

# **SAF-HOLLAND**

## **Speech from Rudi Ludwig, CEO**

### **at the Annual General Meeting on April 28, 2011**

#### **Slide: Titel**

Mr. Chairman,  
Ladies and Gentlemen,  
Dear Shareholders,

I Would like to cordially welcome you to the Annual General Meeting of SAF-HOLLAND S.A., also on behalf of the Management Board. We are pleased that you are able to be here today in order to be informed first-hand about the past financial year and the current situation of our company.

Today we look back together at twelve eventful and successful months at SAF-HOLLAND. Among the most important successes are:

- In 2010 we returned to a growth path and substantially improved both sales and earnings.
- In the largest business unit, Trailer Systems, we achieved a turnaround in the fourth quarter.
- With new resource-efficient products we are expanding our position as a technological leader.
- With a capital increase in March 2011 we significantly improved the capital strength of the company.

We have made "Efficiency" the motto of our Annual Report which has been distributed to you today. We mean that in two respects: on the one hand, we brought a number of new products to market in 2010 which, through lower

weights, allow for greater efficiency in the operation of trucks and trailers. On the other hand, efficiency is also an objective that we are pursuing for our internal alignment. We came out of the restructuring lean and strong, and now we are putting this strength to use in the upswing.

#### **Slide: SAF-HOLLAND – Business Units at a Glance**

Since the merger in 2006, SAF-HOLLAND as a leading supplier for the global truck and trailer industry has been organized in three business units. In the Trailer Systems Business Unit we produce axle systems, suspension systems, kingpins, and landing legs for the trailer industry. This division accounts for about half of our turnover and in 2010 achieved sales in the amount of 323 million euro. The Powered Vehicle Systems Business Unit supplies fifth wheels and pneumatic suspension systems to the truck industry. In the past year it achieved sales of 127 million euro, corresponding to 20 percent of Group sales. The Aftermarket Business Unit represents our replacement parts business. Here we rely on a global service network which we operate in cooperation with truck manufacturers. At 29 percent, nearly a third of our sales were generated in this division. That corresponds to 181 million euro.

Our clients include the global truck and trailer industry as well as trucking companies and fleet operators. We have listed a number of our customers for you here – as you can see, the list includes nearly all well-known names in the global commercial vehicles market.

#### **Slide: Investment Highlights**

Ladies and gentlemen,

For you as shareholders of SAF-HOLLAND S.A., the past year was surely one of the more pleasing. The successful capital increase which we executed in the past month is also an indication of the confidence the capital markets have in our company. There are good reasons for that – reasons that will move us forward over the long-term. Please allow me to describe them to you.

- 1) Globally, SAF-HOLLAND occupies a very good market position. In those areas where we are active, we are among the market leaders. On top of that we have a an attractive market structure. As a provider of components and systems we serve a large number of customers. This prevents too much dependence on individual customers and gives us a balanced risk profile.
- 2) Our service network is unique in the industry. It stretches far and wide, so that we are represented around the world. And, at the same time, it is closely knit so that we are always close to our customers. In brief: SAF-HOLLAND has a truly global presence.
- 3) Throughout the world our brand stands for quality and high technology. This is especially significant because the issue of efficiency is gaining importance among trucking companies and fleet operators. The goal is to ensure that commercial vehicles incur the lowest costs possible over the entire service life. This is underpinned by a comprehensive approach that comprises both the purchase price as well as the ongoing costs for maintenance and operation. On top of that, commercial vehicles should weigh increasingly less – this allows trucking companies to raise load volumes or it reduces fuel consumption for loads of the same volume.
- 4) Internally, we used the crisis that now lies behind us to decrease costs and to position ourselves efficiently. We profited greatly from this in 2010 – more on that later.
- 5) Our success is decided on the markets. Key to this success is a broad customer basis and long-term customer relationships. They ensure not only a stable volume basis, but also serve as a foundation for our successful research and development.
- 6) Our management team works together closely and with a high degree of mutual trust – and that also around the world. We fill management positions, whenever it is possible, from among our own ranks, thus securing continuity, competence and loyalty to the company.

### **Slide: Globally strong market position in attractive oligopolistic markets**

The brands with which SAF-HOLLAND does business are completely healthy. Our growth drivers continue to be increasing world trade and global division of tasks in production. And as always, road transportation is at the beginning and end of the supply chain. This ensures constant growth. By 2015, for example, the production of trucks will increase by 4.6 percent annually, for trailers the figure is 7.6 percent. Our globally balanced alignment helps us to take advantage of growth trends and to overcome weaker market phases. Because 90 percent of the world market for commercial vehicles is represented by Europe, North America and the BRIC countries. And SAF-HOLLAND occupies a leading position in all of these markets.

### **Slide: Global reach and density of service network**

I previously mentioned our service network as one of SAF-HOLLAND's most important success factors. Here you can see where we are represented. Customers around the globe can now get spare parts from us at nearly 10,000 service locations. This is a decisive competitive advantage. Because for every day that a truck is in the workshop waiting for spare parts costs the transport company money. We are working closely together with leading truck manufacturers on the expansion of our network. We thus reduce not only our own capital commitment by accessing an existing infrastructure. We also create a value added for our customer because they need only head toward a single workshop when maintenance work has to be done.

