381	42,742
+ Impairment of Goodwill	(5.3.8)	–	6,692
+ Impairment of other intangible assets and property, plant and equipment		5,609	3,580
+ Allowance of current assets	(6.6)/ (6.7)	11,353	8,602
+/– Loss/Gain on disposal of property, plant and equipment		230	–695
+ Dividends from investments accounted for using the equity method	(6.4)	2,021	2,297
Cash flow before change of net working capital		**96,626**	**99,439**
+/– Change in other provisions and pensions		928	1,307
+/– Change in inventories		23,055	14,019
+/– Change in trade receivables and other assets[1]		20,866	14,305
+/– Change in trade payables and other liabilities		3,632	–19,962
Change of net working capital		**48,481**	**9,669**
Cash flow from operating activities before income tax paid		**145,107**	**109,108**
– Income tax paid	(5.4)	–7,185	–18,562
Net cash flow from operating activities		**137,922**	**90,546**
Cash flow from investing activities			
– Purchase of other short term investments		–	–1,797
– Purchase of property, plant and equipment	(6.2)	–20,500	–45,591
– Purchase of intangible assets	(6.1)	–3,963	–7,390
+ Proceeds from sales of property, plant and equipment		788	5,254
– Payments for acquisition of subsidiaries net of cash	(3)	–	–10,852
+ Proceeds from sales of financial assets		1,075	–
+ Interest received		651	684
Net cash flow from investing activities		**–21,949**	**–59,692**
Cash flow from financing activities			
– Dividend payments to shareholders of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.)	(6.10)	–	–20,427
+ Proceeds from promissory note loan	(6.13)	250,000	–
– Repayments of current and non-current financial liabilities		–84,500	–101,500
– Payments for repayment of bonds		–99,800	–
– paid transaction costs relating to the issuance of the promissory note loan		–3,024	–
– Proceeds from foreign currency derivatives		–604	–41
– Payments for lease liabilities		–8,647	–8,872
– Interest paid		–5,637	–7,484
+/– Change in drawings on the credit line and other financing activities	(6.13)	–90,543	81,224
+/– Transactions with non-controlling interests		–22,141	
Net cash flow from financing activities		**–64,896**	**–57,100**
Net increase/decrease in cash and cash equivalents		**51,077**	**–26,246**
+/– Effect of changes in exchange rates on cash and cash equivalents		–11,261	2,403
Cash and cash equivalents at the beginning of the period	**(6.9)**	**131,166**	**155,009**
Cash and cash equivalents at the end of the period	**(6.9)**	**170,982**	**131,166**

[1] As of December 31, 2020, trade receivables were sold in the context of a factoring contract (cp. Section 6.7 in Notes to the Consolidated Financial Statements).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Financial Year January 1 through December 31, 2020

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). Until June 30, 2020, the Company's registered office was located at 68 – 70, Boulevard de la Pétrusse, Luxembourg and was entered in the Commercial Register of the District Court of Luxembourg under No. B 113.090. In a resolution of the extraordinary general meeting on May 20, 2020, a resolution was passed to transfer the registered offices from Luxembourg to Germany. Since being registered in the Commercial Register at the District Court of Aschaffenburg under No. HRB 15646 on July 1, 2020, the registered office of the Company has been located in Germany, Hauptstraße 26, 63856 Bessenbach. The Company's shares are listed in the in the SDAX of the Frankfurt Stock Exchange.

The consolidated financial statements for SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) and its subsidiaries (the "Group") as of December 31, 2020 were authorised for submission to the Supervisory Board by the Management Board on March 19, 2021.

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. Due to the currently unforeseeable consequences of the COVID-19 pandemic, all estimates and discretionary judgments are subject to a higher degree of uncertainty. This applies in particular to the assumptions about the future development of cash flows made during the impairment testing of goodwill. The actual values may in some cases differ from these assumptions and estimates, which could have an impact on the recognition and measurement of assets and liabilities - and goodwill in particular. However, the sensitivity analyses conducted during the impairment testing of goodwill reveal that there is still sufficient headroom, particularly with regard to the two large regions, EMEA and the AMERICAS. Reference is made to the comments on the assumptions and sensitivity analyses in note 6.1.

Any changes in assumptions and estimates are recognised 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, 2020 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 Supervisory Board. 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, 2020, the carrying amount of goodwill totalled EUR 77.1 million (previous year: 78.8), and that of intangible assets with indefinite useful lives amounted to EUR 38.9 million (previous year: 40.6).

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, 2020, the carrying amount of property, plant and equipment totalled EUR 207.1 million (previous year: 216.7), and that of intangible assets with finite useful lives amounted to EUR 123.8 million (previous year: 138.5). 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 realisation of future tax benefits is probable enough to recognise 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 recognised 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 utilised. Deferred tax assets for all unused interest carryforwards are recognised to the extent that it is probable that they can be used in the future to reduce taxable income. As of December 31, 2020, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 11.0 million (previous year: 4.4). Unrecognised tax loss carryforwards amounted to EUR 53.4 million (previous year: 67.2). In addition, as of December 31, 2020, the carrying amount of deferred tax assets recognised on interest carryforwards was EUR 6.2 million (previous year: 10.6). 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 recognised.

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, 2020, the carrying amount of pensions and other similar obligations was EUR 31.4 million (previous year: 30.9). 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 recognised under other provisions.

As of December 31, 2020, other provisions amounted to EUR 20.7 million (previous year: 20.2). Further details are provided in Note 6.12.

Guarantees and warranties
The provision for guarantees and warranties is recognised on the basis of past experience considering the circumstances on the reporting date for the products in circulation. For this reason, the actual cash outflows could differ from the amount set aside in the provision for guarantees and warranties. The provision for guarantees and warranties is included in other provisions and amounts to EUR 11.0 million as of the reporting date (previous year: 11.3).

Share-based payments
The Group initially recognises the cost of share units (appreciation rights) granted to members of the Management Board and certain managers at the fair value of the appreciation rights at the grant date and subsequently measures them on each reporting date as well as on the settlement date. Estimating the fair value of share-based payments requires the selection of an appropriate valuation model depending on the terms and conditions of the agreements. This model incorporates a variety of inputs for which assumptions must be made to estimate the fair value. The main inputs are the expected life of the option, the volatility of the share price and the forecast dividend yield. The period of volatility is based on the remaining period of the performance share unit plans. As of December 31, 2020, the carrying amount of obligations was EUR 1.7 million (previous year: 1,1). Further details are provided in Note 6.12.

Derivative financial instruments

Where the fair value of financial assets and financial liabilities recognised 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 recognised fair value of financial instruments. As of December 31, 2020, the fair value of derivative financial instruments was EUR –0.5 million (previous year: –0.5). 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 unrealised 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 recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration, which represents an asset or liability, are recognised 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 recognised 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

- derecognise the assets (including goodwill) and liabilities of the subsidiary
- derecognise the carrying amount of any non-controlling interest in the former subsidiary
- derecognise the accumulated translation differences recognised in equity
- recognise the fair value of the consideration received

— recognise the fair value of any investment retained

— recognise 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 per cent and 50 per cent 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 7.6.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the Group's functional and reporting currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially translated into the functional currency at the spot rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the reporting day's closing rate. All exchange differences are recognised 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 recognised in equity. On disposal of a foreign operation, the accumulated amount recognised in equity relating to that particular foreign operation is recognised in profit and loss. Exchange differences from foreign currency loans that are part of a net investment in a foreign operation are recognised directly in equity until disposal of the net investment, at which time they are recognised in profit and loss.

The most important functional currencies of foreign operations are listed in the following table:

	Closing rate		Average rate	
	12/31/2020	12/31/2019	2020	2019
US-Dollar	0.81417	0.89296	0.87777	0.89334
Canadian Dollar	0.63700	0.68343	0.65464	0.67338
Chinese Renminbi	0.12479	0.12782	0.12718	0.12938
Indian Rupee	0.01112	0.01252	0.01188	0.01271
Brazilian Real	0.17235	0.22167	0.15664	0.22691
Russian Rouble	0.01097	0.01441	0.01223	0.01381
Australian Dollar	0.62389	0.62460	0.60472	0.62121
Polish Zloty	0.21982	0.23487	0.22539	0.23292

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 capitalised 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 amortised cost less any accumulated impairment losses.

For capitalised development costs, amortisation 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 amortised over their useful lives and tested for impairment whenever an indication of impairment exists. The useful life and the amortisation method used for an intangible asset with a finite useful life are reviewed at the end of each financial year at a minimum. Amortisation is recognised 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 amortisation 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 summarised as follows:

	Customer relationship	Technology	Capitalised development cost	Brand	Service network	Licenses and software
Amortisation method used	Amortised on a straight line basis over the useful life	Amortised on a straight line basis over the useful life	Amortised on a straight line basis over the useful life	No amortisation	Amortised on a straight line basis over the useful life	Amortised 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 realisable value and the carrying amount of the asset and are recognised in profit and loss in the period in which the asset is derecognised.

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 capitalised only when there is a direct link to production.

Ongoing maintenance and repair expenses are immediately recognised as expenses.

The cost of replacing components or of overhauling plant and equipment are capitalised 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
Amortisation method used	Amortised on a straight line basis over the useful life	Amortised on a straight line basis over the useful life	Amortised 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 derecognised 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 realisable value and the carrying amount of the asset and are recognised in profit and loss in the period in which the item is derecognised.

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 capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period they are incurred.

Leases
At inception of a contract, the Group assesses whether the contract is or contains a lease. For all leases in which the Group acts as lessee, the Group recognises a right-of-use asset and a corresponding lease liability. This does not apply to short-term leases with a term of 12 months or less or to leases of low-value assets. For these leases, the Group posts the lease payments through profit or loss as rental and lease expenses on a straight-line basis over the lease term.

The Group recognises right-of-use assets on the commencement date of a lease (i.e., the date on which the underlying leased asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. The cost of right-of-use assets includes the recognised lease liabilities, the initial direct costs incurred and the lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the expected useful life of the lease.

