

**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 203 (2) 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 11 a.m. (the "**EGM 1**"), the shareholders resolve *inter alia* on the amendment of the Company's Articles of Association, the increase of the Company's share capital and the creation of a new authorised capital as set forth in more detail in the agenda of the EGM 1.
2. The EGM 1's agenda contains *inter alia* the following:
  1. **Approval of the increase of the Company's share capital by an amount of EUR 44,940,358.98 to an amount of EUR 45,394,302.00 by the increase of the nominal value of the shares from an amount of EUR 0.01 to an amount of EUR 1.00 by way of incorporation of reserves**

*The Board of Directors proposes that the nominal value of each existing share of the currently issued share capital of the Company shall be increased from EUR 0.01 to EUR 1.00 per share without the issue of new shares and that the issued share capital will hence be increased from its current amount of EUR 453,943.02, divided into 45,394,302 shares, each having a nominal value of EUR 0.01, by an amount of EUR 44,940,358.98 to*

*an amount of EUR 45,394,302.00, divided into 45,394,302 shares, each having a nominal value of EUR 1.00.*

*The capital increase shall be implemented by using a portion of the share premium reserve of the Company in the amount of EUR 44,940,358.98.*

*[...]*

**4. Approval of the cancellation of the existing authorised capital, on the creation of a new authorised capital in the amount of EUR 22,697,151.00 and on the authorisation to exclude the shareholders' subscription rights**

*The Board of Directors proposes to pass the following resolution:*

*(1) The existing authorised capital shall be cancelled.*

*(2) The Board of Directors shall be authorised to increase the Company's share capital in the period until 19 May 2025, once or several times by up to a total of EUR 22,697,151.00 through the issuance of up to 22,697,151 new bearer shares against cash or non-cash contributions (**Authorised Capital 2020**).*

*In principle, the new shares shall 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 Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE) (SE Regulation) in conjunction with Article 420-26 (7) of the Luxembourg law of 10 August 1915 on commercial companies, as amended from time to time, and Section 186 (5) sentence 1 of the German Stock Corporation Act with the obligation to offer them to the shareholders for subscription (so-called indirect subscription right).*

*However, the Board of Directors is authorised to exclude the shareholder's 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% 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 Sections 203 (1) and (2), 186 (3) sentence 4 of the German Stock Corporation Act; the following shall be counted towards this 10% threshold (i) the portion of the share capital attributable to shares issued or sold as from 20 May 2020 in direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act, and (ii) the portion 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 of the German Stock Corporation Act, which are issued under exclusion of the subscription rights pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act as from 20 May 2020.*

*The portion of the share capital attributable to the new shares for which the subscription right is excluded in accordance with the above letters a) to d) shall not exceed a total of 20% 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% 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 20 May 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 of the German Stock Corporation Act 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 of the German Stock Corporation Act, which are issued under the exclusion of subscription rights as from 20 May 2020.*

*The Board of Directors shall be authorised to lay down the further contents of the share rights and the details of the execution of the capital increase.*

**5. Approval of the restatement of the Company's Articles of Association in order to reflect the changes resulting from the cancellation of the existing authorised capital and the creation of the new authorised capital**

[...]

3. It is proposed to authorise the board of directors of the Company (the "**Board of Directors**") to increase the Company's share capital in the period until 19 May 2025, once or several times by up to a total of EUR 22,697,151.00 through the issuance of new bearer shares against cash or non-cash contributions. Against the background of the increase in the Company's share capital to be resolved under agenda item 1 of the EGM 1, the existing authorised capital is to be replaced by a new authorisation adjusted to the future increase in share capital. The Board of Directors would thus continue to have at its disposal authorised capital in the amount of the legally permissible maximum volume of 50% of the Company's share capital.

The requested authorisation within the framework of a new authorised capital provides the Board of Directors with a flexible instrument for shaping corporate financing. The proposed authorised capital is intended to enable the Board of Directors to continue to raise the capital required for the further development of the Company on the capital markets at short notice by issuing new shares against cash contributions and thereby take advantage of any favourable market conditions to cover future financing requirements without delays. In addition, the Board of Directors should be able to take advantage of acquisition opportunities arising on the market for a capital increase through contributions in kind.

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 203 (2) sentence 2 and 186 (4) sentence 2 of the German Stock Corporation Act (Aktiengesetz – "**AktG**").

The Board of Directors shall be authorised to exclude shareholders' subscription rights for any fractional amounts. The authorisation to exclude subscription rights for fractional amounts opens up the possibility of determining simple and practicable subscription ratios for a capital increase. Fractional amounts arise if, as a result of the subscription ratio or the amount of the capital increase, not all new shares can be distributed evenly among the shareholders according to their participation in the previous share capital. The fractional amounts are of minor significance in relation to the total capital increase. The impairment of shareholders by excluding subscription rights for fractional amounts is therefore negligible in relation to the procedural advantages. A possible dilution effect due to the offsetting of fractional amounts is hardly noticeable.

In addition, the subscription right may be excluded in order 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 a subscription right 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. This allows the creditors or debtors of such instruments to be granted a form of protection against dilution that is customary in the market. They are thus placed in the same position as if they were already shareholders. The granting of a subscription right to the holders and/or creditors of conversion and/or option rights or the debtors of conversion and/or option obligations is an alternative to the adjustment of the conversion or option price that would otherwise have to be made. In order to be able to provide the bonds with such protection against dilution, the subscription rights of shareholders to these shares must be excluded. The possibility of granting shares instead of a reduction of the conversion or option price may be economically more advantageous for the Company. By granting shares instead of reducing the conversion or option price, the Company may possibly achieve a higher issue price for the shares to be issued upon exercise of the conversion or option.

