

SAF-HOLLAND SE

Société européenne

Registered Office: 68-70, Boulevard de la Pétrusse, L-2320 Luxembourg

Grand Duchy of Luxembourg

R.C.S. Luxembourg: B113.090

Report dated 16 March 2020 of the board of directors to the extraordinary general meeting of the shareholders of the Company in accordance with article 420-26 (5) of the Luxembourg law of 10 August 1915 on commercial companies, as amended, and Sections 221 (4) sentence 2 and 186 (4) sentence 2 of the German Stock Corporation Act

1. It is proposed that at the Company's extraordinary general meeting of shareholders expected to take place on 20 May 2020 at 12 p.m. noon (the "**EGM 2**"), the shareholders resolve *inter alia* on the granting of an authorisation to issue convertible bonds, option bonds and/or income bonds and/or profit participation rights (or combinations of these instruments) with the authorisation to exclude the shareholders' subscription rights and on the creation of a conditional capital, as set forth in more detail in the agenda of the EGM 2.
2. The EGM 2's agenda contains *inter alia* the following:
 6. **Approval to grant an authorisation to issue convertible bonds, option bonds and/or income bonds and/or profit participation rights (or combinations of these instruments) with the authorisation to exclude the shareholders' subscription rights, on the creation of a conditional capital 2020 in the amount of EUR 22,697,151.00**

The Board of Directors proposes to pass the following resolution subject to the condition precedent to the entry of SAF-HOLLAND SE into the German commercial register as a result of the transfer of the Company's registered office from the Grand Duchy of Luxembourg to Germany to be approved under agenda item 3:

a) *Granting of an Authorisation*

The Management Board is authorised, with the approval of the Supervisory Board, until the end of 19 May 2025, to issue convertible bonds, option bonds and/or income bonds and/or profit participation rights (or combinations of these instruments) (together “Bonds”) with or without a maturity limit in the total nominal amount of up to EUR 130,000,000.00 on one or more occasions in bearer or registered form and to grant the holders or creditors of Bonds conversion or option rights to subscribe for no-par value bearer shares of the Company with a notional value in the Company's share capital of a total of up to EUR 22,697,151.00 in accordance with the terms and conditions of the Bonds and/or to establish obligations to convert the respective Bonds into such shares in the terms and conditions of the Bonds.

aa) *Currency, Issuing Company*

The Bonds may be issued in euros or – limited to the equivalent euro value – in another legal currency, for example in the currency of an OECD country. They may also be issued by a company in which SAF-HOLLAND SE directly or indirectly holds a majority interest, either in Germany or abroad (“Group Companies”); in such case, the Management Board is authorised, with the approval of the Supervisory Board, to resolve the acceptance of the guarantee for the Bonds by SAF-HOLLAND SE and to grant the holders of the Bonds conversion or option rights to new no-par value bearer shares of the Company or to establish corresponding conversion obligations and to make further declarations required for a successful issue and to take actions.

bb) *Subscription Right, Exclusion of Subscription Right*

The shareholders are generally entitled to a subscription right to the Bonds. The subscription right may also be granted indirectly in that the Bonds are assumed by one or more banks or companies equivalent to them pursuant to Section 186 (5) sentence 1 of the German Stock Corporation Act with the obligation to offer them to the shareholders for subscription. If Bonds are issued by a Group Company, the Company must ensure that the statutory subscription rights are granted to shareholders of the Company in accordance with the above.

However, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights to the Bonds:

- (1) for fractional amounts;
- (2) to the extent necessary to grant subscription rights to the holders of previously issued conversion or option rights to Company' shares or to the creditors of convertible bonds with conversion obligations to the extent to which they would be entitled as shareholders after exercising these conversion or option rights or after fulfilling the conversion obligations;
- (3) if Bonds with conversion and/or option rights or conversion obligations are to be issued against cash payment and the issue price is not significantly lower than the theoretical market value of the Bonds with conversion and/or option rights or conversion obligations determined according to recognised financial mathematical methods. This authorisation to exclude subscription rights applies only to the extent that the shares to be issued to service the conversion and option rights or upon fulfilment of the conversion obligation do not account for a total of more than 10% of the share capital, either at the time the authorisation becomes effective or at the time it is exercised ("**Maximum Amount**"). To be deducted from the Maximum Amount is the total proportionate amount of the share capital represented by newly issued shares or previously acquired treasury shares which are issued or disposed of during the term of this authorisation under simplified subscription right exclusion in direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act, as well as the total proportionate amount of the share capital attributable to shares that can or must be subscribed for on the basis of option and/or conversion rights or obligations that are issued during the term of this authorisation under exclusion of the subscription right in analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act. Furthermore, the issue of Bonds excluding shareholders' subscription rights may only take place in accordance with this authorisation if the sum of the new shares to be issued on the basis of such Bonds, together with shares that are issued or transferred by the Company excluding shareholders' subscription rights under another authorisation during the term of this authorisation, or shares that are to be issued on the basis of a

convertible bond, option bond and/or income bond and/or profit participation right excluding shareholders' subscription rights on the basis of the utilisation of another authorisation during the term of this authorisation, does not exceed 20% of the Company's share capital, both at the time the authorisation becomes effective and at the time it is exercised.