The lease liability is measured on the commencement date at the present value of lease payments not yet made at the inception of the lease, discounted using the interest rate implicit in the lease. Where this interest rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments include fixed payments less any lease incentives to be received, variable lease payments linked to an index or (interest) rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the Group will actually exercise it, and penalty payments for termination of the lease if the term is measured after taking into account that the Group will exercise the termination option.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. Rather, these payments are recognised as an expense in the period in which the triggering event or condition occurs.

After the commencement date, the amount of the lease liability is increased to reflect the higher interest expense and decreased to reflect the lease payments made. In addition, the carrying amount of lease liabilities is remeasured upon any changes in the lease, such as a change in the lease term, changes in lease payments (e.g., changes in future lease payments as a result of a change in the index or interest rate used to determine those payments), or a change in the assessment of a purchase option for the underlying asset.

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 recognised 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 recognised directly in the equity of the associate or joint venture are recognised 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 amortised nor separately tested for impairment. After applying the equity method, the Group determines whether it is necessary to recognise 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 recognises 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 recognised 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 recognised 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 recognised for the asset (the cash-generating unit) in previous years. Such a reversal is recognised 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 amortised 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 order for a financial asset to be classified and measured at amortised 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 amortised 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 measured at amortised cost

This category is the most significant for the consolidated financial statements. The Group measures financial assets at amortised 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 amortised cost are measured in subsequent periods using the effective interest method and should be tested for impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets measured at amortised cost include trade receivables.

Financial assets measured at fair value through other comprehensive income

The Group measures financial assets 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.

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 recognised 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 recognised 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 recognised 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 recognised 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 derecognised (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 recognise the transferred asset to the extent of its continuing involvement. In this case, the Group also recognises 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 recognises 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 recognised in two steps. For financial instruments whose default risk has not significantly increased since their initial recognition, a risk provision is recognised 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 recognise 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 realised.

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 recognised 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 recognised 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 recognised 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 amortised 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 derecognised when the underlying obligation is met, cancelled 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 recognised amounts and there is an intention to settle on a net basis or to realise 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 best economic 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 maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Group determines whether reclassifications have occurred between levels in the hierarchy by reassessing their categorisation (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 recognised 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 recognised 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 recognised 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 realisable value. Net realisable 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 labour 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 recognised 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 recognised as a separate asset only when the reimbursement is virtually certain. The expense relating to the formation of a provision is recognised 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 recognised as a finance expense.

Share-based payments

Members of the Management Board and certain managers of the Group receive share-based payments in the form of share units (share appreciation rights) in return for services rendered; these share appreciation rights can only be settled in cash (cash-settled payment transactions). The cost of cash-settled payment transactions is measured initially at fair value at the grant date using a "Monte Carlo" simulation. The fair value is expensed over the period recognising 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 recognised 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 cancelled, the relevant liability is derecognised 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 recognises the remeasurement of defined benefit plans in other comprehensive income. All other expenses under defined benefit plans are immediately recognised in the result for the period.

Past service cost is recognised immediately in profit and loss.

The amount recognised 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 recognised 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 recognised 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 previous 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 recognised 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 recognised only if it is probable that sufficient taxable profit will be available to allow the deductible temporary difference to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised, 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 recognised directly in equity are recognised in other comprehensive income rather than in profit and loss.

Sales

Sales are recognised when the control over the goods or services is transferred to the customer. Sales are recognised 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. Sales from the sale of goods and merchandise in the OEM and aftermarket areas are recognised 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 customers. 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 recognised 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.

The Group generally offers the warranties required by law to remedy any defects that existed at the time of sale. Such *assurance-type* warranties are recognised as warranty provisions.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Expense-related grants are recognised as income over the same period as the corresponding expenses. Where the grant relates to an asset, it is recognised as deferred income and recognised 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:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated group of activities and assets must include at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It is further clarified that an integrated group of activities and assets may be considered a business even if the business combination does not include all of the resource inputs and processes necessary to generate the output. These changes had no impact on the consolidated financial statements, but could have an impact in future periods if the Group carries out any business combinations.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments provide for various practical expedients in the recognition and measurement policies applying to all those hedging relationships directly affected by the interbank offered rate reform (IBOR). Such hedging relationships can be identified by the fact that the reform leads to uncertainties regarding the timing and/or amount of the reference rate-based cash flows from the hedged item or hedging instrument. These amendments have no impact on the consolidated financial statements as the Group has not entered into any hedging relationships to hedge its interest rate exposures.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments include a new definition of the term "material". The amendments specify that materiality depends on the nature or extent of the information, either in isolation or in combination with other information, against the background of the financial statements as a whole. Misstated information is material if, under normal circumstances, it can be expected to influence the decisions of the primary users of the financial statements. These amendments had no impact on the consolidated financial statements and are not expected to have any impact on the Group in the future.

Amendments to IFRS 16: COVID-19-Related Rent Concessions

On May 28, 2020, the IASB issued "COVID-19-Related Rent Concessions (Amendment to IFRS 16)". The amendments grant lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification under IFRS 16. As a practical expedient, a lessee may elect to suspend judgment as to whether a lessor's pandemic-related lease concession constitutes an amendment to the lease. A lessee that makes this election accounts for any qualifying change in lease payments arising from the corona pandemic-related lease concession in the same way as it would account for the modification under IFRS 16 if it were not a lease modification. The amendments apply to reporting periods beginning on or after June 1, 2020. However, early adoption is also permissible. The amendments did not have any effect on the consolidated financial statements.

2.5 PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current.

The amendments make the following clarifications:

- The right to defer the settlement of a liability is explained.
- The right to defer settlement of a liability must exist at the reporting date.
- For classification purposes, it is irrelevant whether the company expects to actually exercise this right.
- Only if a derivative embedded in a convertible debt instrument qualifies as an equity instrument that must be accounted for separately do the terms of the debt instrument not have to be taken into account in its classification.

The amendments are applicable for reporting periods beginning on or after January 1, 2023 and have to be applied retrospectively. The Group is currently assessing the impact the amendments will have on current accounting practices and whether existing loan agreements may need to be renegotiated.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract to specify which costs an entity should consider when assessing whether a contract is onerous.

The amendment focuses on costs that are directly related to the contract (directly related cost approach). The costs associated with the performance of contracts for the supply of goods or the rendering of services include both the directly attributable (incremental) costs of fulfilling the contract and overheads that relate directly to activities performed in fulfilling the contract. General administrative costs are not directly related to the contract and therefore do not fall under contract fulfillment costs, unless the contract expressly allows for such costs to be passed on to the customer.

The amendments apply to reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which not all obligations have been settled at the beginning of the reporting year in which it first applies the amendments.

Amendment to IFRS 9: Fees in the '10 per cent' test for derecognition of financial liabilities

The IASB published an amendment to IFRS 9 Financial Instruments as part of its annual improvements to the IFRS Standards 2018–2020 cycle. The amendment clarifies which fees an entity should include when it assesses whether the terms and conditions of a new or modified financial liability differ materially from the original financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf, should be included. An entity shall apply the amendment to financial liabilities that are modified or replaced on or after the beginning of the reporting year in which the entity first applies the amendment. This amendment is effective for reporting years beginning on or after January 1, 2022. Early application is permitted. The Group will apply the amendment to financial liabilities that are modified or replaced on or after the beginning of the reporting year in which it first applies the amendment.

The Group assumes that the amendments will not have a significant impact on the consolidated financial statements.

3. BASIS OF CONSOLIDATION

The Group's basis of consolidation changed as follows when compared to the consolidated financial statements as of December 31, 2019.

BUSINESS ACQUISITIONS

Business acquisitions in the year 2020

There were no business acquisitions in the reporting year.

Business acquisitions in the year 2019

Acquisition of PressureGuard LLC

On January 9, 2019, SAF-HOLLAND Inc. acquired 51 per cent 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 per cent 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 per cent 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 contributed kEUR 682 to the Group's sales and kEUR 142 to the Group's earnings before tax in the previous year.

Transaction costs of kEUR 80 were recognised as an expense in the previous year 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 recognised as an expense and included in administrative expenses of the previous year.

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 previous year.

NEWLY ESTABLISHED COMPANIES

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

DECONSOLIDATIONS

As part of integrating the York Group acquired in 2018, a number of locations were combined. As a result, the entities, YTE Transport Equipment (SA) (Pty) Ltd., South Africa, York Transport Equipment PTY. Ltd., Australia, and York Transport Equipment (Shanghai) Co Ltd., China, were liquidated and deconsolidated in the reporting year.

In addition, Orlandi Australia PTY Ltd., Australia, was deconsolidated effective upon its liquidation on April 23, 2020. Prior to the liquidation, the operations and all assets and liabilities were transferred to SAF-HOLLAND (Aust.) Pyt. Ltd. in the course of an asset deal.

The deconsolidations did not have any effect on the Group's assets, liabilities, financial position or financial performance.

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

OTHER CHANGES

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 kEUR 21,193. 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.

In addition, SAF-HOLLAND GmbH increased its stake in Axscend Group Ltd. from 69.9 per cent to 93.6 per cent. The purchase price for the shares acquired amounted to kEUR 1,114.

In the previous year, 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.

Moreover, Stara Parts Oy and Trailax AB were renamed SAF-HOLLAND Suomi Oy and SAF-HOLLAND Sverige AB respectively after the acquisition in the previous year.

4. SEGMENT INFORMATION

Commencing January 1, 2020 a new segmentation was introduced for management and Group reporting purposes, to reflect the relative importance of the individual regions. The regions "APAC" and "CHINA" have been merged into the "APAC" region. Since January 1, 2020 corporate management and group reporting have been segmented into the "EMEA", "Americas", and "APAC" segments. The three regions cover both the original equipment business 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 amortisation 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–Q4/2020	Q1–Q4/2019
Operating result	30,156	33,251
Share of net profit of investments accounted for using the equity method	946	1,948
EBIT	**31,102**	**35,199**
Additional depreciation and amortisation from PPA	10,184[1]	9,673
Valuation effects from call and put options	1,876	2,971
Impairment of Goodwill	–	6,692
Restructuring and transaction expenses	15,637[2]	25,281[2]
Adjusted EBIT	**58,799**	**79,816**

[1] Includes an impairment on fixed asset of kEUR 636.

