MANAGEMENT REPORT

SAF-HOLLAND AT A GLANCE

COMPANY PROFILE

The SAF-HOLLAND S.A., located in Luxembourg, is the largest independent listed commercial vehicle supplier in Europe. With sales of EUR 1,138.9 million and an average of 3,565 employees in 2017, the SAF-HOLLAND Group is one of the international leading manufacturers of chassis-related systems and components, primarily for trailers, but also for trucks, buses and recreational vehicles. The product range comprises axle and suspension systems, fifth wheels, kingpins and landing gear and is marketed under the SAF, HOLLAND and NEWAY brands. SAF-HOLLAND sells its products to Original Equipment Manufacturers (OEM) on six continents. The aftermarket business delivers the Group's spare parts to the service networks of Original Equipment Suppliers (OES) as well as to end customers and service centers through its extensive global parts distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is broadly positioned internationally in almost all markets worldwide. With the innovative SMART STEEL – ENGINEER BUILD CONNECT campaign, SAF-HOLLAND combines mechanical components with sensors and electronics and is driving ahead the digital networking of commercial vehicles and logistics chains.

BUSINESS MODEL: DIRECT ACCESS TO END CUSTOMERS

SAF-HOLLAND generates around 62 % of its sales with OEM customers in the trailer industry. SAF-HOLLAND products account for roughly one-third of the total value of a standard trailer. In addition to the trailer manufacturers, SAF-HOLLAND also sells to end customers, such as fleet operators. For many products, such as axle and suspension systems, it is the end customers themselves who determine most of the trailer specifications and choose their own suppliers. This contact with the end customers ensures that SAF-HOLLAND remains close to its customers so that it can offer the right solutions for their ever-changing requirements. Business with OEM customers from the truck industry currently accounts for about 13 % of Group sales.

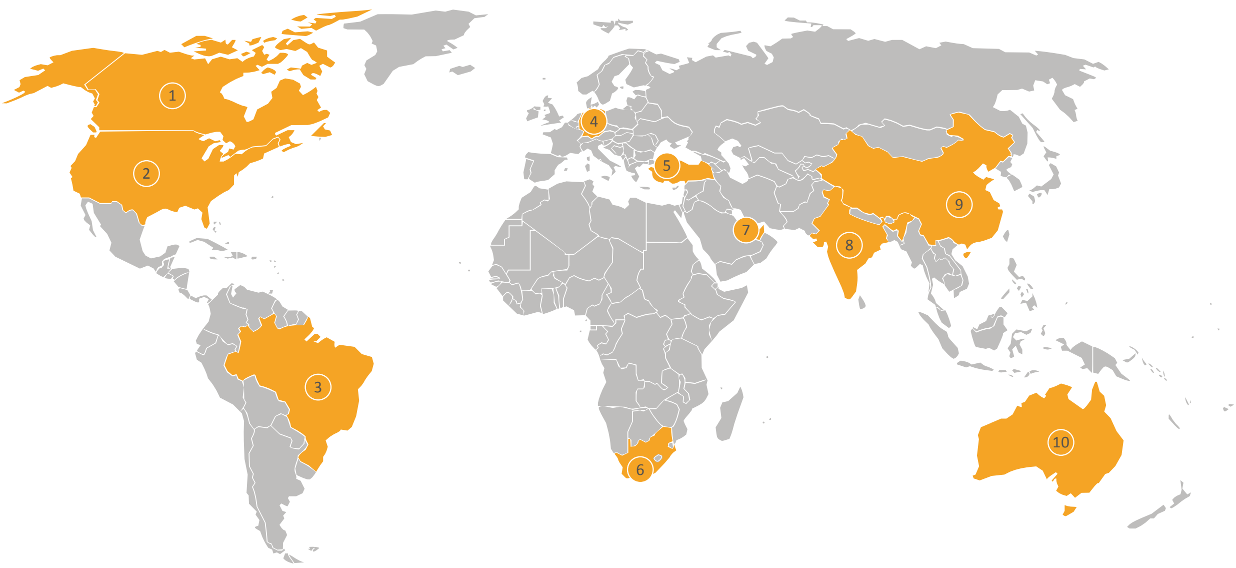
SAF-HOLLAND's product portfolio is unique in its focus on products that are crucially important to truck and trailer manufacturers in terms of quality, performance, innovation and standard of safety. SAF-HOLLAND's lightweight components and their inherent weight savings are setting industry standards and allowing end customers to optimize their total cost of ownership.

Apart from the Original Equipment Manufacturers (OEM) business, another key component of the Company's business model is the aftermarket business (Original Equipment Suppliers – OES), which represents almost 25 % of Group sales. SAF-HOLLAND possesses the largest and densest spare parts and service network in both Europe and North America. Through collaborations, SAF-HOLLAND has 10,000 spare parts and service stations available worldwide. The guaranteed, rapid supply of spare parts is one of the main criteria sought by fleet operators when selecting suppliers and at the same time represents a high barrier to entry for potential competitors. Because the demand in the aftermarket business trails that of the Original Equipment business, cyclical fluctuations in the Original Equipment business can be smoothed out to help keep SAF-HOLLAND's business model in balance.

LOCATIONS AND MARKETS: A GLOBAL PRESENCE IN ALL MAJOR COMMERCIAL VEHICLE MARKETS

SAF-HOLLAND is one of the suppliers in the sector with the largest geographical footprint. With a total of 17 production locations spread over six continents, the Company is present in all of the major truck and trailer markets worldwide. In addition to its regionally focused plants in North America, Europe and China, SAF-HOLLAND also has production and assembly facilities in Brazil, South Africa, Turkey, India, Australia, and the United Arab Emirates.

SAF-HOLLAND production locations



1 **Canada**
Woodstock

2 **USA**
Cincinnati, OH
Dumas, AR
Warrenton North, MO
Warrenton South, MO
Wylie, TX

3 **Brazil**
Alvorada

4 **Germany**
Bessenbach/
Frauengrund
Bessenbach/
Keilberg
Singen

5 **Turkey**
Düzce

6 **South Africa**
Johannesburg

7 **United Arab Emirates**
Dubai

8 **India**
Chennai

9 **China**
Baotou
Xiamen

10 **Australia**
Melton

With roughly 10,000 spare parts, service stations, dealers and repair shops in over 80 countries, SAF-HOLLAND also has one of the broadest spare parts and service networks in the industry. SAF-HOLLAND is densely represented throughout its core markets of Europe and North America.

The Group's key sales markets are still in Europe and North America. A total of roughly 90 % of sales were generated in these two regions in the reporting year. SAF-HOLLAND's activities outside of these established sales markets are mainly concentrated in the BRIC countries, the Middle East and Australia. In China and Brazil, among others, SAF-HOLLAND is not only active in the truck and trailer sector but also in the segment for bus suspensions.