If profit participation rights or income bonds without conversion rights, option rights or conversion obligations are issued, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights altogether if these profit participation rights or income bonds have merely obligatory features, i.e. if they do not establish any membership rights in the Company, do not grant any participation in the liquidation proceeds and the amount of interest is not calculated on the basis of the amount of the annual net profit, the balance sheet profit or the dividend. In addition, in this case the interest rate and the issue price of the profit participation rights or income bonds must correspond to the current market conditions for comparable borrowings at the time of issue.

cc) Features of Partial Debentures

Bonds may be issued once or several times, in whole or in part and also simultaneously in different tranches. The individual issues may be divided into partial debentures with equal rights between them. Section 9 (1) of the German Stock Corporation Act and Section 199 of the German Stock Corporation Act remain unaffected.

(1) Option Bonds

If option bonds are issued, one or more warrants shall be attached to each partial debenture, entitling the holder to subscribe to no-par value bearer shares of the Company in accordance with the option conditions to be determined by the Management Board. However, the proportionate amount of the Company's share capital attributable to no-par value bearer shares of the Company to be subscribed for per partial debenture may not exceed the nominal amount of the partial debenture. In addition, the term of the option right may not exceed the term of the option bond. In addition, provision may be made for any fractional amounts to be

combined and/or settled in cash. The same applies if warrants are attached to a profit participation right or an income bond.

(2) Convertible Bonds

In the event that convertible bonds are issued, the holders of the partial debenture shall be entitled to convert them into no-par value bearer shares of the Company in accordance with the terms and conditions of the convertible bond to be determined by the Management Board. The conversion ratio is calculated by dividing the nominal amount of a partial debenture by the fixed conversion price for a no-par value bearer share of the Company. The conversion ratio may also be determined by dividing the issue price of a Bond which is below the nominal amount by the fixed conversion price for a new no-par value bearer share of the Company. The exchange ratio may be rounded up or down to a full number. Provision may be made for any fractional amounts to be combined and/or settled in cash. The total proportionate amount of the Company's share capital attributable to no-par value bearer shares to be issued upon conversion may not exceed the nominal amount of the Bond. The terms and conditions of the convertible bonds may also provide for a conversion obligation at the end of the term or at an earlier date. In the terms and conditions of the Bond, the Company may be entitled to settle any difference between the nominal amount of the convertible bond and the product of the conversion price and the conversion ratio in full or in part in cash. The above provisions apply accordingly if the conversion right or conversion obligation relates to a profit participation right or an income bond.

(3) Fulfilment Options

The terms and conditions of the convertible bonds or option bonds may provide for the right of the Company to grant the creditors of the Bonds, in whole or in part, new no-par value bearer shares or treasury shares of the Company instead of payment of a due amount of money. The shares will each be credited in accordance with the bond conditions at a value corresponding to the volume-weighted average market price of shares of the same class of the Company in Xetra trading (or in a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock

Exchange on the last ten trading days prior to the declaration of conversion or exercise of options, rounded up to full cents.

The terms and conditions of the convertible bonds and option bonds may also stipulate that the Company shall not grant the holders of conversion or option rights Company's shares but shall pay in cash the equivalent value of the otherwise deliverable shares. The equivalent value per share corresponds to the volume-weighted average price rounded up to full cents of the stock exchange prices of shares of the same class of the Company in Xetra trading (or in a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange on the last ten trading days prior to the declaration of conversion or exercise of the option.

dd) Option or Conversion Price

In the event of the issue of Bonds which grant or determine a conversion right, a conversion obligation and/or an option right, the respective option or conversion price to be determined must be fixed – even in the case of a variable exchange ratio or a variable conversion price – either (i) at least 80% of the volume-weighted average of the stock exchange prices of shares of the Company of the same class in Xetra trading (or in a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange on the ten trading days prior to the date of the resolution by the Management Board on the issue of the options bonds or convertible bonds or (ii) – in the event that subscription rights are granted – at least 80% of the volume-weighted average of the stock market prices of shares of the Company of the same class in Xetra trading (or in a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange in the period from the beginning of the subscription period until the third day prior to the announcement of the final conditions pursuant to Section 186 (2) sentence 2 of the German Stock Corporation Act (inclusive).