[2] Restructuring and transaction costs of EUR 15.6 million (previous year EUR 25.3 million) include unscheduled depreciation of property, plant and equipment of EUR 1.5 million (previous year EUR 2.3 million).

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

kEUR	EMEA[1]		Americas[2]		APAC[3]		Total	
	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019
Sales	552,927	626,236	332,294	534,455	74,298	123,464	959,519	1,284,155
Cost of sales	–431,306	–500,291	–283,192	–458,449	–76,175	–123,674	–790,673	–1,082,414
Gross profit	**121,621**	**125,945**	**49,102**	**76,006**	**–1,877**	**–210**	**168,846**	**201,741**
Gross profit margin in %	22.0	20.1	14.8	14.2	–2.5	–0.2	17.6	15.7
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	–75,901	–75,459	–46,632	–60,292	–15,211	–30,791	–137,744	–166,542
Adjustments	6,956	9,654	10,989	13,486	9,752	21,477	27,697	44,617
Adjusted EBIT	**52,676**	**60,140**	**13,459**	**29,200**	**–7,336**	**–9,524**	**58,799**	**79,816**
Adjusted EBIT margin in %	9.5	9.6	4.1	5.5	–9.9	–7.7	6.1	6.2
Depreciation and impairments	–24,192	–21,789	–19,587	–15,818	–7,211	–15,407	–50,990	–53,014

[1] Includes Europe, Middle East and Africa.
[2] Includes Canada, the USA as well as Central and South America.
[3] Includes Asia/Pacific, India and 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 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 region 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	12/31/2020	12/31/2019
Non-current assets		
Americas	159,092	187,493
EMEA	249,142	253,970
APAC	56,672	52,589
Total	**464,906**	**494,052**

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–Q4/2020	Q1–Q4/2019
OEM	673,353	959,090
Aftermarket	286,166	325,065
Total	**959,519**	**1,284,155**

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

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

5.2 COST OF SALES

Cost of sales consists of the following:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Cost of materials	618,305	861,863
Personnel expenses	111,278	144,451
Amortisation and depreciation of intangible assets and property, plant and equipment	25,549	23,899
Expenses related to rent and leasing	1,646	2,371
Temporary employees expenses	2,725	6,243
Repair and maintenance expenses	9,560	12,059
FX-valuation	862	219
Legal and consulting expenses	2,452	3,021
Travel expenses	724	1,442
Warranty expenses	6,705	7,885
Insurance	1,048	951
Restructuring and transaction expenses	7,174	13,642
Other	2,645	4,368
Total	**790,673**	**1,082,414**

In the 2020 financial year, cost of sales included inventory consumption of kEUR 769,063 (previous year: 1,050,886).

5.3 OTHER INCOME AND EXPENSES

5.3.1 Other income

Other operating income consists of the following:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Gain from disposal of property, plant and equipment	359	–
Income from option valuation	613	–
Income from insurance	193	28
Restructuring and transaction income	28	2,167
Other	1,439	1,815
Total	**2,632**	**4,010**

Restructuring and transaction income in the previous year mainly resulted from a property sale in connection with the post-merger integration of the York Group which was acquired in the previous year.

5.3.2 Selling expenses

The following table presents a breakdown of selling expenses:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Personnel expenses	26,599	34,461
Expenses for advertising and sales promotion	3,596	8,836
Amortisation and depreciation of intangible assets and property, plant and equipment	11,552	10,779
Expenses related to rent and leasing	149	547
Expenses for distribution	4,167	4,923
Trade receivable allowance and write-off	1,793	3,738
Commissions	613	503
Insurance	648	743
Legal and consulting expenses	1,274	1,241
FX-valuation	1,073	236
Restructuring and transaction expenses	589	661
Other	4,066	4,086
Total	**56,119**	**70,754**

5.3.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Personnel expenses	27,063	28,669
Expenses for office and operating supplies	8,521	8,147
Amortisation and depreciation of intangible assets and property, plant and equipment	6,186	5,784
Expenses related to rent and leasing	333	383
Legal and consulting expenses	4,648	5,372
Insurance	1,969	2,127
Travel expenses	546	1,802
Restructuring and transaction expenses	7,899	12,996
Other	6,081	6,009
Total	**63,246**	**71,289**

5.3.4 Research and development costs

Research and development costs consist of the following:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Personnel expenses	8,880	10,766
Amortisation and depreciation of intangible assets and property, plant and equipment	2,094	2,280
Expenses related to rent and leasing	41	158
Testing expenses	1,444	2,361
Service costs	1,465	2,407
Impairment of R&D projects	4,130	1,244
Restructuring and transaction expenses	3	149
Other	1,411	1,429
Total	**19,468**	**20,794**

Development costs of kEUR 2,789 (previous year: 4,943) were capitalised 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–Q4/2020	Q1–Q4/2019
Unrealised foreign exchange gains on foreign currency loans and dividends	324	402
Realised foreign exchange gains on foreign currency loans and dividends	632	227
Finance income due to derivatives	367	460
Finance income due to pensions and other similar benefits	6	12
Interest income	651	850
Other	295	148
Total	**2,275**	**2,099**

Finance costs break down as follows:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Interest expenses due to interest bearing loans and bonds	–8,038[1]	–7,935[1]
Amortisation of transaction costs	–1,144	–508
Finance expenses due to pensions and other similar benefits	–566	–866
Finance expenses due to derivatives	–1,013	–471
Realised foreign exchange losses on foreign currency loans and dividends	–440	–553
Unrealised foreign exchange losses on foreign currency loans and dividends	–1,170	–1,183
Finance expenses due to leasing	–1,296	–707
Other	–380	–864
Total	**–14,047**	**–13,087**

[1] Includes the non-cash interest expenses of kEUR 474 (previous year: kEUR 673) for the convertible bond.

The amortisation of transaction costs of kEUR –1,144 (previous year: –508) represents the contract closing fees recognised as expenses in the period in accordance with the effective interest method.

Finance expenses related to derivative financial instruments in the past financial year resulted primarily from the fair value measurement of interest rate swaps and currency derivatives 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–Q4/2020	Q1–Q4/2019
Wages and salaries	–148,135	–179,327
Social insurance contributions	–21,979	–28,758
Pension expenses	–395	–505
Termination benefits	–3,311	–9,757
Total	**–173,820**	**–218,347**

The decrease in wages and salaries as well as contributions to social insurance is largely attributable to personnel adjustments taken in response to the COVID-19 pandemic.

Compared to the previous year, the number of employees has decreased by 14.1 per cent. The reduction in the headcount was spread over all regions in order to address the changed market situation.

In addition, SAF-HOLLAND applied for the short-work furlough scheme for its employees at a number of locations. The payments made by SAF-HOLLAND to its employees for the short-work furlough scheme via the payroll qualifies as a flow-through item and is offset by the cash inflow from the associated reimbursements. By contrast, the reimbursements of employer's contributions to social insurance of kEUR 1,384 qualify as a government grant and are offset against the expenses of social insurance.

Social insurance contributions include expenses from defined contribution plans of kEUR 7,524 (previous year: 9,113).

5.3.8 Depreciation and amortisation and impairment

Breakdown of depreciation and amortisation by function:

kEUR	Depreciation of property, plant, and equipment		Amortisation of intangible assets		Total	
	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019
Cost of sales	–23,035	–21,460	–2,514	–2,439	–25,549	–23,899
Selling expenses	–4,856	–4,010	–6,696	–6,769	–11,552	–10,779
Administrative expenses	–2,146	–2,566	–4,040	–3,218	–6,186	–5,784
Research and development expenses	–1,165	–1,118	–929	–1,162	–2,094	–2,280
Impairment of R&D projects	–	–	–4,130	–1,244	–4,130	–1,244
Impairment of Goodwill	–	–	–	–6,692	–	–6,692
Impairment of tangible assets	–1,479[1]	–2,336[1]	–	–	–1,479[1]	–2,336[1]
Total	**–32,681**	**–31,490**	**–18,309**	**–21,524**	**–50,990**	**–53,014**

[1] Included in the restructuring and transaction costs.

The increase in depreciation and amortisation of intangible assets and property, plant and equipment is primarily due to a higher value of capital expenditure in previous financial years. By contrast, impairment losses decreased in the year 2020 by EUR 4.7 million. Depreciation and amortisation in the previous year was mainly due to the write-off of goodwill in China.

Depreciation of property, plant and equipment and amortisation of intangible assets arising from purchase price allocations amounted to kEUR 10,184 (previous year: 9,673).

5.4 INCOME TAXES

Income taxes primarily consist of the following:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Current income taxes	–11,459	–16,085
Deferred income taxes	6,305	2,171
Income tax reported in the result for the period	**–5,154**	**–13,914**

The effective income tax rate for the Group for the year ended December 31, 2020 is 26.67 per cent (previous year: 57.47 per cent). 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 26.65 per cent (previous year: 27.71 per cent). The Group tax rate is the average weighted tax rate of the regions EMEA, Americas and APAC applied to the Group's earnings before tax. The German corporate tax rate of 27.39 per cent, consisting of a corporate income tax of 15.83 per cent (including the solidarity surcharge) and a trade tax of 11.57 per cent, was used for the EMEA region. The tax rate for the Americas region was equivalent to the US tax rate of 25.00 per cent, which consists of a federal tax rate of 21.00 per cent and a state tax rate of 4.00 per cent. The weighted average tax rate applied by the Group entities in the APAC region came to 25.11 per cent.