PRODUCTS AND CUSTOMERS: CUSTOMIZED SOLUTIONS FOR CUSTOMERS

Our key products include axle and suspension systems, kingpins and landing gear for trailers, fifth wheels for trucks and suspension systems for vocational vehicles and buses. While the trailer component business spans several hundred original equipment manufacturers and a number of fleet operators, the customer base for truck components consists of a much lower number of globally operating truck manufacturers as well as smaller regional providers and manufacturers of vocational vehicles.

SAF-HOLLAND markets its products to original equipment manufacturers under three umbrella brands worldwide: SAF, HOLLAND and NEWAY. The SAF brand features axle and suspension systems for trailers, the HOLLAND logo is used on products with coupling and lifting technology, and NEWAY is the brand for suspensions for tractors and buses. SAF-HOLLAND also uses the TRILEX brand at the local level, mainly in the Middle East and East Africa.

SAF-HOLLAND supplies spare parts dealers and repair shops as well as large fleet operators from its global parts and service network. The product range includes original spare parts for trucks and trailers as well as products from the brands SAUER GERMANY QUALITY PARTS and GoldLine. These brands are designed particularly for markets with a high share of older vehicles where customers focus mainly on durability and low prices. Spare parts from third parties are also sold.

SAF-HOLLAND'S product brands

SAF	Holland	NEWAY
Trailer axles and suspension systems	**Coupling and lifting technology**	**Suspensions for vocational trucks and buses**
Innovative fleet-optimized trailer axles, brakes and suspension systems to maximize transport efficiency.	Reliable, proven fleet solutions for safe and efficient coupling and lifting using innovative technology and global expertise.	Durable, tested for fleet use and extremely powerful air suspensions with outstanding design features and broad operational usage in vocational trucks and buses.

SAF-Holland ORIGINAL PARTS	SAUER GERMANY QUALITY PARTS / GOLD LINE QUALITY PARTS
SAF-HOLLAND ORIGINAL PARTS	**SAUER GERMANY QUALITY PARTS and GOLDLINE QUALITY PARTS**
is the aftermarket brand for our premium products developed and tested for the most stringent requirements.	are the aftermarket brands for our quality products developed and tested as the industry standard.

LEADING POSITION IN AN OLIGOPOLISTIC MARKET ENVIRONMENT

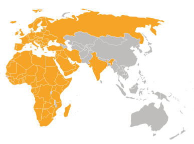
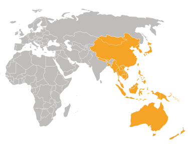
SAF-HOLLAND's core markets – Europe and North America – are mainly characterized by oligopolistic competitive structures. Nearly all product segments are dominated by the three largest suppliers who account for roughly 80–90% of the market volume.

SAF-HOLLAND is one of the three leading suppliers in all of the relevant market segments in its core markets and the European leader in axle and suspension systems for trailers. In North America, SAF-HOLLAND is the market leader for fifth wheels, landing gear and kingpins. The Company also commands the densest service network worldwide.

ORGANIZATIONAL STRUCTURE

SAF-HOLLAND's Group structure spans three regions: EMEA/I, the Americas and APAC/China. This regional structure reflects the Group's reportable segments and includes both the original equipment and aftermarket businesses. Each segment is entirely responsible for its own results and controls all the necessary resources. Cross-segment functions and key tasks to support the business units are centrally organized within the Group.

Regionally focused structure

Americas	EMEA/I	APAC/China
		
All product groups	All product groups	All product groups

LEGAL GROUP STRUCTURE

SAF-HOLLAND S.A. is a company incorporated under the laws of Luxembourg, whose shares are listed exclusively 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 of the local subsidiaries.

Legal group structure

SAF-HOLLAND S.A.

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 s.r.o
- 100 % SAF-HOLLAND do Brasil Ltda.
  - 57.5 % KLL Equipamentos para Transporte Ltda.
- 100 % SAF-HOLLAND South Africa Ltd.
- 100 % SAF (Xiamen) Axle Co., Ltd.
- 100 % OOO SAF-HOLLAND Rus
- 100 % SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi
- 100 % SAF HOLLAND Middle East FZE
- 100 % SAF-HOLLAND Austria GmbH
- 80 % Corpco Beijing Technology and Development Co., Ltd.
- 10 % SQG S. u. G. gem. GmbH
- 100 % SAF-HOLLAND Inc.
  - 100 % SAF-HOLLAND Canada, Ltd.
  - 100 % SAF-HOLLAND (Aust.) Pty., Ltd.
  - 100 % SAF-HOLLAND (Malaysia) SDN BHD
  - 100 % SAF-HOLLAND (Thailand) Co., Ltd.
  - 100 % SAF-HOLLAND Verkehrstechnik GmbH
  - 100 % SAF-HOLLAND Int. de Mecixo 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.

In addition to the investments in the respective local entities, SAF-HOLLAND holds a strategic equity interest of over one-third of the French company Castmetal FWI S.A. since 2006. The other shares in the joint venture are held by the SAFE-Group, a producer of technical components made of cast steel and plastic injection molding for various industrial applications. The joint venture supplies SAF-HOLLAND with cast components for fifth wheels and suspension systems for the North American market.

INFLUENTIAL ECONOMIC AND LEGAL FACTORS

One of the key factors influencing SAF-HOLLAND's business is the development of global transportation volumes. Cargo volumes are continuously growing worldwide driven by population growth, urbanization and the economy's growing globalization. In emerging countries, the expansion of road networks is also driving exceptionally strong growth in the transportation of goods. These demographic and economic developments are leading to higher demand for tractors, trailers and buses, which in turn benefits SAF-HOLLAND.

Regulatory requirements can drive our product sales higher. Load restrictions, fuel consumption and emission requirements for commercial vehicles are becoming increasingly more stringent worldwide. This also increases the need for weight-reduced components – a development that benefits SAF-HOLLAND because its components are among the lightest on the market. Similar considerations apply in relation to the safety requirements. This area is also seeing more stringent regulations internationally, which again opens up attractive opportunities for SAF-HOLLAND because its products can help meet the more stringent safety standards.

STRATEGY AND OBJECTIVES

GROWTH STRATEGY 2020

With the introduction of the Strategy 2020 in 2015, SAF-HOLLAND aligned its business to the global megatrends in the transportation industry. The strong projected increase in global consumption driven by factors such as a growing population and expanding purchasing power – particularly in the middle class – is leading to rising demand for goods and, consequently, steadily increasing transportation volumes. This growth calls for a substantial investment in transportation equipment, particularly in trucks and trailers, which are found at the beginning and end of every supply chain. We mainly see this structurally driven market growth in the emerging economies, particularly in the Asia Pacific, Middle Eastern, and African markets.

In pursuing our Strategy 2020, SAF-HOLLAND is transforming itself from an international company to a global group.

The Group's presence should strengthen considerably, particularly in the emerging markets, as a result of its entry into new regional markets outside of the Group's current core markets of Europe and North America. This expansion includes a product portfolio with regional solutions that are durable, reliable and tailored to customer requirements.