Section 9 (1) of the German Stock Corporation Act and Section 199 of the German Stock Corporation Act remain unaffected.

ee) Dilution Protection

The authorisation also includes the possibility of granting protection against dilution or making adjustments in certain cases in accordance with the more detailed provisions of the respective bond conditions. This may be provided for in particular if the Company increases its share capital during the conversion or option period by granting subscription rights to its shareholders or issues further convertible bonds or option bonds, or grants or guarantees conversion or option rights and does not grant the holders of existing conversion or option rights subscription rights for this purpose, as they would be entitled to as shareholders after exercising their conversion or option rights or fulfilling their conversion obligations, or if the share capital is increased by a capital increase from company funds. In such cases, the terms and conditions of the convertible bonds or option bonds can ensure that the economic value of the existing conversion or option rights remains unaffected by adjusting the conversion or option rights to preserve their value, unless the adjustment is already mandatory by law. The value-preserving adjustment can be made in particular by granting subscription rights, by changing or granting cash components or by changing the conversion/option price. The above applies accordingly in the event of a capital reduction or other capital measures, share splits, restructuring, acquisition of control by third parties, dividend payments or other comparable measures that could lead to a dilution of the value of the shares. Section 9 (1) of the German Stock Corporation Act and Section 199 of the German Stock Corporation Act remain unaffected. In any case, the total proportionate amount of the share capital attributable to shares to be subscribed for per bond may not exceed the nominal amount per bond or a lower issue price.

ff) Authorisation to Determine Further Details

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details of the issue and features of the Bonds, in particular interest rate, type of interest, issue price, term, denomination, dilution protection provisions, restructuring possibilities, option or conversion price and option or conversion period as well as currency and conversion modalities. If the Bonds are issued by Group Companies, the Management Board must also reach an agreement with the governing bodies of the Group Companies issuing the Bonds. Section 9 (1) of the German Stock Corporation Act and Section 199 of the German Stock Corporation Act remain unaffected in each case.

b) *Conditional Capital 2020*

The share capital shall be conditionally increased by up to EUR 22,697,151.00 by issuing new no-par value bearer shares (Conditional Capital 2020). The conditional capital increase serves to grant no-par value bearer shares to (i) the holders of the convertible bond issued by the Company on 12 September 2014 as well as (ii) the holders or creditors of convertible bonds and/or option bonds, profit participation rights and/or participating bonds (or combinations of these instruments) issued by the Company or its direct or indirect German or foreign associated companies, based on the authorisation resolved by the general meeting on 20 May 2020, which grant or establish a conversion or option right or a conversion obligation into or to new no-par value bearer shares of the Company. The conditional capital increase shall only be carried out to the extent that option or conversion rights are exercised, to the extent that the holders or creditors with a conversion obligation fulfil their conversion obligation or to the extent that shares are tendered on the basis of the Company's right to substitute and to the extent as treasury shares or new shares from the utilisation of authorised capital are not used for servicing purposes. The new no-par value bearer shares participate in the profit from the beginning of the financial year in which they are created through the exercise of option or conversion rights or through the fulfilment of conversion obligations or the exercise of tender rights. To the extent permitted by law, the Management Board may, with the consent of the Supervisory Board, determine the profit participation hereof and in deviation from Section 60 (2) of the German Stock Corporation Act, also for a financial year already expired. The Management Board shall be authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase.

7. Approval of the restatement of the new version of the Company's Articles of Association in order to reflect the changes resulting from the creation of the new conditional capital

[...]

3. It is proposed to – subject to the condition precedent to the entry of SAF-HOLLAND SE into

the German commercial register as a result of the transfer of the Company's registered office from the Grand Duchy of Luxembourg to Germany – authorise the (future) management board of the Company (the "**Management Board**") with the approval of the (future) supervisory board of the Company (the "**Supervisory Board**") until the end of 19 May 2025, to issue convertible bonds, option bonds and/or income bonds and/or profit participation rights (or combinations of these instruments) (together "**Bonds**") with or without a maturity limit in the total nominal amount of up to EUR 130,000,000.00 on one or more occasions in bearer or registered form and to grant the holders or creditors of Bonds conversion or option rights to subscribe for (future) no-par value bearer shares of the Company with a notional value in the Company's share capital of a total of up to EUR 22,697,151.00 in accordance with the terms and conditions of the Bonds and/or to establish obligations to convert the respective Bonds into such shares in the terms and conditions of the Bonds.