The expected income tax expenses (current and deferred) based on the Group's tax rate of 26.65 per cent deviate from the reported income tax expenses as follows:

kEUR	12/31/2020	12/31/2019
Result before income tax	**19,330**	**24,211**
Income tax based on Group's income tax rate of 26.65% (previous year: 27.71%)	–5,151	–6,709
Unused interest carry-forwards	169	–374
Unused tax loss carry-forwards	–2,157	–6,047
Use of previously not recognised tax loss carry-forwards	85	2,029
Non-deductible operating expenses	–3,415	–3,473
Tax-Exempt income	1,133	247
Differences in tax rates	1,639	961
Income taxes resulting from previous year	2,635	–199
Other	–92	–284
Effects from changes in foreign tax legislation	–	–64
Income tax based on effective income tax rate of 26.67% (previous year: 57.47%)	–5,154	–13,914

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	12/31/2020	12/31/2019
Inventories	2,722	2,343
Pensions and other similar benefits	6,724	6,399
Other financial liabilities	115	167
Other provisions	3,071	2,622
Tax loss carry-forwards	10,957	4,377
Interest carry-forwards	6,220	10,580
Other	4,504	4,182
Deferred income tax assets	**34,313**	**30,670**
Intangible assets	–33,653	–37,059
Property, plant and equipment	–14,612	–12,919
Investments accounted for using the equity method	–282	–375
Other assets	–274	–353
Interest bearing loans and bonds	–1,598	–3,185
Other	–2,734	–3,687
Deferred income tax liabilities	**–53,153**	**–57,578**

As of December 31, 2019, the Group Management Board reassessed the possibility of utilisation of tax loss carry-forwards at SAF-HOLLAND South Africa Ltd. and KLL Equipamentos para Transporte Ltda. (KLL) and concluded that there is sufficient evidence that the deferred taxes are realisable. The Group therefore reversed the valuation allowance accordingly. As of December 31, 2020, the Group has tax loss carry-forwards of kEUR 2,890 (previous year: 4,190) at KLL and of kEUR 1,495 (previous year: 3,059) at SAF-HOLLAND South Africa, which can be carried forward indefinitely. The Group therefore recognised deferred tax assets of kEUR 893 (previous year 1,431) on the loss carry-forwards at KLL and of kEUR 434 (previous year: 857) on the loss carry-forwards at SAF-HOLLAND South Africa Ltd.

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. This development continued over the course of the year 2020.

In addition, as of December 31, 2020 the Group recorded deferred tax assets of kEUR 2,403 (previous year: 1,072)on loss carry-forwards of kEUR 9,797 (previous year: 4,289) at SAF-HOLLAND Yangzhou Vehicle Parts Ltd., China. As of December 31, 2020 the Management Board deems it more likely than not that deferred tax assets in SAF-HOLLAND Yangzhou Vehicle Parts Ltd. can be realised in the loss carry-forward period by 2023. The 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 5,136 (previous year: 5,064) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 29,177 (previous year: 25,606) and deferred tax liabilities of kEUR 48,017 (previous year: 52,514).

The Group has tax loss carryforwards of kEUR 104,050 (previous year: 84,391) 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 recognised with respect to tax loss carryforwards of kEUR 53,433 (previous year: 67,178) due to insufficient taxable income or opportunities for offsetting at the individual companies or other Group companies.

Unrecognised tax loss carryforwards expire as follows:

kEUR	12/31/2020	12/31/2019
Expiry date		
Infinite	21,141	33,997
Within 5 years	29,179	31,461
Within 10 years	3,113	1,720
Total	**53,433**	**67,178**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 23,378 (previous year: 42,282), which are available indefinitely to various Group companies for use in the future as a tax deduction. Interest carryforwards result from the interest limitation rules introduced by the business tax reform in Germany as well as a comparable regulation in the US.

In financial year 2020, deferred income taxes amounting to kEUR –357 (previous year: –21) were recognised in other comprehensive income.

Furthermore, temporary differences associated with shares held in subsidiaries for which no deferred taxes have been recognised amounted to EUR –32.8 million (previous year: –14.4).

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 12/31/2018	**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**
Additions	–	2	2,789	–	–	1,172	3,963	–
Disposals	–	–	14	–	–	34	48	–
Transfers	–	4	–	–	–	5,172	5,176	–
Foreign currency translation	–5,274	–1,008	–1,703	–1,665	–	–2,046	–11,696	–2,558
As of 12/31/2020	**137,521**	**28,971**	**29,284**	**40,119**	**3,494**	**47,016**	**286,406**	**113,116**
Accumulated amortisation								
As of 12/31/2018	**41,504**	**20,224**	**5,215**	**1,059**	**2,228**	**24,560**	**94,790**	**29,953**
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**
Impairment	–	12	4,118	–	–	–	4,130	–
Additions	6,676	1,098	1,837	103	175	4,290	14,179	–
Disposals	–	–	–	–	–	34	34	–
Foreign currency translation	–2,083	–533	–726	–91	–	–1,128	–4,561	–851
As of 12/31/2020	**53,056**	**22,092**	**13,676**	**1,187**	**2,578**	**31,036**	**123,625**	**35,997**
Carrying amount 12/31/2019	**94,332**	**8,458**	**19,765**	**40,609**	**1,091**	**14,844**	**179,100**	**78,826**
Carrying amount 12/31/2020	**84,465**	**6,879**	**15,608**	**38,932**	**916**	**15,980**	**162,781**	**77,119**

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 4,130. Of this total impairment loss, an amount of kEUR 1,765 was allocated to the EMEA region and kEUR 2,365 to the Americas region.

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

	2020		2019	
	Carrying amount	Useful life	Carrying amount	Useful life
Customer relationship "OEM"	25,265	26	26,266	27
Customer relationship "5th-Wheel"	9,952	18	10,512	19

Impairment testing of goodwill and intangible assets with indefinite useful lives
The Group carries out its annual impairment tests of recognised 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 per cent 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	
	2020	2019
Americas	9.82%	9.49%
EMEA	9.51%	8.28%
APAC	13.42%	13.84%

In addition, specific peer group information was considered in the form of beta-factors and debt ratios.

In the course of introducing the new segmentation effective January 1, 2020, the "China" and "APAC" regions were combined to create the "APAC" region, which, along with the existing "EMEA" and "Americas" regions, is defined as a cash-generating unit. 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		Total	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Goodwill	24,425	26,385	45,451	45,336	7,243	7,105	77,119	78,826
Brand	11,625	12,959	24,590	24,671	2,717	2,979	38,932	40,609

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

An average growth rate of 9.2 per cent was used for the five-year planning of the Americas cash generating unit. The Group expects to see some catch-up investments on the North American truck and trailer market in the coming years after it slumped by almost 39 per cent in 2020 compared to the previous year. The Group assumes that sales will return to the level seen before the pandemic by 2023 at the latest.

For the five-year planning of the EMEA cash generating unit an average growth rate of 3.2 per cent is expected. The level of revenue prior to the COVID-19 pandemic is targeted to be reached by the end of 2021.

At 30.8 per cent, the APAC cash-generating unit reports the highest average growth rate among the cash-generating units. The comparatively high average growth rate is partly due to the fact that revenue on the Chinese market, which is of major importance for the region, failed to meet the original expectations in the year 2020 on account of the delayed start of production at the new plant in Yangzhou, China, as a result of the pandemic. Once it has completed the start-up phase, a sharp rise in revenue is projected for the new plant in Yangzhou, China. The anticipated increase in revenue is supported, among other factors, 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. Furthermore, the comparatively high average growth rate results from an expected recovery of the Indian trailer market. After already falling by 65 per cent in 2019, trailer production in India slumped by another 60 per cent in 2020 on account of the COVID-19 pandemic. As a result of this massive fall in production over the last two years, a sharp rise in trailer production is projected for 2021 and the coming years. The Group expects the level of revenue seen before the pandemic to be reached by the end of 2021.

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 per cent 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. While the recoverable amounts of the cash-generating units EMEA and AMERICAS clearly exceed the carrying amounts, the headroom for the cash-generating unit APAC is comparable less, amounting to a single-million-digit figure. In a combination of two of the three scenarios depicted above, there would be a need to record a single-million-digit impairment loss on the cash-generating unit APAC.

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 12/31/2018	**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**
Additions	18,724	4,136	3,278	13,986	40,124[1]
Disposals	3,233	7,274	1,809	47	12,363[2]
Transfers	2,075	18,912	97	–26,260	–5,176
Foreign currency translation	–5,876	–10,646	–1,313	–476	–18,311
As of 12/31/2020	**149,810**	**192,144**	**40,878**	**11,878**	**394,710**
Accumulated amortisation					
As of 12/31/2018	**28,472**	**99,200**	**23,741**	**–**	**151,413**
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**
Impairment	674	805	–	–	1,479
Additions	11,592	14,608	5,002	–	31,202
Disposals	2,044	6,577	1,643	–	10,264[3]
Foreign currency translation	–1,742	–5,821	–967	–	–8,530
As of 12/31/2020	**45,674**	**112,028**	**29,885**	**–**	**187,587**
Carrying amount 12/31/2019	**100,926**	**78,003**	**13,132**	**24,675**	**216,736**
Carrying amount 12/31/2020	**104,136**	**80,116**	**10,993**	**11,878**	**207,123**

[1] The additions of the year include additions to right of use assets of 19,624 kEUR.
[2] Including disposals of right of use assets of 2,968 kEUR.
[3] Including disposals of right of use assets of 1,874 kEUR.

The impairment loss of kEUR 1,479 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	12/31/2020	12/31/2019
Land and buildings	38,105	29,533
Plant and equipment	70	96
Other equipment, office furniture and equipment	3,436	3,864
Total	**41,611**	**33,493**

Additions to right-of-use assets during the reporting year 2020 were largely due to the lease of the new plant in Yangzhou, China, and the lease of new storage space at Aschaffenburg, Germany, amounting to kEUR 19,624 (previous year: 23,455).