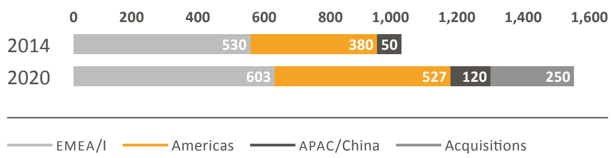
Another one of our strategic objectives is to expand our aftermarket business across all regions. Over the medium term, this business is expected to constitute at least one-quarter of the Group's sales.

In line with the goals set out in our Strategy 2020, SAF-HOLLAND is targeting an increase in organic Group sales from a level of roughly EUR 960 million in the 2014 financial year to approximately EUR 1,250 million in 2020, representing average organic growth of around 4 % p.a. Complementary collaborations, joint ventures and acquisitions are expected to add sales of roughly EUR 250 million and boost total Group sales in 2020 to around an estimated EUR 1,500 million.

The share of sales generated in regions outside of today's core markets of Europe and North America is expected to approach 30 % by the year 2020.

Strategy 2020 sales targets

in EUR millions



In accordance with our set objectives, the adjusted EBIT margin is anticipated to reach an average level of at least 8 % by the year 2020.

SAF-HOLLAND expects earnings per share to rise around 75 % compared to its level in 2014 and reach about EUR 1.20 by 2020. This target takes into account the higher number of shares resulting from the conversion rights of convertible bonds issued in 2014.

Despite this strong growth, the Group intends to retain its high level of capital efficiency. The annual average investment volume over the next several years is expected to be around 2 to 3 % of sales. To realize the strong organic growth expected in China over the next several years, especially in modern axle and suspension systems for trailers, the SAF-HOLLAND Group plans to significantly expand its production capacity in that region. In order to do so, the Group is increasing its level of investment in 2018 and will invest a high single-digit million euro amount in a new central, highly efficient production center in China. This investment will prepare us for our growth in the years ahead while at the same time achieving a core objective of our 2020 growth strategy. We therefore expect our investment volume to total EUR 38 to 40 million in the 2018 financial year.

The ratio of net working capital to sales is also expected to remain largely stable at around 12 %. The Group will continue to strive for a maximum leverage ratio (net debt/EBITDA) of 2.0, whereby a level of 2.5 would be temporarily acceptable for larger acquisitions.

Three years after formulating its 2020 growth strategy, SAF-HOLLAND is well on its way to achieving its goals. With organic sales of EUR 1,138.8 million in the 2017 financial year (excluding KLL), the Group has already increased its sales by 18.6% versus the 2014 benchmark year. This rise corresponds to average annual growth of more than 5%, despite facing an overall difficult market environment during this period. On the acquisition side, SAF-HOLLAND took its first major step toward strengthening its presence in the emerging markets in 2016 with the acquisition of KLL, one of Brazil's leading suppliers of air suspension systems for trucks and buses, as well as axles and mechanical and air suspension systems for trailers. In the 2017 financial year, KLL contributed around EUR 11.9 million to Group sales. Acquisitions are required to offer both strategic and financial value. SAF-HOLLAND will remain committed to these principles for any possible future acquisitions because it believes this is in the best interest of its shareholders.

SAF-HOLLAND has met its targets thus far, including those for profitability and capital efficiency. In each of the years from 2015–2017, the annual adjusted EBIT margin reached at least 8%. The investment ratio was in the range of 2.4 and 2.6%, the leverage ratio was between 0.9 and 1.1, and the net working capital ratio was in the range of 10.9 and 12.0%.

With the assumption of financial liabilities over the past two years in the form of higher credit lines and the issue of a promissory note, SAF-HOLLAND has secured the financial basis necessary for the acquisitions planned under the Strategy 2020.

PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The Management Board of the SAF-HOLLAND Group relies primarily on financial key figures to assess current business performance and make future strategic and investment decisions. The most important performance indicators are based on the Group's sales and earnings development and net assets, or are derived therefrom, and include the following:

— Sales
— Adjusted EBIT (earnings before interest and taxes, adjusted for depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocation, impairment reversals on intangible assets as well as restructuring and transaction costs) or derived from it the adjusted EBIT margin
— Earnings per share
— Net working capital (current assets less cash and cash equivalents, current non-interest-bearing liabilities and other current and non-current provisions) and the net working capital ratio (ratio of net working capital to the fourth quarter's sales extrapolated for the full year)

Financial performance indicators

in EUR millions

	Target 2020	2017	2016	2015	2014	2013
Sales	1,250 – 1,500	1,138.9	1,042.0	1,060.7	959.7	857.0
Adjusted EBIT	≥ 100 – 120	91.2	90.4	94.0	70.7	59.3
in % of sales	≥ 8 %	8.0	8.7	8.9	7.4	6.9
Diluted earnings per share in EUR	~1.20	0.82	0.85	0.99	0.69	0.54
Net working capital	150 – 180	120.6	110.3[2]	116.6[1]	102.7	76.1
in % of sales	12	11.0	10.9	12.0	10.9	9.4

[1] Excluding receivables of EUR 2.0 million from the sale of property in Wörth, Germany.
[2] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements).

SAF-HOLLAND budgets, calculates and monitors the sales, adjusted EBIT and adjusted EBIT margin at both the segment and Group levels. The calculation of earnings per share and net working capital, however, is performed only at the Group level.

Other important financial performance indicators considered in corporate management include

— Investment volume (investments in property, plant and equipment and intangible assets)
— Leverage ratio (net debt divided by EBITDA)
— Equity ratio (ratio of equity to total assets)
— Liquidity (the sum of cash and cash equivalents, other short-term investments and freely available credit lines)
— Cash flow from operating activities
— Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets)
— Return on investment (the yield from an investment)
— Days Sales Outstanding (DSO)

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to the financial performance indicators above, SAF-HOLLAND also relies on non-financial indicators to support decision-making. These indicators include primarily data such as delivery reliability, quality, sales volume, customer structure and satisfaction, and market share development. The parameters gathered are recorded separately for the different regions and product groups. This makes it not only possible to recognize developments at an early stage but also to address them specifically.

SAF-HOLLAND also takes sustainability indicators into account when measuring its performance. These indicators include those concerning employees such as turnover rates, length of service and training, occupational safety, as well as environmental issues such as emissions, energy consumption, and volume of waste. Further details can be found in the section "Sustainability" on page 78.

INTERNAL GROUP CONTROLLING SYSTEM

Each year, SAF-HOLLAND internally prepares a medium-term plan for the forthcoming five years in addition to a yearly budget. A regular forecast is also prepared regularly each quarter for the respective financial year based on the Group's current business development.

The Management Board and the Board of Directors monitor the achievement of financial performance indicators using a target/actual comparison and forecasts. The progress made in achieving the strategic objectives is reviewed and analyzed regularly in the meetings of the Management Board and the Board of Directors.

INDUSTRY AND COMPANY-SPECIFIC LEADING INDICATORS

The Company's primary leading indicators are order intake and order backlog. These indicators are gathered for the respective Group companies and indicate the level of capacity utilization to be expected and the likely development of sales and earnings.