The issue of Bonds of the aforementioned type offers the Company the opportunity to take advantage of attractive financing alternatives on the capital market, depending on the market situation, in addition to the other options for raising debt and equity. In particular, the authorisation to issue profit-dependent or profit-oriented instruments such as profit participation rights and income bonds makes it possible to strengthen the Company's financial resources by issuing so-called hybrid financing instruments and thereby contribute to securing the financial conditions for future business development.

The issue of Bonds enables raising debt capital, which can be classified as equity or quasi-equity both for rating purposes and for accounting purposes, depending on the structure of the bond conditions. The conversion and option premiums achieved and the recognition of equity capital benefit the Company's capital base. The further possibility provided for, in addition to the granting of conversion and/or option rights, to establish conversion obligations and/or the combination of convertible bonds, option bonds, profit participation rights and/or income bonds, extends the scope for the structuring of these financing instruments. The authorisation also enables the Company to place the Bonds itself or through its direct or indirect domestic or foreign majority holding companies. Bonds may be issued in currencies other than euro, such as the legal currency of an OECD country, with or without a maturity limit.

In the case of Bonds that grant a conversion or option right, the terms and conditions of the Bonds may provide, in order to increase flexibility, that the Company will not grant bearer shares of the Company to a holder of conversion or option rights, but will pay the equivalent value in cash.

For Bonds that grant a conversion or option right or determine a conversion obligation, the authorisation proposes a minimum amount of 80% of the share price for determining the conversion or option price. The starting point here is the stock exchange price of the Company's share in connection with the placement of the Bond. Unless an adjustment is already mandatory by law, the conversion or option rights may, without prejudice to Sections 9 (1) and 199 of the German Stock Corporation Act (Aktiengesetz – "**AktG**"), be adjusted to preserve their value if the economic value of the existing conversion or option rights (*e.g.* through a capital increase) is diluted during the term of the Bond and no subscription rights are granted to compensate for this.

The shareholders are generally to be granted a subscription right. The requested authorisation provides for the possibility of excluding the shareholders' subscription rights. The Board of Directors hereby submits its written report in accordance with article 420-26 (5) of the Luxembourg law of 10 August 1915 on commercial companies, as amended from time to time, and – as a precautionary measure in the light of the proposed transfer of the Company's registered office from the Grand Duchy of Luxembourg to Germany – also in accordance with Sections 221 (4) sentence 2 and 186 (4) sentence 2 AktG. It should be possible to exclude the subscription right under the following conditions:

- The Management Board shall be authorised, with the approval of the Supervisory Board, to exclude fractional amounts from the subscription right. Such fractional amounts may result from the amount of the respective issue volume and the necessity to present a practicable subscription ratio. In these cases, the exclusion of subscription rights facilitates the settlement of the issue. The free fractional amounts excluded from shareholders' subscription rights will be realised either by sale on the stock exchange or in another way in the best possible way for the Company.
- Furthermore, the Management Board, with the approval of the Supervisory Board, is to be given the opportunity to exclude shareholders' subscription rights in order to

grant the holders or creditors of conversion and/or option rights or convertible bonds with conversion obligations subscription rights to the extent to which they would be entitled after exercising their conversion or option rights or after fulfilling their conversion obligations. The option and conversion conditions generally contain provisions designed to protect the holders or creditors of option or conversion rights from dilution. This makes it easier to place these financing instruments on the market. A subscription right of holders of existing option or conversion rights offers the possibility of preventing the option or conversion price for holders of existing option or conversion rights having to be reduced if the authorisation is exercised. This enables a higher issue price of the shares to be issued upon exercise of the option or conversion. As this facilitates the placement of the issue, the exclusion of subscription rights serves the shareholders' interest in an optimal financial structure of the Company.