### **Slide: Global reach and density of service network**

The basis of our successful Aftermarket business is the number of axles and components that are currently on the road. Since the beginning of the 90's we have steadily increased sales volumes. On the slide you can see the production figures for Europe. In a ten-year period from 1991 to 2000, a total of about 600,000 axles were produced. In the period from 2001 to 2010, the figure was 1.9 million axles – three times more. The graphic shows you the dramatic

decrease we experienced primarily in 2009 as a result of the economic and financial crisis. But as you can also see: the trend is once again upward. Keeping in mind that a trailer in Europe has a service life of about 15 years, you can imagine the corresponding natural growth of demand in the replacement parts business.

**Slide: Strong brand, reputation for quality and technology expertise**

Our direct customers are manufacturers of trucks and trailers. But our most important target group is fleet operators. For that reason, it is important that the positioning of our brands is geared toward the target group. SAF-HOLLAND stands for quality and strength of innovation for the benefit of the customer. For the transport company, the sum of these characteristics is efficiency. Because only when a truck is on the road can it earn money. In a hard-fought market, the quality of our products is a decisive success factor. Transport companies that believe in our products can – especially in the trailer market – configure their semi-trailers as desired and in so doing order axle systems from SAF-HOLLAND. At the same time, the direct contact to the end customer gives us important knowledge and new input for our product development. One result of this cooperation is a series of new weight-reduced components that we are currently launching on the market.

**Slide: Investment Highlights – Broad customer base and longstanding customer relationships**

Over the decades, with our strict orientation toward quality, we have established a broad customer basis. We have longstanding framework contracts with all important manufacturers, which allows us to plan our production reliably. On the demand side, we have a large number of customers. The trailer market in particular is fragmented and has a strong regional character. There are around 300 suppliers in Europe and 350 in North America. For SAF-HOLLAND, this broad customer base means a high degree of independence, as no one customer represents more than 5 percent of total sales.

### **Slide: Business Performance – Group Sales and group adjusted EBIT**

Ladies and gentlemen,

Moving on to financial year 2010: SAF-HOLLAND has returned to a growth path. We significantly increased both sales and earnings. Our sales increased in 2010 by 50.4 percent, reaching EUR 631 million. The main reason for this was the recovery in the commercial vehicles sector. You can see that we recorded an increase over the full year. There was even a slight increase in the fourth quarter, which includes public holidays in North America and Europe. A year ago at this point we reported that we had to adjust the Group to the changed market situation. I also emphasized at this time that we would benefit from the economic recovery. Today I can report to you that we have succeeded in doing this. Adjusted EBIT climbed to EUR 37.1 million, whereas in the previous year, it had been just barely positive. Here again, you can see strong growth over the first three quarters with stable development in the fourth quarter. This shows that SAF-HOLLAND made savings in the right areas during the crisis and took the path towards growth when demand recovered at the beginning of 2010.

### **Slide: Business Performance – Group sales by region and business unit**

Our growth, and this is good news, is driven by all regional markets and all business units. As regards regions, you can see that Europe and North America are still our largest markets. A little more than six percent of our production originates in other regions. These primarily include the important future markets of China and Brazil. In the "other regions", we increased sales from EUR 24 million in 2009 to EUR 40.5 million or almost 70 percent.

Broken down by business unit, the Trailer Systems business unit continues to be a main contributor, accounting for about half of Group sales. The Aftermarket business unit, which is not exposed to economic fluctuations to the same degree, had a share in sales of 29 percent in 2010 and will continue to contribute around one third of sales in the future.

### **Slide: Business Performance – Trailer Systems**

And now let's take a look at the individual business units. Over the course of the year, the Trailer Systems business unit displayed the sales development already explained. Taking into account the full year, Trailer Systems provides a negative adjusted EBIT but is heading in the right direction. We are particularly happy to report that despite only a slight increase in sales in the fourth quarter, we achieved the turn-around and are now back in the black.

### **Slide: Business Performance – Powered Vehicle Systems**

The Powered Vehicle Systems business unit also recorded a significant sales increase over the course of the year in comparison to the previous year.

Adjusted EBIT totaled EUR 22.4 million over the course of the year, which corresponds to a margin of 17.6 percent.

### **Slide: Business Performance – Aftermarket**

The Aftermarket business unit is a stabilizing factor for us and has high growth potential. The replacement parts business increased sales in 2010 by 23.6 percent to EUR 181 million. As a result of the increase in sales, adjusted EBIT grew to EUR 25.9 million. The adjusted EBIT margin was thus 14.3 percent, an increase of two percentage points.