Accordingly, management continuously monitors and analyzes the statistics and forecasts for the 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.

RESEARCH AND DEVELOPMENT

FURTHER EXPANDING OUR TECHNOLOGICAL LEADERSHIP

Research and development activities play a major strategic role in the long-term safeguarding of our technologies. Our goal is to use innovative technologies and solutions to secure and expand our technological edge versus our competitors and be perceived by our customers as a pioneer in the implementation of new technologies.

In the 2017 financial year, our research and development costs increased by 3.6 % to EUR 20.4 million (previous year: EUR 19.7 million). We capitalized development costs in the amount of EUR 4.2 million (previous year: EUR 3.7 million) resulting in a capitalization rate in the reporting year of 17.1 % (previous year: 15.8 %). The R&D ratio based on Group sales was 2.2 % (previous year: 2.2 %). At the end of the 2017 financial year, we employed a total of 175 people (previous year: 192) in the areas of development, design, and testing.

Multi-year overview of research and development

	2017	2016	2015	2014	2013
R&D expenses including capitalized development costs (in EUR millions)	24.6	23.4	24.6	21.9	19.1
R&D ratio (expenses as a percentage of sales)	2.2	2.2	2.3	2.3	2.2
Number of employees in the areas of development, design and testing	175	192	191	171	164

Our development activities are focused not only on developing new products but also on adapting existing solutions to customer-specific and regional market requirements. This is why our teams of developers and engineers are not only active in Germany and the United States but also worldwide. Close proximity to our customers ensures that the specific market knowledge obtained by the local entities flows directly into the different variations of our products.

SMART STEEL – ENGINEER, BUILD, CONNECT

Our goal is to offer our customers innovative products that reduce their total cost of ownership and thereby ensure their fleets operate efficiently. To achieve this goal, our research and development activities have focused for many years on the topics of weight reduction through the use of lightweight components, durability and safety. In the 2017 financial year, we added digitization to our development focus and set up a special team consisting primarily of American and European experts for this purpose.

At SAF-HOLLAND, digitization means combining our mechanical products with sensors and electronics, or more precisely, integrating electronic intelligence into our axles, suspensions, and fifth wheels. This connection is absolutely necessary first to facilitate automated driving and second to make autonomous driving a reality. This prompted us to move decisively forward with the development of a series of new, innovative products in the 2017 financial year, which vastly automate work that was previously done manually. This saves time and enables fleet operators to bring down their operating costs. At SAF-HOLLAND, all initiatives for combining mechanics and electronics fall under the motto of SMART STEEL – ENGINEER, BUILD, CONNECT.

Another aspect of digitization is the ability to link our systems intelligently and evaluate the derived data. Digitization can be used to monitor the wear and tear of components such as brake pads, thereby avoiding damage to the trailer. This goes hand in hand with an optimization of the maintenance intervals and the resulting minimization of downtimes. Fleet operators also receive accurate, real-time information about the position of the trailer, as well as about loading and the condition of the load. This information allows operators to further optimize their route and service scheduling.

SAF ADAPTIVE AIR DAMPING

In July 2017, SAF-HOLLAND unveiled the innovative SAF Adaptive Air Damping System. This system combines the functions of the air spring and shock absorber in the chassis of semi-trailers, making hydraulic shock absorbers redundant. As a result, trailers can save around six kilos of weight per axle – which adds up to 18 kilos for a three-axle trailer – and allow higher payloads. With the SAF Adaptive Air Damping System, damping is provided by two air spring valves and a bypass between the rolling bellows and the piston. The higher the axle load, the more air that flows through the valves. The additional friction that results makes damping harder. In contrast to conventional shock absorbers, which always have the same level of damping set for the maximum load, the infinitely adaptive air damping prevents the trailer from over-damping at low or no loads. This means that only minimal excess pressure of 0.5 bar enters the system compared to 5 to 6 bar for a full load and causes damping to soften. As a result, adaptive air damping contributes to increased safety, and because the damping automatically adapts to the load condition, it is especially gentle on tires and cargo.

Other advantages of the adaptive air damping system are lower maintenance costs because the system operates virtually maintenance-free. The new system is also environmentally friendly since damping does not lose any oil. The air damping system was specifically developed for curtainsiders and reefers. Other applications for semi-trailers with high empty or load ratios could follow. The launch of the new system is scheduled for the third quarter of 2018.

At the 2017 Solutrans Innovation Awards in Lyon in early December 2017, the SAF Adaptive Air Damping System received the gold award, which is the highest accolade in the equipment category. Each year, the Solutrans Innovation Awards, launched in 2011, honors the most innovative solutions in the transportation industry in the categories of Bodywork and Equipment Manufacturers.

RECOLUBE

SAF-Holland's automatic lubrication pump RECOLUBE has been available on the market since the beginning of 2017. Five independent pump elements automatically supply the fifth wheel with grease and deliver via the integrated lubrication manifold the optimum amount directly to the point where lubrication is needed. The grease is distributed over the plate via lubrication grooves. Under normal driving conditions, this happens about every one and a half hours. Only the amount of lubricant actually needed is used, meaning excess oil and grease do not end up on the road and pollute the environment. The system contains a grease reserve for approximately 100,000 kilometers or one year of operation. An electronic display in the cab of the tractor shows the system's current fill level and allows direct monitoring via the cockpit. When the supply of grease is empty, the pump can be refilled quickly and easily.

The automatic and efficient distribution of high-quality lubricants is not only environmentally friendly but also economically sensible. Additionally, with RECOLUBE it is no longer necessary for the driver or the repair shop to lubricate the fifth wheel manually. The truck manufacturer MAN has been using RECOLUBE as standard equipment on its heavy trucks since January 2017.

ELI-TE™

An important safety aspect when coupling is ensuring that the semi-trailer is securely connected to the tractor. This requires the driver to check the connection directly at the fifth wheel before departure to make sure that the semi-trailer is correctly coupled. SAF-HOLLAND has developed an automatic system called ELI-te™ (Electronic Lock Indicator - tech-enhanced), in which sensors use an electrical signal to check the correct position of kingpin and lock when coupling. With the help of a small computer mounted under the fifth wheel, the system signals the driver when there is a secure connection by lighting up four bright LEDs. If the connection is not secure than a red flashing light that can also be seen clearly from the side of the cab warns the driver. This makes a visual inspection much easier for the driver.

SAF-HOLLAND launched the ELI-te™ system in North America at the end of 2016. In early 2017 the system received the prestigious HDT Top 20 Products award from Heavy Duty Trucking (HDT) magazine. Each year, this award honors the 20 best product launches in the North American market in terms of innovation and customer value.

Following the system's launch in North America, SAF-HOLLAND is now working on further developing ELI-te™ and transferring the acquired know-how to other applications. The secure connection of the trailer to the tractor, especially in terms of automated coupling, is of crucial importance. SAF-HOLLAND has taken the initial step by setting up a project team to evaluate the ELI-te™ system's application at loading terminals and logistics centers, where coupling is frequently performed.

