

SAF-HOLLAND S.A.

Société anonyme

Registered office: 68-70 Boulevard de la Pétrusse
L-2320 Luxembourg
R.C.S. Luxembourg B 113.090

(the “**Company**”)

REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN ACCORDANCE WITH ARTICLE 32-3 (5) OF THE LUXEMBOURG LAW DATED 10 AUGUST 1915 ON COMMERCIAL COMPANIES, AS AMENDED

The board of directors of the Company (the “**Board of Directors**”) has convened an extraordinary general meeting (“**EGM**”) of shareholders to be held on 15 July 2014 in Luxembourg (the “**Meeting**”).

The main purpose of the Meeting is for the Board of Directors to propose to the Meeting:

- 1) Creation of **new authorized share capital II** of 20% of the existing share capital (9,072,222 shares / EUR 90,722.22) which is independent of the existing authorized shared capital as of 4 June 2012. The capital will have to be used within five years and exclusively for the issuance of a convertible bond. Subscription rights for existing shareholders of the Company shall be excluded.
- 2) Modification of **existing authorized share capital I** in the amount of EUR 206,187 as created and approved on 4 June 2012 as follows: approval for potential yearly issuance of new shares of up to 10% of the existing issued share capital (EUR 45,361.11) for the years 2014, 2015, 2016 by excluding the subscription rights for existing shareholders. For the rest of the authorized share capital I the preferential subscription rights of existing shareholders shall remain applicable.

1. Reason for the creation of a new authorised share capital II

The authorised share capital II gives to the Company more flexibility and the ability to react swiftly and less cost-intensive when the market conditions are favourable for the issuance of new shares. This is because when the Board of Directors uses the authorised share capital II no general meeting of shareholders needs to be convened and no approval of shareholders needs to be sought.

The Company aims constantly at optimizing its financing costs and its capital structure. As currently the interest rates at the capital markets are very attractive, one of the options among others to optimize the financial costs and structure could be the issuance of convertible bonds and / or warrant-linked bonds. The proceeds from the convertible bonds could be used for a reduction of bank loans and for the optimization of financing costs. In order to gain full flexibility to use this instrument for financing purposes, the Company seeks in advance the approval of its shareholders. The approval for the authorized share capital which is required for the conversion of bonds into share capital, i.e. at maturity, prior to the issuance of a convertible bond ensures that the costs are predictable and that no further costs arise by a cash conversion. Therefore the creation of an authorized share capital II is requested for the potential usage for issuance of a convertible bond. As this new authorized share capital II is reserved for the issuance of a convertible bond only, subscription rights for existing shareholders shall be excluded.

2. Reason for adjustment of conditions for existing authorized share capital I and authorisation of the Board of Directors to limit and / or suppress preferential subscription rights

The Board of Directors suggests the suppression of subscription rights as the Company would like to attract new shareholders and would like to give these potential shareholders the chance to participate in future growth. In order to align the Company's situation to German law conditions, the Board of Directors asks the shareholders of the Company for permission to limit their subscription rights.

The Company is a Luxembourg based company and therefore treated according to Luxembourg law. Whereas according to German law an approval for a yearly potential capital increase of 10 % of the issued share capital by suppressing preferential subscription rights of existing shareholders for five years for issuance of up to 50% new shares could be decided during the regular annual general meeting ("**AGM**") of a German company with a simple majority of all votes registered for this AGM, in Luxembourg this topic is treated differently. Under Luxembourg law this 10% rule does not exist. According to Luxembourg law, for a decision to create authorised share capital (regardless whether suppressing preferential subscription rights or not) a quorum of at least 50 % of the share capital and the approval of two thirds of present or represented votes is required at a general meeting of shareholders, e.g. an AGM, to change the articles of association of the Company (the

“**Articles**”). As a consequence, increased costs would occur as for each of the decisions to yearly increase the issued capital by 10% one or even two additional EGMs would have to be convened before a Luxembourg notary – this would reduce shareholder value and diminish management resources, which otherwise could be invested in the development of the Company’s business. The Board of Directors seeks once for approval during the EGM I on 15 July 2014 or if required at the EGM II on 5 August 2014 and not each year until 2016 in order to reduce costs and administrative efforts as no further EGM’s related to this topic are required for the next years. This means that only one or two EGMs instead of three or even six EGMs would be necessary.

If preferential rights were not excluded, the offering period to the existing shareholders would be thirty days according Luxembourg law, as opposed to ten days in German law. This could lead to unfavorable trading activities of e.g. hedge funds against the Company’s share price which could have severe disadvantages.

The management of the Company’s group and the Board of Directors are currently developing the new strategy of the Company for the next years, given that the term of the previous mid-term strategy lasts only until 2015. For future potential growth options and development of the Company, the prerequisites for financing options need to be prepared in advance. With the proposed anticipatory resolutions of the shareholders, the Company will be able to benefit from favorable capital market conditions in the future.

This report is addressed to the Meeting and the subsequent 2nd extraordinary general meeting, as applicable, which may be held on or after 05 August 2014. This report therefore remains valid if the Meeting is postponed, or if the mandatory quorum requirements for the Meeting are not met and a subsequent 2nd extraordinary general meeting therefore needs to be convened in accordance with Luxembourg law.

Done in Luxembourg, on 13 June 2014

Board of Directors of SAF-HOLLAND S.A.