Furthermore, the Board of Directors shall be enabled to acquire companies, parts of companies or participations in companies or other assets (including receivables) from third parties against the issue of shares. This option to issue shares significantly increases the

room for manoeuvre for the Board of Directors to act competitively, since the consideration to be paid is sometimes provided in the form of the purchaser's shares, particularly in the case of the acquisition of companies and equity interests. Particularly in the case of larger corporate units, the Company would in many cases not be able to provide the consideration in cash without making excessive use of the Company's liquidity. In order to enable such transactions in the interest of the Company's growth strategy to continue in the future, it is necessary to use authorised capital with the possibility of excluding subscription rights. If new shares shall be issued in return for the acquisition of companies, parts of companies, equity interests in companies or other assets (including receivables), the issue of shares from a capital increase can only take place under exclusion of the subscription rights of existing shareholders. Since such acquisitions are usually made at short notice, they generally cannot be resolved by the Company's annual general meeting of shareholders, which only takes place once a year; even in such cases, due to the legal deadlines, there is usually no time for convening an extraordinary general meeting of shareholders. In such cases, the Board of Directors should therefore be authorised to exclude subscription rights in order to be able to quickly and easily create new shares for this purpose. The requested authorisation is purely a precautionary measure. Currently, there are no concrete plans to make use of this authorisation.

Finally, pursuant to Sections 203 (1) and (2), 186 (3) sentence 4 AktG, the exclusion of subscription rights shall also be permissible if the proportion of the share capital attributable to the new shares for which subscription rights are excluded does not exceed ten per cent of the share capital either at the time the authorisation becomes effective or at the time it is exercised, and if the issue price of the new shares does not significantly fall below the stock market price. This should enable the Board of Directors to take advantage of favourable stock market conditions at short notice and thus achieve the greatest possible strengthening of the Company's equity capital. Experience has shown that the exclusion of subscription rights leads to a higher inflow of funds than a comparable capital increase with subscription rights due to the significantly faster possibility of action. In addition, new groups of investors can also be won with such a placement under exclusion of subscription rights. The limitation to ten per cent of the share capital means that the dilutive effect on shareholders excluded from subscription rights is kept to a minimum. Due to the limited scope of the capital increase, the shareholders concerned also have the opportunity to maintain their shareholding quota by means of a purchase on the stock exchange and thus under fair market conditions. The financial interests of the shareholders are safeguarded by the fact that, on the basis of this authorisation, the shares may only be issued at a price that is not

significantly lower than the stock exchange price of the Company's already listed shares with the same features. In any case, the Board of Directors will also determine the value of the shares exclusively in the interest of the Company and its shareholders. There shall be counted towards this ten per cent limit (i) the portion of the share capital attributable to treasury shares, which are sold as from 20 May 2020 in direct or analogous application of Section 186 (3) sentence 4 AktG, and (ii) the portion 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 the subscription rights pursuant to Section 186 (3) sentence 4 AktG as from 20 May 2020. This crediting rule ensures that the statutory valuation of Section 186 (3) sentence 4 AktG is also taken into account if measures are taken which economically correspond to a cash capital increase through utilisation of authorised capital.

In addition, with regard to all options for excluding subscription rights, it is provided that the portion of the share capital attributable to the new shares for which subscription rights are excluded may not exceed a total of twenty per cent of the share capital, both at the time the authorisation becomes effective and at the time it is exercised. This counteracts an excessive dilution of the existing shareholders' shareholdings. Shares shall be counted towards this twenty per cent limit (i) which are used as from 20 May 2020 on the basis of the authorisation to use treasury shares pursuant to 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 made to all shareholders, or (ii) relating to conversion and/or option rights or conversion obligations from bonds and other instruments covered by Section 221 AktG which are issued as of 20 May 2020 under the exclusion of subscription rights. This crediting prevents the possible dilution of the shareholders from cumulating the authorised capital under exclusion of subscription rights and the use of own shares or the issue of bonds and other instruments with conversion rights and/or conversion obligations covered by Section 221 AktG. This crediting is appropriate, as the use of own shares and the issue of bonds and other instruments with conversion and/or option rights or conversion obligations covered by Section 221 AktG have a similar effect as a capital increase.

In each individual case, the Board of Directors will carefully examine whether it intends to make use of the authorisation and will only do so if, in its opinion, it is in the well-understood interest of the Company and thus of its shareholders and is proportionate. If the authorisation to exclude subscription rights is exercised, the Board of Directors will report to the next general meeting of shareholders on the relevant reasons for the exclusion of

subscription rights.

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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 203 (2) sentence 2  
and 186 (4) sentence 2 of the German Stock Corporation Act]*

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Name: **Jack GISINGER**

Title: director

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Name: **Ingrid JÄGERING**

Title: director

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Name: **Dr. Martin KLEINSCHMITT**

Title: director

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Name: **Anja KLEYBOLDT**

Title: director

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Name: **Martina MERZ**

Title: director

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Name: **Carsten REINHARDT**

Title: director