NUMBER OF PRIORITY APPLICATIONS INCREASE FURTHER IN THE 2017 FINANCIAL YEAR

The number of priority applications validates our innovative strength and the effectiveness of our research and development activities. The initial filing at the patent office is known as a priority application. With a total of 50 new applications in the past year, our number of patents compared to the prior year increased by a significant 38.9 %. Of these applications, 46 stemmed from SAF-HOLLAND GmbH and 4 from SAF-HOLLAND Inc.

Number of priority applications

	2017	2016	2015	2014	2013
Number of priority applications	50	36	30	41	26

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

SAF-HOLLAND is incorporated as a Société Anonyme (S.A.) under Luxembourg law. Management and control of the Company are organized differently than in German stock corporations. Whereas corporate law in Germany calls for a two-tier model with a Management Board and Supervisory Board, the management structure of an S.A. is oriented toward the single-tier principle of the Anglo-American board system.

BOARD OF DIRECTORS

SAF-HOLLAND S.A. is a financial holding company, and its activities are managed by the Board of Directors. The Board of Directors focuses strongly on the strategic direction of the SAF-HOLLAND Group and the monitoring of the business activities of the individual direct and indirect operating subsidiaries. During the reporting year, the SAF-HOLLAND S.A . Board of Directors advised, controlled and monitored the Management Board. The Board of Directors was regularly, promptly and comprehensively informed by the Management Board in written and verbal form about all material issues of the SAF-HOLLAND Group. The Management Board reported on the Group's net assets, financial position and results of operations, business development, key financial indicators and market trends.

The Board of Directors also addressed non-financial reporting. As part of Corporate Social Responsibility (CSR) and CSR reporting, the Board of Directors also discussed the aspects of corporate responsibility and the potential impact of SAF-HOLLAND's business policies on society. The main issues discussed were employees, social and environmental concerns, respect for human rights and the fight against corruption and bribery.

In accordance with the requirements of the German Corporate Governance Code, the chair of the Board of Directors has agreed to discuss supervisory issues in an appropriate manner with investors.

The Board of Directors may consist of external members as well as Company operating managers. SAF-HOLLAND's Board of Directors currently consists of six members. Five of these members, including the chair Martina Merz, are external members. The sixth member of the Board is Detlef Borghardt, Chief Executive Officer (CEO) of SAF-HOLLAND. This means that one member of the Board of Directors is directly involved in the Group's day-to-day business. The Board of Directors appoints a chair and vice chair from its members. In accordance with the Articles of Association the Board's decisions are made with a simple majority of the meeting's attending or represented members. At least half of the members must be present or represented (quorum).

According to the SAF-HOLLAND S.A. Articles of Association, there must generally be at least three independent members on the Board of Directors. As of December 31, 2017, three of the six members were classified as independent as defined by the Company's Articles of Association. The independent members are Martina Merz, Anja Kleyboldt and Carsten Reinhardt. When considering whether a member of the Board of Directors should be classified as dependent or independent, the Company follows the recommendations of the European Commission of February 15, 2005 on the role of non-executive or supervisory directors of listed companies. Dr Martin Kleinschmitt and Jack Gisinger are two former members of the Management Board who are now currently members of the Board of Directors. Detlef Borghardt , the Chief Executive Officer of SAF-HOLLAND, is classified as a dependent member as defined by the Articles of Association of SAF-HOLLAND S.A.

Bernhard Schneider and Sam Martin left the Board of Directors at the end of the Annual General Meeting on April 27, 2017. Bernhard Schneider had been a member of the Board since 2007 and its chair since 2009. Sam Martin had been a member since 2011. The Board of Directors elected Martina Merz as the new chairwoman of the Board of Directors at its meeting directly following the Annual General Meeting. Ms Merz had been serving as the Board's vice chairwoman since April 2016. Dr Martin Kleinschmitt was elected vice chairman of the Board of Directors.

Board of Directors

as of December 31, 2017

Name	Position	First appointment	Term expires
Martina Merz[1]	Chairwoman of the Board of Directors (since April 27, 2017) Non-Executive Director	April 24, 2014	April 2019
Dr. Martin Kleinschmitt[2, 3]	Vice Chairman of the Board of Directors (since April 27, 2017) Non-Executive Director	April 25, 2013	April 2019
Detlef Borghardt[3]	Member of the Board of Directors Executive Director	October 1, 2011	April 2020
Jack Gisinger[2, 3]	Member of the Board of Directors Non-Executive Director	April 27, 2017	April 2020
Anja Kleyboldt[1]	Member of the Board of Directors Non-Executive Director	April 26, 2012	April 2019
Carsten Reinhardt[1]	Member of the Board of Directors Non-Executive Director	27. April 2017	April 2020

[1] Independent member as defined by the SAF-HOLLAND Articles of Association
[2] Former member of the SAF-HOLLAND Management Board. Jack Gisinger was on the Management Board until December 31, 2015; Dr Martin Kleinschmitt served as interim CFO from January 1 to February 28, 2017.
[3] Dependent member as defined by the SAF-HOLLAND Articles of Association

More information on the activities of the Board of Directors during the 2016 financial year can be found in the corresponding report on page 10.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors set up two committees to help fulfill its duties: the Audit Committee and the Remuneration Committee. The Audit Committee and the Remuneration Committee are comparable to the corresponding committees of a German supervisory board.

The Audit Committee consisted of the following members as of December 31, 2017:

— Dr Martin Kleinschmitt (Chair)
— Martina Merz
— Carsten Reinhardt

Dr Kleinschmitt possesses special expertise in the application of accounting principles and internal control procedures. Two of the three members of the Audit Committee are independent members of the Board of Directors.

The Remuneration Committee, established by the resolution of April 27, 2017, consisted of the following members as of December 31, 2017:

— Martina Merz (Chair)
— Jack Gisinger
— Dr Martin Kleinschmitt
— Anja Kleyboldt
— Carsten Reinhardt

Three of the five members of the Remuneration Committee are independent members of the Board of Directors.

NOMINATION COMMITTEE

In the 2017 financial year, the Board of Directors completed preparations for the creation of a nomination committee. The Nomination Committee will begin its work in early 2018.

MANAGEMENT BOARD

The Executive Board of SAF-HOLLAND GmbH is the highest operational management body of the SAF-HOLLAND Group. It functions as a Management Board and is responsible for the operational management of the Group. In addition, the Group's worldwide activities are coordinated by a Management Board that includes other members of management from the various regions of the Group in addition to the Executive Board of SAF-HOLLAND GmbH. The members of the Management Board are appointed by SAF-HOLLAND S.A. The Board of Directors of SAF-HOLLAND S.A. and the Executive Board of SAF-HOLLAND GmbH and the Management

Board maintain a close, continuous and faithful cooperation.