The age structure of lease liabilities breaks down as follows:

Aging of lease liabilities 2020

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	6,091	5,224	4,771	4,611	4,568	14,831	40,096
Plant and equipment	419	164	35	27	7	3	655
Vehicles	1,179	782	367	187	134	3	2,652
Other equipment, office furniture and equipment	160	34	14	3	1	–	212
Total	**7,849**	**6,204**	**5,187**	**4,828**	**4,710**	**14,837**	**43,615**

Aging of lease liabilities 2019

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	2020	2019
Amortisation of right of use assets	–9,364	–8,225
Interest expenses	–1,296	–707
Expenses related to short-term leases	–1,846	–2,906
Expenses related to low-value leases	–323	–553

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

Amortisation of right of use assets

kEUR	2020	2019
Land and buildings	–7,304	–6,299
Plant and equipment	–33	–86
Other equipment, office furniture and equipment	–2,027	–1,840
Total	**–9,364**	**–8,225**

Total lease expenditure in the 2020 financial year came to kEUR 10,816 (previous year: 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 summarises the financial information for Castmetal FWI S.A. This summarised 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.	
	12/31/2020	12/31/2019
Current assets	50,534	44,686
Non-current assets	9,910	10,624
Current liabilities	–14,818	–15,810
Non-current liabilities	–6,953	–2,840
Sales	27,662	42,989
Net profit of the financial year from continuing operations	2,619	5,507
Total comprehensive income	**2,619**	**5,507**
Group's share in total comprehensive income	893	1,877
Other equity holders	1,726	3,630

The following is a reconciliation between the reported summarised financial information and the carrying amount of the investment in Castmetal FWI S.A. as shown in the consolidated financial statements:

kEUR	12/31/2020	12/31/2019
Net assets of the associate	38,673	36,660
Equity interest of the Group	34.09%	34.09%
Other adjustments	960	2,754
Carrying amount of the investment in Castmetal FWI S.A.	14,144	15,251

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

A dividend of kEUR 2,000 (previous year: 2,277) was distributed by Castmetal FWI S.A. in the past financial year.

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

kEUR	12/31/2020	12/31/2019
Group's share in profit or loss	53	71
Group's share in total comprehensive income	53	71
Aggregate carrying amount of Group's share in this company	1,256	1,271

A dividend of kEUR 21 was distributed by SAF-HOLLAND Nippon, Ltd. in the financial year.

6.5 OTHER NON-CURRENT ASSETS

kEUR	12/31/2020	12/31/2019
VAT reimbursement claims	938	1,283
Claims from reinsurance	893	847
Insurance premiums	88	118
Other	564	620
Total	**2,483**	**2,868**

6.6 INVENTORIES

kEUR	12/31/2020	12/31/2019
Raw materials	46,255	60,701
Work in progress	29,992	42,573
Finished and trading goods	38,758	51,441
Goods in transit	11,419	13,414
Total	**126,424**	**168,129**

Cost of sales includes impairment of inventories of kEUR 9,595 (previous year: 5,758). 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 China and the USA in the course of the consolidation of locations and the FORWARD 2.0 project.

kEUR	Allowance account
As of 12/31/2018	**8,663**
Charge for the year	6,096
Utilised	1,323
Release	338
Foreign currency translation	270
As of 12/31/2019	**13,368**
Charge for the year	9,950
Utilised	3,246
Release	355
Foreign currency translation	–1,229
As of 12/31/2020	**18,488**

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 12/31/2020	102,261	6,914	95,347	86,101	5,413	1,203	723	353	790	764
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

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 12/31/2018	**6,143**
Additions from initial consolidation	30
Charge for the year	2,926
Utilised	2,148
Release	82
Foreign currency translation	97
As of 12/31/2019	**6,966**
Charge for the year	2,386
Utilised	1,412
Release	628
Foreign currency translation	–398
As of 12/31/2020	**6,914**

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 39,537 as of the reporting date (previous year: 39,863) under a factoring agreement. 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

	12/31/2020	12/31/2019
VAT receivables	10,642	9,118
Prepaid expenses	5,551	5,854
Insurance premiums	359	420
Creditors with a debit balance	365	497
Deposits within the framework of factoring	4,849	2,187
Other tax claims without income tax	915	1,256
Other	4,062	7,665
Total	**26,743**	**25,741**

6.9 CASH AND CASH EQUIVALENTS

kEUR

	12/31/2020	12/31/2019
Cash on hand, cash at banks and checks	168,848	131,064
Short-term deposits	2,134	102
Total	**170,982**	**131,166**

6.10 EQUITY

Issued capital

Within the course of transferring the registered office of SAF-HOLLAND SE from Luxembourg to Germany by resolution of the extraordinary general meeting on May 20, 2020, the nominal value per share was increased from EUR 0.01 to EUR 1.00 which led to an increase in the subscribed share capital of the Company from EUR 453,943.02 to EUR 45,394,302.00. The increase in the subscribed share capital was financed from company funds by drawing on the capital reserve. It is represented by 45,394,302 ordinary shares (previous year: 45,394,302) and is fully paid in.

Authorised capital

As of the reporting date, existing authorised share capital is as follows:

Articles of Association	Date of resolution/expiration	Euro/number of shares	Subscription rights excluded/ execution of capital increase
Article 5.3	May 20, 2020/valid until May 19, 2025	22,697,151.00 EUR = 22,697,151.00 Shares	Capital increases can be conducted, excluding the subscription rights of existing shareholders, under the certain circumstances defined in the articles of association and only to an upper limit of 20% of subscribed share capital

Capital reserve

As of December 31, 2020, the capital reserve was unchanged at kEUR 224,104 (previous year: 269,044).

Statutory reserve

Upon the transfer of the registered office of SAF-HOLLAND SE from Luxembourg to Germany, the statutory reserve required by Luxembourg law was reclassified to retained earnings.

Other reserves

The other reserve reported in the previous year of kEUR 720 consists firstly of a reserve that is banned from distribution and has been recognised due to specific provisions of Luxembourg tax legislation. Upon the transfer of the registered office of SAF-HOLLAND SE from Luxembourg to Germany, the other reserve was reclassified to the capital reserve.

Retained earnings

Retained earnings include the result for the period attributable to shareholders of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) of kEUR 13,795 (previous year: 8,979).

The proposal for the 2020 financial year is not to pay any dividend. No dividend has been distributed to the shareholders from the profit for the financial year 2019.

Other comprehensive income

kEUR	Before tax amount		Tax income/expense		Net of tax amount	
	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019
Exchange differences on translation of foreign operations	–30,485	9,950	–	–	–30,485	9,950
Remeasurements of defined benefit plans	–1,596	–126	357	21	–1,239	–105
Total	**–32,081**	**9,824**	**357**	**21**	**–31,724**	**9,845**

The total amount of exchange differences from the translation of foreign operations included in other comprehensive income comes to kEUR –37,006 (previous year: –7,328).

The total amount after taxes included in other comprehensive income that arises from the remeasurement of defined benefit plans is kEUR –19,096 (previous year: –17,857).

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 893 (previous year: 847) is recognised 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 per cent to avoid any performance restrictions.

In addition, SAF-HOLLAND Inc. maintains a plan for post-employment medical benefits. This is granted on a voluntary basis and covers the medical costs of eligible employees for a period of up to three years.

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)	
	2020	2019	2020	2019	2020	2019	2020	2019
Balance as of the beginning of the period	**100,844**	**90,318**	**70,054**	**59,907**	**104**	**96**	**30,894**	**30,507**
Current service cost	535	505	–	–	–	–	535	505
Past service cost[1]	–140	–	–	–	–	–	–140	–
Interest expenses	2,629	3,310	–	–	3	4	2,632	3,314
Interest income	–	–	2,072	2,460	–	–	–2,072	–2,460
Components of defined benefit costs recognised in the Consolidated Statements of income	**3,024**	**3,815**	**2,072**	**2,460**	**3**	**4**	**955**	**1,359**
Actuarial gains/losses	7,052	9,570	5,454	9,444	–	–	1,598	126
Effects of asset ceiling	–	–	–	–	–2	–2	–2	–2
Remeasurements recognised in the Consolidated Statements of Comprehensive Income	**7,052**	**9,570**	**5,454**	**9,444**	**–2**	**–2**	**1,596**	**124**
Employer Contributions	–	–	450	972	–	–	–450	–972
Benefits paid	–4,520	–5,042	–4,100	–4,602	–	–	–420	–440
Foreign currency translation effects	–7,244	2,183	–6,091	1,873	–7	6	–1,160	316
Other reconciling items	**–11,764**	**–2,859**	**–9,741**	**–1,757**	**–7**	**6**	**–2,030**	**–1,096**
Balance as of the end of the period	**99,156**	**100,844**	**67,839**	**70,054**	**98**	**104**	**31,415**	**30,894**
thereof:								
Germany	17,349	16,976	12	11	–	–	17,337	16,965
USA	61,069	63,666	51,988	54,317	–	–	9,081	9,349
Canada	16,362	15,815	15,733	15,625	98	104	727	294
Other countries	1,747	1,760	106	101	–	–	1,641	1,659
Post-employment medical plan	2,629	2,627	–	–	–	–	2,629	2,627
Actual return on plan assets	**–**	**–**	**7,526**	**11,904**	**–**	**–**	**–**	**–**

[1] Past service cost reflects the impact of the plan design changes in the 80/60 Plan effective 1 January 2021 and the migration of all members from the 90/70 Plan to 80/60 Plan communicated to participants on the 17 December 2020, recognised as of 31 December 2020 using a discount rate of 1.99%.

The net balance from defined benefit plans of kEUR 31,415 (previous year: 30,894) is fully recorded in the line item pensions and other similar benefits. The net interest expense amounted to kEUR 560 (previous year: 854).