- If Bonds with conversion or option rights or conversion obligations are to be issued, the Management Board shall be authorised, with the approval of the Supervisory Board, to exclude the subscription right in analogous application of Section 186 (3) sentence 4 AktG, insofar as the Bonds are issued against cash payment and the shares to be issued upon exercise of the conversion or option rights and the fulfilment of the conversion obligations do not exceed a total of 10% of the share capital, either at the time the authorisation becomes effective or at the time it is exercised. This maximum limit for the simplified exclusion of subscription rights is reduced by the total proportionate amount of the share capital attributable to shares that were issued or sold during the term of the authorisation under exclusion of the subscription right in direct or analogous application of Section 186 (3) sentence 4 AktG or are to be issued on the basis of convertible bonds or option bonds issued during the term of the authorisation, when the subscription right was excluded in accordance with Section 186 (3) sentence 4 AktG. The offsetting provision also ensures in this authorisation that no Bonds are issued on the basis of this authorisation under the exclusion of subscription rights, to the extent that this would result in the exclusion of shareholders' subscription rights to new or treasury shares of more than 10% of the currently outstanding shares, taking into account capital increases or certain placements of treasury shares in direct or analogous application of Section 186 (3) sentence 4 AktG. Furthermore, with regard to all possibilities for

the exclusion of the subscription right, it is provided that the proportion of the share capital attributable to the new shares for which the subscription right is excluded may not exceed a total of 20% of the Company's share capital both at the time the authorisation becomes effective and at the time it is exercised.

In the event of an exclusion of subscription rights, the issue price of the Bond may not be set significantly below its market value in analogous application of Section 186 (3) sentence 4 AktG. This takes account of shareholders' need to protect themselves against dilution of their shareholdings. In order to ensure compliance with this requirement for the issue of Bonds, the theoretical market value of the Bonds with conversion or option rights or conversion obligations is determined using recognised financial mathematical methods. The issue price to be fixed may not be significantly lower than this market value. In this case, shareholders will be protected from dilution of their shareholdings and shareholders will not suffer any economic disadvantage through an exclusion of subscription rights because the value of a subscription right would practically fall to zero.

If profit participation rights or income bonds without conversion rights, option rights or conversion obligations are to be issued, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights altogether if these profit participation rights or income bonds have merely obligatory features, *i.e.* if they do not establish any membership rights in the Company, do not grant any participation in the liquidation proceeds and the amount of interest is not calculated on the basis of the amount of the annual net profit, the balance sheet profit or the dividend. In addition, it is necessary that the interest rate and the issue price of the profit participation rights or income bonds correspond to current market conditions at the time of issue. If the above conditions are met, the exclusion of subscription rights will not result in any disadvantages for shareholders, as the profit participation rights or income bonds do not establish any membership rights or grant any share in the liquidation proceeds or profits of the Company. On the one hand, it can be provided that the interest depends on the existence of a net profit for the year, a balance sheet profit or a dividend. On the other hand, a provision would be inadmissible according to which a higher net income, a higher balance sheet profit or a higher dividend would lead to a higher interest rate. Accordingly, the issue of profit participation rights or income bonds does not change or dilute the voting rights or the participation of shareholders in the Company or its profits. Finally, the issue conditions in

line with market conditions, which are binding for this case of exclusion of subscription rights, would not result in a significant subscription right value.

The above possibilities of excluding subscription rights give the Company the flexibility to take advantage of favourable capital market situations at short notice and enable the Company to take advantage of a low interest rate level or favourable demand situation flexibly and at short notice for an issue. The decisive factor here is that, in contrast to an issue of bonds with subscription rights, the issue price can only be fixed immediately before the placement, which avoids a considerable risk of price changes for the period of a subscription period and maximises the issue proceeds in the interest of all shareholders. In addition, the elimination of the lead time associated with the subscription right results in further advantages in terms of both the costs of raising funds and the placement risk. With a placement without subscription rights, the otherwise required safety margin as well as the placement risk can be reduced and the raising of funds for the benefit of the company and its shareholders can be correspondingly reduced in price.

If the proposed authorisations are exercised, the Management Board will report on this at the general meeting following the exercise.

The Conditional Capital 2020 proposed for resolution under agenda item 6 of the EGM 2 and the corresponding amendment to the new version of the Company's Articles of Association proposed under agenda item 7 of the EGM 2 are intended to enable the Company to issue to the holders or creditors of Bonds issued on the basis of the authorisation proposed under agenda item 6 of the EGM 2 the number of new shares owed upon exercise of the conversion or option right and upon fulfilment of the conversion obligation. Alternatively, treasury shares can also be used for servicing within the scope of legal limits.

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[signature page to the explanatory report of the Board of Directors of SAF-HOLLAND SE pursuant to article 420-26 (5) of the Luxembourg Company Act and Sections 221 (4) sentence 2 and 186 (4) sentence 2 of the German Stock Corporation Act]

Name: **Jack GISINGER**

Title: director

Name: **Ingrid JÄGERING**

Title: director

Name: **Dr. Martin KLEINSCHMITT**

Title: director

Name: **Anja KLEYBOLDT**

Title: director

Name: **Martina MERZ**

Title: director

Name: **Carsten REINHARDT**

Title: director