In addition to the three members with functional responsibility (CEO, CFO and COO), the Management Board's responsibilities are allocated by region in line with the respective organizational structure of the SAF-HOLLAND Consolidated Group. The Americas, EMEA/I and China regions are each represented by their own President. The APAC/China region will be directed by the chief executive officer until further notice. At the end of 2017, SAF-HOLLAND's Management Board consisted of the following six members:

Management Board

as of December 31, 2017

Detlef Borghardt*	Chief Executive Officer (CEO) President Region APAC/China
Dr Matthias Heiden*	Chief Financial Officer (CFO) (since March 1, 2017)
Arne Jörn*	Chief Operating Officer (COO) (until February 28, 2018)
Alexander Geis*	President Region EMEA/I
Guoxin Mao	President Region China
Steffen Schewerda*	President Region Americas

* Managing Director of SAF-HOLLAND GmbH

PERSONNEL CHANGES IN THE MANAGEMENT BOARD DURING THE 2017 FINANCIAL YEAR

On March 1, 2017, Dr Matthias Heiden assumed the position of chief financial officer (CFO) succeeding Wilfried Trepels who had left SAF-HOLLAND at the end of 2016. During the interim period, Dr Martin Kleinschmitt temporarily assumed the function of CFO.

REMUNERATION SYSTEM

MANAGEMENT BOARD

The remuneration of the SAF-HOLLAND Management Board in 2017 was based on the Company's size and global orientation, in addition to its economic and financial situation. Remuneration is designed to be internationally competitive, providing incentives for dedicated and successful work in a dynamic business environment.

The remuneration package consists of three components:

— a fixed annual base salary paid monthly,
— variable remuneration (short-term incentive, STI) based on the financial year, and
— long-term variable remuneration (long-term incentive LTI) based on the Company's performance and its stock price over a four-year performance period.

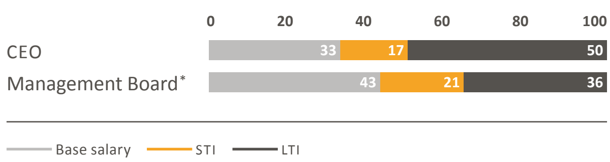
SAF-HOLLAND has not introduced a stock option program. The salary, STI and LTI components are paid to the Management Board members in the currency of their home countries.

Members of the Management Board are not required to hold the Company's shares or to invest part of their compensation in the Company's shares during their appointment.

The total remuneration for the members of the Management Board amounted to EUR 4,046,881.00 in the 2017 financial year (previous year: EUR 3,300,056.00). Of this amount, EUR 1,734,445.00 (previous year: EUR 1,579,711.00) was attributable to basic remuneration, EUR 838,906.00 (previous year: EUR 1,067,741.00) to STI and EUR 1,473,530.00 (previous year: EUR 652,604.00) to LTI payments to members of the Management Board.

Actual remuneration structure in 2017

in %



* excl. CEO

The variable remuneration components for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer are based solely on the achievement of Group targets and SAF-HOLLAND's share price performance. The variable remuneration of the regional presidents also takes into account the achievement of the respective region's budget targets.

For the variable remuneration components, the Board of Directors determines targets that are based on SAF-HOLLAND's budget for the respective financial year. The amount of the variable remuneration depends on the SAF-HOLLAND Group's achievement of certain key performance indicators.

The following criteria applied to the individual components of the Management Board's remuneration in the 2017 financial year:

- A fixed annual base salary that is paid out monthly as the member's salary.
- A variable short-term incentive component (STI) determined on the basis of the consolidated financial statements for the 2016 financial year. STI remuneration depends on the achievement of three set targets: Group sales, net working capital and adjusted EBIT. The target achievement for financial targets requires a minimum of 70 %. If the sum of the weighted individual target achievement for the financial targets is below 70 % (threshold), then there is no pro rata payout of the target bonus. The target achievement for financial targets is capped at 125 %. The amount of remuneration to be paid from the 2016 STI was determined at the meeting of the Board of Directors in March 2017 after reviewing the achievement of the targets. The payment of the 2016 STI took place after the Annual General Meeting of SAF-HOLLAND S.A. in April 2017.
- A variable LTI component determined on the basis of the 2013 LTI plan, which took effect on January 1, 2013. The allocation date of the 2013 tranche was April 2017. In 2013, a total of 191,106 share units were allocated. The aim of this plan is to align the interests of the Company's management and executives with the interests of the SAF-HOLLAND S.A. shareholders and the long-term increase in enterprise value. The performance share unit plan takes into account both company performance and stock price performance based on 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 calculated by dividing the remuneration amount allocated annually by the Board of Directors by the average share price over the last two months of the year preceding the allocation. At the end of the performance period, the allocated number of share units is adjusted by multiplying this amount by a target achievement factor. The target achievement factor is the ratio of the average company performance achieved (adjusted EBIT margin) during the performance period divided by the average target value previously set for the performance period.

The amount of the participant's payout entitlement is determined by multiplying the share units by the average share price over the last two months of the performance period and the target achievement factor:

Performance Share Unit Plan (PSUP) allocation		Multiplier according to target achievement curve		Average share price in November and December of the 4th (2nd) year		200 % cap on gross annual base salary
Number of share units	**x**	**Target achievement factor**	**x**	**Share price**	**=**	**PSUP payment**

An entitlement to shares of SAF-HOLLAND S.A. does not exist.

A payout from the Performance Share Unit Plan (PSUP) is limited to 200 % of the participant's gross annual salary at the time of payment.

The prerequisite for the exercisability of the stock appreciation rights is the achievement of a defined performance target. The performance target is met if, during the grant period, the Group achieves on average the minimum operating performance measured in terms of the "adjusted EBIT" performance indicator.

An overview of all share-based compensation programs can be found on page 140 of the Annual Report.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER (CEO)

The minimum and maximum remuneration of the Chief Executive Officer (CEO) that could be reached in the year 2017 based on the variable compensation components was a minimum of 0% of the base compensation for the year 2017 and a maximum of 261%.

BOARD OF DIRECTORS

The members of the Board of Directors receive fixed remuneration only. Performance-based or stock-based remuneration components are not granted. There is no separate remuneration granted for chairing or participating in a committee.

The remuneration paid to each member of the Board of Directors is listed below:

Renumeration of the Board of Directors

in Euro

		2017	2016
Bernhardt Schneider	Chairman of the Board of Directors (until April 27, 2017)	32,054	100,000
Martina Merz	Chairwoman of the Board of Directors (since April 27, 2017)	80,931	40,000
Dr Martin Kleinschmitt	Vice Chairman of the Board of Directors	53,643	60,000
Detlef Borghardt	Member of the Board of Directors	–	–
Jack Gisinger	Member of the Board of Directors	40,000	–
Anja Kleyboldt	Member of the Board of Directors	40,000	40,000
Sam Martin	Member of the Board of Directors	12,821	40,000
Carsten Reinhardt	Member of the Board of Directors	27,287	–

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

As a Luxembourg Société Anonyme exclusively listed in Germany, SAF-HOLLAND is not subject to the standards for corporate governance of Germany. Nevertheless, the Board of Directors, the Management Board and the Executive Board of SAF-HOLLAND GmbH are equally committed to responsible and transparent corporate governance, business integrity, sustainability and compliance with ethical values. SAF-HOLLAND therefore complies with the recommendations and suggestions of the German Corporate Governance Code in its currently valid version on a voluntary basis to the extent allowed by Luxembourg corporate law and the Company's single-tier structure. The limitations that exist are reflected in the Declaration of Conformity pursuant to Section 161 AktG, which we submit to voluntarily.