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

kEUR	12/31/2020	12/31/2019
Experience losses/gains related to defined benefit obligation	–1,274	–401
Experience losses/gains related to plan assets	–5,454	–9,444
Changes in demographic assumptions	–248	–1,621
Changes in financial assumptions	8,574	11,592
Total	**1,598**	**126**

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 %	12/31/2020	12/31/2019
Discount rate		
Germany pension plan	0.70	1.05
USA pension plan	2.32	3.12
Canada pension plan	2.50	3.10
Post-employment medical plan	1.99	2.93
Future salary increases		
Germany pension plan	0.00/2.00[1]	0.00/2.00[1]
USA pension plan	3.00	3.50
Canada pension plan	–[2]	–[2]
Post-employment medical plan	n.a.	n.a.
Future pension increases		
Germany pension plan	2.00	2.00
USA pension plan	–[3]	–[3]
Canada pension plan	–[2]	–[2]
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 Canadian pension plans, no future salary and pension increases were considered as the pension payments depend on the years of service.

[3] 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.

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 %	12/31/2020	12/31/2019
Initial rate (health care cost trend rate assumed for next year)	6.25	7.00
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2027	2027

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	12/31/2020		12/31/2019	
	Increase	Decrease	Increase	Decrease
Total	**–9,666**	**11,012**	**–9,206**	**10,740**
thereof:				
Germany	–2,192	2,708	–2,114	2,606
USA	–5,167	5,981	–5,233	6,045
Canada	–2,184	2,184	–1,739	1,954
Other countries	–123	139	–120	135

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

kEUR	12/31/2020		12/31/2019	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	3	–2	4	–4
Effect on the defined benefit obligation	150	–134	148	–132

Future cash flows

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

kEUR					2020
	2021	2022-2025	2026-2030	2031 ff.	Total
Germany	467	2,028	2,776	14,588	19,859
USA	3,561	14,180	17,405	49,804	84,950
Canada	559	2,592	3,762	17,025	23,938
Other countries	57	246	2,988	1,178	4,469
Total	**4,644**	**19,046**	**26,931**	**82,595**	**133,216**

					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**

The weighted average duration of pension plans is described below:

in years	12/31/2020	12/31/2019
Germany	19	19
USA	11	11
Canada	18	17
Other countries	11	11

The employer contributions to defined benefit plans expected for the 2021 financial year amount to kEUR 441.

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:

	12/31/2020		12/31/2019	
	%	kEUR	%	kEUR
Equities	62.42%	42,344	63.59%	44,547
Bonds	32.47%	22,028	31.18%	21,844
Cash and money market	1.30%	880	1.39%	973
Real estate	3.64%	2,469	3.68%	2,578
Insurance	0.17%	118	0.16%	112
Total	**100.00%**	**67,839**	**100.00%**	**70,054**

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	Other long-term employee benefits	Pending Litigation	Workers' compensation and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
As of 12/31/2018	**10,817**	**405**	**1,754**	**140**	**1,304**	**202**	**2,498**	**476**	**17,596**
Additions	6,753	–	1,299	18	861	4,238	453	455	14,077
Utilised	5,568	24	626	111	931	985	1,540	411	10,196
Release	977	–	457	–	6	–	288	–141	1,587
Foreign currency translation	237	–30	31	0	27	–	2	32	299
As of 12/31/2019	**11,262**	**351**	**2,000**	**47**	**1,255**	**3,455**	**1,125**	**694**	**20,189**
Additions	3,612	187	228	446	1,148	3,516	1,223	168	10,528
Utilised	2,013	–	838	10	718	4,303	654	–757	7,779
Release	1,277	–	–	15	–	–	–	137	1,429
Foreign currency translation	–547	–	–69	–3	–116	–28	–10	–78	–851
As of 12/31/2020	**11,037**	**538**	**1,321**	**465**	**1,569**	**2,640**	**1,684**	**1,404**	**20,658**
Thereof in 2020									
Current	5,984	–	348	224	790	2,640	347	1,612	11,945
Non-current	5,053	538	973	241	779	–	1,337	–208	8,713
Thereof in 2019									
Current	6,585	–	508	33	464	3,455	655	852	12,552
Non-current	4,677	351	1,491	15	791	–	470	–158	7,637

Guarantees and warranties

Provisions are recognised 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 authorised 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 recognised at its present value. Part-time retirement commitments are insured for potential insolvency.

Other long-term employee benefit plans

The provision for other long-term employee benefits includes long-service awards and deferred compensation.

Occupational disability and health insurance benefits for employees

Occupational disability and health insurance benefits are recognised 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 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 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 allowance value set annually by the Supervisory Board 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 per cent of the participant's gross annual salary at the time of payment.

The prerequisite for exercising appreciation rights is the achievement of a defined performance target. The performance target is fulfilled if during the entitlement period the Group has achieved an average minimum operating performance measured by the performance indicator "adjusted EBIT".

The total of share units granted as of the reporting date amounts to 392,323 and consists of the following:

	Performance Share Unit Plan				
	2016–2019	2017–2020	2018–2021	2019–2022	2020–2023
Share Units outstanding at the beginning of the period	48,235	54,381	48,344	105,439	–
Share Units granted during the period	–	5,765	5,914	10,138	191,364
Share Units forfeited during the period	–	5,766	4,435	11,962	6,859
Share Units exercised during the period	48,235	–	–	–	–
Share Units outstanding at the end of the period	**–**	**54,380**	**49,823**	**103,615**	**184,505**
Share Units exercisable at the end of the period	–	54,380	49,823	103,615	184,505

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			
	2017–2020	2018–2021	2019–2022	2020–2023
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (in EUR)	9.91	10.83	10.45	10.09
Expected volatility	n/a	61.37%	57.11%	50.56%
Risk free interest rate	–	–0.76%	–0.77%	–0.78%
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, 2020, provisions for these performance plans amounted to EUR 1.7 million (previous year: 1.1). The net expense for the period of EUR –1.2 million (previous year: –0.2) 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Interest bearing bank loans	–	95,395	–	–	–	95,395
Convertible bond	–	–	–	99,326	–	99,326
Promissory note loan	264,000	46,500	–	52,000	264,000	98,500
Financing costs	–2,073	–707	–907	–277	–2,980	–984
Accrued interests	–	–	1,823	931	1,823	931
Other loans	60,602	54,605	623	1,413	61,225	56,018
Total	**322,529**	**195,793**	**1,539**	**153,393**	**324,068**	**349,186**

On March 9, 2020 SAF-HOLLAND SE issued a promissory note loan with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. The tranches of the promissory note loan feature fixed as well as variable interest rates and maturities of three, three and a half, five, seven and ten years.

An overview of the tranches is presented in the following table:

Overview of promissory note loans

Tranche	Volume	Interest rate	Expiry date
3 years var.	EUR 61 Mio.	6M-Euribor + 145bps	03/27/2023
3 years fix	EUR 80 Mio.	1.45%	03/27/2023
3.5 years fix	EUR 20 Mio.	1.50%	09/23/2023
5 years var.	EUR 49 Mio.	6M-Euribor + 160bps	09/23/2025
5 years fix	EUR 20 Mio.	1.50%	09/23/2025
7 years fix	EUR 15 Mio.	6M-Euribor + 180bps	03/29/2027
10 years fix	EUR 5 Mio.	2.75%	03/27/2030

In addition to providing general financing for the organisation, the proceeds were mainly used to refinance the convertible bond of EUR 99.8 million that falled due on September 12, 2020 and the five-year tranche of EUR 52 million of the promissory note loan issued in November 2015, which falled due on November 27, 2020.

In the previous year, SAF-HOLLAND GmbH 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.

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

kEUR				12/31/2020
	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	–	200,000	170,982	370,982
Total	**–**	**200,000**	**170,982**	**370,982**

				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**

6.14 TRADE PAYABLES

Trade payables of kEUR 107,172 (previous year: 110,366) are non-interest-bearing and are normally settled within two to six months.

6.15 OTHER FINANCIAL LIABILITIES

Other financial liabilities of kEUR 10,855 (previous year: 34,750) reflect primarily the value of the put options for the outstanding shares of KLL Equipamentos para Transporte Ltda, Axscend Group Ltd. as well as Pressure-Guard LLC.

6.16 OTHER LIABILITIES

kEUR		Current		Non-current
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Liabilities for salaries and social security contributions	10,003	12,335	–	–
Other taxes	6,104	6,638	–	–
Anniversary obligations	276	261	698	691
Liabilities from factoring	7,325	5,470	–	–
Prepayments received	713	612		
Other	4,229	3,440	853	–
Total	**28,650**	**28,756**	**1,551**	**691**

7. OTHER NOTES

7.1 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

kEUR						12/31/2020
			Amounts recognised in balance sheet according to IFRS 9			
	Measurement category in accordance with IFRS 9	Carrying amount	(Amortised) cost	Fair value recognised in equity	Fair value recognised in profit or loss	Fair value
Assets						
Cash and cash equivalents	FAAC	170,982	170,982	–	–	170,982
Trade receivables	FAAC	95,347	95,347	–	–	95,347
Other financial assets						
Other financial assets	FAAC	3,458	3,458	–	–	3,458
Liabilities						
Trade payables	FLAC	107,172	107,172	–	–	107,172
Interest bearing loans and bonds	FLAC	324,068	324,068	–	–	321,488
Other financial liabilities						
Derivatives without a hedging relationship	FLtPL	456	–	–	456	456
Other financial liabilities	FLtPL	10,399	–	–	10,399	10,399
of which aggregated by category in accordance with IFRS 9						
Financial assets measured at amortised cost	FAAC	269,787	269,787	–	–	269,787
Financial liabilities measured at amortised cost	FLAC	431,240	431,240	–	–	428,660
Financial Liabilities at fair value through profit and loss	FLtPL	10,855		–	10,855	10,855

kEUR						12/31/2019
			Amounts recognised in balance sheet according to IFRS 9			
	Measurement category in accordance with IFRS 9	Carrying amount	(Amortised) cost	Fair value recognised in equity	Fair value recognised in profit or loss	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
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 amortised cost	FAAC	261,650	261,650	–	–	261,650
Financial liabilities measured at amortised cost	FLAC	459,552	459,552	–	–	467,222
Financial Liabilities at fair value through profit and loss	FLtPL	34,750	–	–	34,750	34,750