### **Slide: Business Performance – Operating Cash Flow**

In financial year 2010, we achieved an operating cash flow before income taxes in the amount of EUR 46 million and were thus approximately at the level of the previous year. Initiated in 2009, the restructuring measures continued in 2010 and contributed significantly to the financial stabilization of the Group. The most important contributing factor for the good cash flow performance was the positive earnings development in 2010 supported by the market recovery and the associated increase in sales. In addition, we continued strict implementation of our efficient inventory management from 2009 into 2010. Although inventories

increased as a result of the growth in sales to over EUR 68 million, we considerably improved inventory turnover to 43 days – in the previous year, it was 57 days. We have thus already achieved our mid-term goal of 45 days. Net working capital at just under EUR 63 million corresponded to around 9 percent of sales – our long-term goal is to maintain this under 10 percent.

#### **Slide: Milestones 2010/2011**

Backed by increasing demand for trucks and trailers, we are pursuing our strategic goals. We will continue to ensure that we improve our productivity and manage our inventories efficiently. New products, particularly low-weight products, will bring us additional sales in 2011 and subsequent years. At the Mid America Show, we presented a complete trailer product program for the first time – a result of successful technology transfer between Europe and the USA. In our fast-growing international markets, we still need to complete the restructuring measures in Brazil. In contrast, we have already successfully completed consolidation of our locations in China and started in-house axle production in Xiamen. We are strengthening our presence in Russia by expanding our service network. And last but not least, we also returned the Group to a more stable financial footing with the capital increase a few weeks ago. More on that later.

#### **Slide: Amendment of Loan Agreement**

The completion of a new credit agreement with our banks was a big step forward for us. After the successful capital increase, we are profiting from a considerably lower interest margin. It will be reduced initially by 1.45 percentage points. We expect a reduction in interest expenses in the two-digit million area in the year. Additional reductions will come into effect depending on the development of particular key debt figures. In addition, and this is an important point for you, the banks are forfeiting their option of enhanced security. The agreement also leaves us sufficient scope for investments in order to pursue our strategic goals. This agreement demonstrates that even the banks have recognized our successful restructuring and positive business development.

### **Slide: Shareholder Structure after Capital Increase**

Ladies and gentlemen, the successful capital increase in March 2011 placed SAF-HOLLAND on a very firm financial footing. An equity ratio of over 5 percent, as we reported as of December 31, 2010, is of course too low. Despite the market distortions as a result of the disaster in Japan, we placed more than 20 million new shares with institutional investors within one day at the end of March. Around 5 percent of these were sold to private investors. The offer was twice oversubscribed and the net proceeds for SAF-HOLLAND were at just under EUR 138 million. We will use most of this to reduce our liabilities and in so doing to improve our balance sheet structure. At the same time, the free float was extended as a result of the capital increase and is now at more than 92 percent. We have thus reached a market capitalization of around EUR 320 million and have strengthened our position in the SDAX of the German Stock Exchange. This in turn means we attract increased attention from investors and stabilizes our share price development.

### **Slide: Outlook 2011**

Ladies and gentlemen,

What can you expect from SAF-HOLLAND in 2011? First of all, we expect the market growth of recent months to continue. In this context, SAF-HOLLAND has resolved to increase sales by up to 20 percent, i.e. by more than the expected market growth. This means: We intend to win additional market share. On this basis, we expect to see continued growth in 2012. Against this backdrop, our earnings will also increase. However, they will not increase to the same high degree as sales. The reason for this is that as a result of growing business and a normalization of demand, we are again increasingly selling standard products with which we achieve a lower margin.

### **Slide: Financial Targets**

In the mid-term, we are adhering to our ambitious targets. Sales shall be increased to around EUR 1 billion, with a targeted adjusted EBIT margin of 10 percent. Net working capital, one of our key performance indicators, shall not exceed 10 percent of sales. At the same time, we intend to maintain our quality and technological leadership and will make the necessary investments in order to do this.

Ladies and gentlemen,

This completes the overview of financial year 2010 and the most important events of recent weeks. You can see that SAF-HOLLAND is back on track and growth remains our goal. In this context, and also on behalf of my colleagues on the Board of Directors and the Management Board, I would like to express my sincere thanks to our employees and employee representatives for their hard work, loyalty and willingness to compromise. Without them and their readiness to make concessions in difficult times for the benefit of the group and with a view to shared goals, we would not be in the position we are in today: a healthy company looking forward to the future with confidence. We will continue to make every effort to increase the efficiency of the Company. And it goes without saying that we will continue to provide our customers with innovative products with which they can participate successfully in the market.

I would now like to conclude my speech by drawing your attention to a change in the management boards which, among other people, concerns myself personally. At today's meeting of the Board of Directors, the resolution was reached that Detlef Borghardt will succeed me as CEO of SAF-HOLLAND effective July 1, 2011 I am stepping down from my position at my own wish, in the knowledge that our Company is solidly positioned and that an exceptionally competent management team will manage the interests of SAF-HOLLAND. With Detlef Borghardt, we have gained a recognized market expert for the CEO position, who has been closely associated with the company for eleven years, four of which as a member of the Board.

On behalf of the Board of Directors and the Management Board, I would like to thank you for the trust you have placed in us and for accompanying SAF-HOLLAND on its future path. Thank you for your attention.

Over to you, Mr. Schneider.