The Declaration of Conformity based on the current version of the German Corporate Governance Code dated February 7, 2017 and submitted by the Board of Directors on March 15, 2018 is permanently available on our website at http://corporate.safholland.com/en/company/about-us/corporate-governance/corporate-governance.

A COMPLIANCE SYSTEM BASED ON A COMPREHENSIVE CODE OF CONDUCT

Corporate integrity has the highest priority at SAF-HOLLAND. We believe the concept of compliance refers not only to compliance with the applicable national and international laws and regulations but also signifies a commitment to ethical values. This is the reason we have established a compliance unit to support our employees in meeting these requirements.

The Head of the Compliance & Legal Affairs department oversees the compliance management and reports directly to the chief financial officer. The design and effectiveness of the compliance management system are also the subject of internal audits.

Our Code of Conduct combines the compliance requirements that are binding for SAF-HOLLAND as a company, our management and each individual employee.

The Code of Conduct includes but is not limited to regulations on

- the prohibition of illegal business practices, such as illegal cartel agreements, bribery, corruption and insider transactions;
- the prohibition of unlawful discrimination, child or forced labor as well as the infringement of the intellectual property rights of third parties and
- the right of all employees to fair treatment, equal opportunities and occupational safety.

The Code of Conduct is available to our employees in our Group languages of English and German. In the event of questions or suspected cases, employees can contact the head of the Compliance & Legal Affairs department at any time.

Other compliance issues, such as the handling of receiving benefits and insider information are regulated by Group-wide binding guidelines and memorandums. When there are changes in the legal framework, the corresponding information is updated, and the employees affected are informed.

The Board of Directors has ensured compliance with the law and the Company's internal guidelines and is working to ensure compliance by the Group companies. The Audit Committee of the Board of Directors dealt with the compliance management system. In the 2017 financial year, the foundation was put in place giving employees the option to provide information about legal violations in the company on a confidential basis starting at the beginning of 2018. In the meantime, third parties have also been granted this possibility.

DIVERSITY AT SAF-HOLLAND

DIVERSITY AS A FACTOR FOR SUCCESS

As part of our global corporate activities, we have employees from many nations and cultures with diverse historical, social and cultural backgrounds and lifestyles. With locations and sales offices in Dubai, Turkey, Russia, South Africa, China, India, Thailand, Malaysia, Brazil, Mexico, Canada, and the United States, almost all denominations are represented in our Group's workforce.

The importance of diversity in corporate culture and human resource policy is crucial to SAF-HOLLAND as a group active on the world's transport markets under a wide variety of local conditions. SAF-HOLLAND is firmly convinced that diverse people mean diverse opportunities and ideas at the same time.

Through numerous measures, SAF-HOLLAND is committed to diversity at work where employees of very different backgrounds bring in new perspectives and creative approaches.

- Trainees visit workshops sponsored by the self-help organization "Lebenshilfe" for two weeks at a time to learn how to interact with the severely handicapped and thereby strengthen their social skills.
- An international trainee program was launched in 2017, in which university graduates from a wide range of cultural backgrounds (e.g., China and Vietnam) take part in a training program at rotating locations within the SAF-HOLLAND Group.
- As part of our employee development program, we offer multi-culture workforce training, which has a high level of participation from executives.

TARGET FOR THE PROPORTION OF WOMEN IN MANAGEMENT POSITIONS

The law for the equal participation of women and men in management positions has been in force in Germany since May 2015. As a company incorporated under Luxembourg law, SAF-HOLLAND S.A. is not subject to the provisions of German law. Only the German locations of SAF-HOLLAND GmbH fall under the scope of German law. Nevertheless, the Group is committed to the principle of diversity when filling management positions at the Company and especially strives to increase the level of female representation in various areas of the Group.

At a share of 33 %, the number of women on in the Board of Directors (BoD) at SAF-HOLLAND S.A. exceeds the women's quota of at least 30 % on Supervisory Boards required by German law. In addition, since April 27, 2017, we have a chairwoman, Martina Merz, on the Board of Directors. SAF-HOLLAND has also set targets for the proportion of women in the first and second management levels below the Management Board (Vice Presidents and Directors) at the Group's German locations. The Company is striving for a women's quota of 12.5 % at each of these management levels by mid-2022. This target compares with a total share of women in the German workforce of approximately 12 %. At the end of 2017, the proportion of women in top management positions was 5.0 % (previous year: 5.6 %). The search for women and their recruitment is proving to be challenging, especially in the commercial vehicle sector which traditionally has a low representation of women. The industry's technical focus and the related technical study courses traditionally attract a below-average proportion of women.

DIVERSITY IN THE COMPOSITION OF THE COMPANY'S GOVERNING BODIES (DIVERSITY CONCEPT)

Management Board

The composition of the Management Board is based on the members' professional qualifications for the assumed area of responsibility, their proven leadership experience and their achievements and knowledge demonstrated thus far. In addition to these criteria, the Board of Directors also takes the diversity of the Management Board into consideration when making future appointments. The Board of Directors understands diversity as different, mutually complementary profiles, with knowledge of different cultures and the fair consideration of both genders.

— Members of the Management Board should have several years of management experience, as well as experience in as many different professions as possible.
— The Management Board should have members with solid experience in production, finance and sales. If possible, members should also have experience in the field of digitization.
— Each member should have several years of experience in the three main regions/markets (Americas, EMEA/I, Asia).
— At least two members should have a technical background, as well as several years of experience in the automotive or commercial vehicle sector.
— In filling future positions, the intention is to increasingly take qualified women into account.

For all appointments, the Board of Directors takes into account all individual circumstances in determining which characteristics a new Management Board member should possess in order to join. In the 2017 financial year, women were specifically approached in the search for candidates to fill the CFO position. Ultimately, the Board chose a male candidate due to his background in digitization and broad experience. As the new CFO with extensive experience in the software industry and with diversity, in particular, Matthias Heiden is an important addition to the Board of Directors that drives the Company forward on the road towards digitization.

Board of Directors

The Board of Directors should be comprised in a manner that ensures its members have the necessary knowledge, experience and abilities to perform their duties properly.

— At least one member of the Board of Directors should have extensive Company knowledge and experience.
— At least one member should have expertise in accounting and/or auditing (financial expert).
— At least one member should have experience in the commercial vehicle industry.
— The Board of Directors shall have at least two members with special expertise in the international markets of importance to the Company.
— The Board of Directors should continue to have at least two female members.
— As a rule, the age limit for members of the Board of Directors is 70 years of age.
— The members of the Board of Directors are appointed by the SAF-HOLLAND S.A. Annual General Meeting for a maximum period of three years (up to six years under the law) whereby multiple re-elections for a further three-year term each are possible by resolution of the Annual General Meeting. As a rule, members of the Board of Directors should not be on the Board for more than 12 years.