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

	12/31/2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Promissory note loan	–	261,963	–	261,963
Interest bearing loans and bonds	–	59,525	–	59,525
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	9,477	9,477
Put option for acquisition of remaining shares of Axscend Group Ltd.	–	–	463	463
Put option for acquisition of remaining shares of PressureGuard LLC	–	–	442	442
Derivative financial liabilities	–	456	–	456

	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 liabilities	–	541	–	541

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 and the promissory note loan 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, 2020, only derivatives of kEUR –456 (previous year: –541) were measured at fair value. Other financial liabilities associated with the measurement of put options for shares without any controlling interests attached of kEUR 10,382 (previous year: 34,209) were recognised 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 3 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. 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					12/31/2020
		From subsequent measurement			
	From interest	At fair value	Currency translation	Impairment	Net result
Financial assets measured at amortised cost	683	–	–	–1,758	–1,075
Financial assets at fair value through profit and loss	–	–1,013	–	–	–1,013
Financial liabilities measured at amortised cost	–9,182	–	–654	–	–9,836
Financial liabilities held for trading	–	367	–	–	367
Total	**–8,499**	**–646**	**–654**	**–1,758**	**–11,557**

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

The components of the net result are recognised 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 amortised cost" primarily consists of interest expenses on interest-bearing loans and bonds and the amortisation 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 Management Board has implemented a risk management system, which is monitored by the Audit Committee. 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				12/31/2020
	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	324,068	1,539	302,529	20,000
Lease liabilities	43,615	7,849	20,929	14,837
Trade payables	107,172	107,172	–	–
Other financial liabilities				
Other financial liabilities	10,399	9,494	905	–
Derivatives without a hedging relationship	456	456	–	–
Financial liabilities	**485,710**	**126,510**	**324,363**	**34,837**

				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**

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

12/31/2020

	Cash flow 2021			Cash flow 2022			Cash flow 2023–2030		
	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	–4,761	–1,669	–623	–13,241	–1,669	–	–8,873	–2,256	–324,601
Lease liabilities	–916	–	–7,849	–652	–	–6,204	–1,241	–	–11,730
Other financial liabilities									
Derivatives without a hedging relationship	–474	–	–	–	–	–	–	–	–

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	–	–	–	–	–	–	–	–

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	12/31/2020					
	01/01/2020	**Cash flow**	**Foreign exchange movement**	**Interest effect**	**IFRS 16**	**12/31/2020**
Interest bearing bank loans	95,395	–95,395	–	–	–	–
Convertible bond	99,326	–99,800	–	474	–	–
Promissory note loan	98,500	165,500	–	–	–	264,000
Other loans	56,018	4,852	355	–	–	61,225
Leasing	33,647	–8,647	–2,305	1,296	19,624	43,615

	31.12.2019					
	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

Credit risk

The Group is exposed to default risk through the possibility that a contracting party may fail to fulfil its commitment with respect to financial instruments. To minimise 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, 2020 had been 100 base points lower (higher), the result would have been kEUR 514 (previous year: 850) higher (lower). All other variables are assumed to be constant.

Foreign currency risk

The international nature of the Group's investing, financing and operating activities exposes the Group to foreign currency risk. The individual subsidiaries predominantly conduct their operating activities and investments in their respective local currency. The Group uses foreign exchange forward contracts to hedge a portion of the remaining transaction risks. The foreign exchange forward contracts are not designated as hedging instruments to hedge cash flows. The period for which the foreign exchange forward contracts are entered into corresponds to the period in which the underlying business transaction is subject to foreign currency risk, which is usually up to a period of 12 months. Financing the Group's companies is conducted primarily by SAF-HOLLAND 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 unrealised foreign exchange gains and losses. Unrealised foreign exchange gains and losses as of the reporting date amounted to kEUR 5,227 (previous year: 5,918) and kEUR –12,164 (previous year: –4,240) respectively. Of the unrealised foreign exchange gains kEUR 5,552 (previous year: –5,516) and kEUR –10,994 (previous year: –3,057) of the unrealised 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 recognised directly in equity.

The table below shows the Group's sensitivity to a 5 per cent 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 per cent change in exchange rates.

	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2020	5%	2,946	4,906
	–5%	–2,946	–4,906
2019	5%	4,502	5,997
	–5%	–4,502	–5,997

7.2 EARNINGS PER SHARE

		Q1–Q4/2020	Q1–Q4/2019
Result for the period	**kEUR**	**13,795**	**8,979**
Weighted average number of shares outstanding	thousands	45,394	45,394
Basic earnings per share	Euro	0.30	0.20
Diluted earnings per share	**Euro**	**0.30**	**0.19**

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). After repayment of the convertible bond on September 12, 2020, the Group no longer carries any debt instruments that would have a dilutive effect on earnings per share.

Diluted earnings per share of the previous year are derived from basic earnings per share as follows:

kEUR	Overall potentially dilutive financial instruments	Dilutive financial instruments used for the calculation
	2019	**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 recognised 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**

The calculation of potentially dilutive shares which are included in the determination of diluted earnings per share of the previous year 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**		

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.

The cash flow from operating activities was calculated using the indirect method. By contrast, the cash flow from investing activities was 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 NUMBER OF EMPLOYEES

The average number of employees broken down by region was as follows in the reporting period:

Average number of employees by region

	2020	2019
EMEA	1,452	1,514
Americas	1,443	1,859
APAC	529	845
Total	**3,424**	**4,218**

7.6 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
SAF-Holland RUS OOO	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
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

Subsidiaries

	Country of incorporation	% Equity interest
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
SAF-Holland Russland OOO	Russia	100.0
SAF-HOLLAND India Pvt. Ltd.	India	100.0
PressureGuard LLC	USA	51.0
V.ORLANDI S.p.A.	Italy	100.0
V. Orlandi Rus LLC	Russia	100.0
York Transport Equipment (Asia) Pte. Ltd.	Singapore	100.0
York Transport Equipment (India) Pty. Ltd.	India	100.0
YTE Special Products Pte. Ltd.	Singapore	100.0
Qingdao YTE Special Prodcuts Pte. Ltd.	China	100.0
Axscend Group Ltd.	Great Britain	93.6
Axscend Ltd.	Great Britain	93.6
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 Management Board and the Supervisory Board of SAF-HOLLAND SE (previously SAF-HOLLAND S.A.) as of the reporting date:

Management Board

Alexander Geis	Chief Executive Officer (CEO)
Dr. Matthias Heiden	Chief Financial Officer (CFO) (until 06/30/2020)
Inka Koljonen	Chief Financial Officer (CFO) (since 09/01/2020)
Dr. André Philipp	Chief Operating Officer (COO)

Supervisory Board

Dr. Martin Kleinschmitt	Chairman of the Supervisory Board
Martina Merz	Deputy Chairman of the Supervisory Board
Ingrid Jägering	Member of the Supervisory Board
Carsten Reinhardt	Member of the Supervisory Board
Matthias Arleth	Member of the Supervisory Board (since 07/01/2020)
Anja Kleyboldt	Member of the Supervisory Board (until 06/30/2020)
Jack Gisinger	Member of the former Board of Directors (until 05/20/2020)

Upon the change in legal form of SAF-HOLLAND SE (formerly, SAF-HOLLAND S.A.) to a European Company, the governance structure was changed from that of a single-tier board system to a two-tier structure consisting of the Management Board and the Supervisory Board, replacing the Board of Directors and Group Management Board that preceded it.

The terms of office and other positions held by the members of the Supervisory Board and the Management Board are described in the chapter "Other Mandates of Members of the Supervisory Board / Management Board" in this annual report.

As of December 31, 2020, members of the Management Board directly or indirectly held ordinary shares amounting to kEUR 448.5 (previous year: 0.5) while members of the Supervisory Board directly or indirectly held ordinary shares of kEUR 48.5 (previous year: 0.1). In the course of transferring the registered office of SAF-HOLLAND SE from Luxembourg to Germany, the nominal value of the Company's shares was increased from EUR 0.01 to EUR 1.00. To this extent, comparison with the previous year's figures is somewhat restricted.

As of the reporting date, an amount of kEUR 857 has been accrued for appreciation rights granted to the members of the Management Board (previous year: 338); thereof kEUR 638 (previous year: –18) was recognised in profit and loss in 2020. Of the total accrual, an amount of kEUR 183 (previous year: 119) is classified as current provisions. The appreciation rights are a share-based payment. For further information, please refer to Note 6.12.

Total short-term remuneration for the Management Board members in the reporting year amounted to kEUR 1,608 (previous year: 3,441). The remuneration paid in the previous year consists of salaries and severance payments totalling kEUR 1,937 to members of the Group Management Board who left the Company in the year 2019. Remuneration from the performance share unit plans, in contrast, is not included in the total remuneration presented.

Total remuneration for the Supervisory Board was kEUR 372 (previous year: 414) in the reporting year and was recognised in profit or loss.

For further information about the remuneration of the Management Board and the Supervisory Board, please refer to the Remuneration Report in the Management Report.

The Management Board and Supervisory Board have issued the Declaration of Compliance with the German Corporate Governance Code as required by Section 161 AktG. The declaration can be found on the website of the company at https://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

The following shows the transactions with associates / joint ventures:

kEUR	Sales to related parties		Purchases from related parties	
	Q1–Q4/2020	Q1–Q4/2019	Q1–Q4/2020	Q1–Q4/2019
Joint Ventures	655	605	–	–
Associates	–	–	20,201	18,833
Total	655	605	20,201	18,833

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Joint Ventures	43	77	–	–
Associates		–	128	1,501
Total	43	77	128	1,501

Outstanding balances as of December 31, 2020 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, 2020 and in the previous year, the Group did not record any impairment of receivables for amounts owed by related parties. An evaluation is carried out in each reporting period which examines the financial position of the related parties as well as the markets in which these parties operate.

7.7 CAPITAL MANAGEMENT

The overriding aim of the Group's capital management is to ensure that the Group's ability to repay debt and its financial substance is maintained in the future. The foundation for steering and optimising 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	12/31/2020	12/31/2019
Interest bearing loans and bonds	324,068	349,186
Lease liabilities	43,615	33,647
Cash and cash equivalents	–170,982	–131,166
Net debt	**196,701**	**251,667**
Equity attributable to equity holders of the parent	**297,819**	**304,981**
Equity and net debt	**494,520**	**556,648**

According to a financial covenant under the financing agreement signed on October 2, 2018, the Group is obliged to maintain a certain level of net debt coverage (net debt divided by adjusted consolidated EBITDA).

Net debt is defined as the aggregate principal amount of Group's financial liabilities as of the balance sheet date less debt from derivatives to hedge against price or currency exchange risk, backup obligations from guarantees, and option liabilities or any other financial instruments issued by financial institutions.

7.8 AUDIT FEES

The following expenses were incurred in the 2020 financial year for services provided by the auditors and their related companies:

kEUR	Q1–Q4/2020	Q1–Q4/2019
Auditing of financial statements	780	821
Other services	24	363
Total	**804**	**1,184**

The other consulting services rendered in the 2019 financial year are primarily related to the establishment of the new location in Yangzhou, China.

The independent auditor engaged to audit the consolidated financial statements for the financial years 2016 through 2019 was PricewaterhouseCoopers Société coopérative. The engagement partner, Mr. Patrick Schon, has signed the independent auditor's report since the 2016 financial year. In the course of transferring the registered offices of SAF-HOLLAND SE from Luxembourg to Germany, a resolution was passed at the extraordinary general meeting of May 20, 2020 to engage the audit firm PricewaterhouseCoopers GmbH as the independent auditor for financial year 2020. Mr. Christian Kwasni is the engagement partner signing the audit opinion on the consolidated financial statements of the reporting year.

7.9 SUBSEQUENT EVENTS

On March 1, 2021 SAF-HOLLAND do Brasil Ltda., a subisdiary of SAF-HOLLAND GmbH, entered into the purchase price negotiations with the owner of the outstanding shares of 42,5% in KLL Equipamentos para Transporte Ltda.

In addition, no significant events occurred after the reporting date.

Bessenbach, March 19, 2021

Alexander Geis
Chief Executive Officer (CEO)

Inka Koljonen
Chief Financial Officer (CFO)

Dr. André Philipp
Chief Operating Officer (COO)

MANDATES OF THE SUPERVISORY BOARD/ MANAGEMENT BOARD

Dr. Martin Kleinschmitt

- Chairman of the Supervisory Board, SAF-HOLLAND SE, Bessenbach, Germany (first appointment April 2013, Chairman since 2019, Term expires: Annual General Meeting 2024)
- Chairman of the Supervisory Board, SAF-HOLLAND GmbH, Bessenbach, Germany
- Chairman of the Supervisory Board G&H Bankensoftware AG, Berlin, Germany
- Management Board, Noerr Consulting AG
- Partner Noerr LLP

Martina Merz

- Deputy Chairwoman of the Supervisory Board, SAF-HOLLAND SE, Bessenbach, Germany (first appointment 2014, Term expires: Annual General Meeting 2024, Deputy Chairman since 2019)
- CEO, thyssenkrupp AG, Essen, Germany
- Member of the Board of Directors, VOLVO AB, Goteborg, Sweden

Matthias Arleth

- Member of the Supervisory Board, SAF-HOLLAND SE, Bessenbach, Germany (first appointment July 2020, Term expires: Annual General Meeting 2024)
- Deputy Chairman of the Management Board, Webasto SE, Stockdorf, Germany

Ingrid Jägering

- Member of the Supervisory Board, SAF-HOLLAND SE; Bessenbach, Germany (first appointment October 2019, Term expires: Annual General Meeting 2024)
- Member of the Supervisory Board, SAF-HOLLAND GmbH, Bessenbach, Germany
- Member of the Supervisory Board, Hensoldt AG, Taufkirchen, Germany
- Member of the Supervisory Board, Hensoldt Holding GmbH, Taufkirchen, Germany (March 2017 until September 2020)
- CFO, LEONI AG

Carsten Reinhardt

- Member of the Supervisory Board, SAF-HOLLAND SE, Bessenbach, Germany (first appointment since April 2017, Term expires: Annual General Meeting 2024)
- Chairman of the Advisory Board, Tegimus Holding GmbH, Mannheim, Germany
- Deputy Chairman of the Board of Directors, Grundfos Holding A/S, Bjerringbro, Denmark
- Member of the Boards of Directors, Garret Motion Inc., Morristown, NJ, USA
- Member of the Advisory Board, Beinbauer Automotive GmbH & Co. KG, Büchlberg, Germany
- Member of the Advisory Board, WEZAG GmbH, Stadtallendorf, Germany
- Member of the Advisory Boards, Michigan Capital Advisors, Bloomfield Hills, Michigan, USA
- Member of the Strategic Advisory Boards, Braemar Energy Ventures, New York, NY, USA

Anja Kleyboldt (until June 2020)

- Member of the Supervisory Board, SAF-HOLLAND SE; Bessenbach, Germany (first appointment April 2012, until June 2020)
- Member of the Supervisory Board, SAF-HOLLAND GmbH, Bessenbach, Germany (until June 2020)
- Head of Business Unit Industry, Arnold AG, Friedrichsdorf, Germany

Jack Gisinger (until May 2020)

- Member of the former Board of Directors, SAF-HOLLAND SE; Bessenbach, Germany (first appointment April 2017, until May 2020)
- Freelance consultant

Alexander Geis

— Chief Executive Officer (CEO), SAF-HOLLAND SE, Bessenbach, Germany
— Managing Director SAF-HOLLAND GmbH, Bessenbach, Germany, further mandates in group entities

Inka Koljonen

— Chief Financial Officer (CFO), SAF-HOLLAND SE, Bessenbach, Germany
— Managing Director SAF-HOLLAND GmbH, Bessenbach, Germany, further mandates in group entities

Dr. André Philipp

— Chief Operating Officer (COO), SAF-HOLLAND SE, Bessenbach, Germany
— Managing Director SAF-HOLLAND GmbH, Bessenbach, Germany, further mandates in group entities

Dr. Matthias Heiden (until June 30, 2020)

INDEPENDENT AUDITOR'S REPORT

To SAF-HOLLAND SE, Bessenbach

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINION

We have audited the consolidated financial statements of SAF-HOLLAND SE, Bessenbach, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SAF-HOLLAND SE, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to § [Article] 289f HGB and § [Article] 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuat to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020.

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINION

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

❶ Recoverability of goodwill

Our presentation of this key audit matter has been structured as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

❶ Recoverability of goodwill

① In the Company's consolidated financial statements goodwill amounting in total to T€ 77,119 (8.4% of total assets or 32.6% of equity) is reported under the "Goodwill" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors as well as the expected effects of the ongoing Corona crisis on the business activities of the Group are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore, also against the background of the effects of the Corona crisis, subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriate-ness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In this connection, we also evaluated the assessment of the executive directors regarding the effects of the Corona crisis on the business activities of the Group and examined how they were taken into account in determining the future cash flows. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the un-certainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company and carried out our own sensitivity analyses for those groups of cash-generating units with low headroom (recoverable amount compared to carrying amount). Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future cash flows. We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to groups of cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the cash-generating units including the allocated goodwill.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on impairment testing on goodwill are contained in section 6.1 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance statement pursuant to § 289f HGB and § 315d HGB obtained by us prior to the date of this auditor's report.

The annual report and the separate non-financial report pursuant to § 289b (3) HGB and § 315b (3) HGB are expected to be made available to us after the date of the auditors' report.

Our audit opinion on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

— is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined 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 executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives 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 whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 audit 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 of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of this system.

— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

— Conclude on the appropriateness of the executive 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 the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

— Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

— Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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 the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the 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 auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

ASSURANCE REPORT IN ACCORDANCE WITH § 317 ABS. 3B HGB ON THE ELECTRONIC REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file SAF-HOLLAND SE_KA+KLB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and he Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

— Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

— Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

— Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

— Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

— Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the Extraordinary General Meeting of Shareholders on 20 May 2020. We were engaged by the supervisory board on 27 October 2020. We have been the group auditor of the SAF-HOLLAND SE, Bessenbach, without interruption since the financial year 2016.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Christian Kwasni.

Frankfurt am Main, March 19, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa.

Christian Kwasni
Wirtschaftsprüfer

ppa. Jürgen Körbel
Wirtschaftsprüfer

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.

Bessenbach, March 19, 2021

SAF-HOLLAND SE

Alexander Geis Chief Executive Officer (CEO)	**Inka Koljonen** Chief Financial Officer (CFO)	**Dr. André Philipp** Chief Operating Officer (COO)

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

May 12, 2021
Publication of the Quarterly Statement Q1 2021

June 10, 2021
Annual General Meeting

August 12, 2021
Publication of the Half-Year Financial Report

November 15, 2021
Publication of the Quarterly Statement Q3 2021

CONTACTS

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Alexander Pöschl, SAF-HOLLAND SE
Klaus Breitenbach, SAF-HOLLAND SE

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The annual report is also available in German.
In cases of doubt, the German version shall prevail.

Disclaimer
This report contains certain statements that are neither reported financial results nor other historical information. This report contains forward-looking statements. Such forward-looking statements are based on certain assumptions, expectations and forecasts made at the time of publication of this report. Consequently, they are inherently subject to risks and uncertainties. Moreover, the actual events could diverge significantly from the events described in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the ability of SAF-HOLLAND SE to control or estimate precisely, such as future market conditions and economic developments, the behaviour of other market participants, the achievement of anticipated synergies, and legal and political decisions. Readers are cautioned that these forward-looking statements only apply as of the date of this publication. Likewise, SAF-HOLLAND SE does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of publication of these materials.

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