The recommendations of the German Corporate Governance Code were taken into account in the preparation of the diversity concept for the composition of the Management Board and the Board of Directors.

Pay transparency law

In order to close the gender pay gap between women and men, the German Parliament in 2017 decided to introduce a law promoting the transparency of pay structures between men and women ("Pay Transparency Act"). The law stipulates that the same or equal work deserves equal pay, irrespective of gender. Among others, the law provides for the individual right of employees to information in companies with more than 200 employees and the obligation to report on the status of equality and equal pay for companies with more than 500 employees that are required to publish management reports.

As a result, SAF-HOLLAND conducted a review in Germany in 2017 of the equality of pay for men and women in equal jobs. A review was carried out that included all employees to determine whether men and women with equivalent jobs were in the same pay groups under the tariff agreement with the union of the Bavarian Metal and Electrical Industry. A review was also carried out on the remuneration components and amount of remuneration. When examining the groups of equivalent activities, elements of pay and rates of pay, no significant differences were found between the genders. Only in a few isolated cases were employees grouped differently due to their different seniority and experience. In this respect, timelines have been defined for future promotions.

In order to attract more female employees, we will continue to increase our efforts to provide more information and counseling to pupils and students at all of the region's schools and colleges about potential jobs at the Company – particularly in the commercial/technical area. Such efforts include events such as career fairs, Girls Day, the traveling information bus Metal Infotruck, as well as the campaigns "Youth and Technology AG" and "Jugend forscht."

ANNUAL GENERAL MEETING

The shareholders of SAF-HOLLAND S.A. exercise their voting rights at the Annual General Meeting. Each share is entitled to one vote. The Annual General Meeting adopts resolutions by a simple majority of the voting capital present unless the law provides for other majorities. Changes to the Company's Articles of Association require a two-thirds majority of the capital present or represented. In addition, at least 50 % of the issued share capital must be present (quorum) at the Annual General Meeting for amendments to be made to the Articles of Association. If this is not the case, another general meeting may be convened that does not require a quorum. The Annual General Meeting takes place each year on the fourth Thursday in April.

The Board of Directors presents the annual and consolidated financial statements to the shareholders. The Annual General Meeting resolves on the adoption of the SAF-HOLLAND S.A. annual financial statements, the appropriation of profits, as well as the discharge of the members of the Board of Directors and the auditor, who is in fact appointed by the Annual General Meeting. The Annual General Meeting also resolves on important corporate actions including, among others, the election of members to the Board of Directors, extensions in terms of office and the creation of authorized and conditional capital.

The convening of the Annual General Meeting, the meeting's agenda, and related documents are published on the Company's website. The relevant deadline for shareholder verification is the end of the 14th day prior to the Annual General Meeting (the record date). Shareholders may also exercise their voting rights through a proxy of their choice, a company-appointed proxy or in writing.

TRANSPARENCY

SAF-HOLLAND S.A. is committed to providing its shareholders and the public equal access to comprehensive and timely communication. All annual and quarterly reports, ad hoc announcements, press releases, investor presentations and any notifiable changes in voting rights are available in the German and English languages on SAF-HOLLAND's website. The Company's website also provides information on the Group and its organizational structure, the financial structure, the Articles of Association, the members of the Board of Directors and Management Board and upcoming and past Annual General Meetings. The regular financial reporting dates are available in the financial calendar. Conference calls for analysts, investors and journalists are held for important events.

ACCOUNTING AND AUDITING

The consolidated financial statements and interim reports of SAF-HOLLAND S.A. are prepared by the Board of Directors together with the Management Board in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union.

The consolidated financial statements have been audited by PricewaterhouseCoopers Sociéte Coopérative, Luxembourg, who was selected by the 2017 Annual General Meeting. The consolidated financial statements were audited in accordance with the provisions of the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). The auditors assured the Board of Directors of their independence and objectivity prior to accepting the audit mandate. The financial statements are reviewed, approved and published by the Board of Directors no longer than 90 days after the end of the financial year.

MANAGERS' TRANSACTIONS

Managers of the Company are obliged under Article 19 of Regulation (EU) No. 596/2014 on market abuse (Market Abuse Regulation) to disclose to SAF-HOLLAND S.A. and the Commission du Surveillance du Secteur Financier (CSSF) transactions for their own account in shares or debt instruments of SAF-HOLLAND S.A., related derivatives or other related financial instruments if the value of the purchase or sale reaches or exceeds EUR 5,000 within one calendar year. This obligation also applies to persons closely related to managers. SAF-HOLLAND reports these transactions immediately following their disclosure to the Company.

During the 2017 reporting year, we received one notification of a managers' transaction and a total of three notifications of transactions from persons closely related to managers. All notifications were and are available on our website at http://corporate.safholland.com/en/investor-relations/publications/announcements.

SHAREHOLDINGS OF MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The members of the Board of Directors and the Management Board of SAF-HOLLAND S.A. held a total of 1.2 % of the shares outstanding as of the reporting date.

INFORMATION ACCORDING TO ARTICLE 11 (1) AND (3) OF THE LUXEMBOURG TAKEOVER LAW FROM MAY 19, 2006

a) The information referred to in Article 11 (1) (a) of the Takeover Law (capital structure) is on page 16 of this annual report.

b) The transfer of shares is not limited by the Company's Articles of Association.

c) In accordance with the requirements of Article 11 (1) c of the Takeover Law, the major shareholdings as defined by Directive 2004/109/EC (current version of Transparency Directive) are as follows:

Shareholder name	Shares[1,2]	share of voting rights[1]
NN Group N.V.	2,973,432	6.56 %
JP Morgan Asset Management	2,306,047	5.08 %
Kempen Oranje Participaties N.V.	2,297,543	5.07 %
FMR LLC	2,283,397	5.03 %

[1] As of December 31, 2017
[2] Total number of SAF-HOLLAND shares: 45,394,302

d) There are no shareholders who have special powers of control.

e) Control rights related to the issue of shares to employees are directly exercised by the relevant employees.

f) The Company's Articles of Association impose no voting rights limitations.

g) As of December 31, 2017, the Company was not aware of any agreements between shareholders that would lead to a restriction on the transfer of shares or voting rights as defined by Directive 2004/109/EC as amended (Transparency Directive).

h) The members of the Board of Directors in accordance with Article 7.1 and 7.4 and in conjunction with Article 17.10 of the Articles of Association and Article 67 (2) of the Luxembourg Law (Code of Commerce) of August 10, 1915 on commercial companies, as amended, may be elected at a general meeting of shareholders by a simple majority (i.e., 50 % plus one of the voting rights present or represented at the general meeting of shareholders) and may be removed from office with or without specifying a reason. There is no quorum requirement. Members of the Board of Directors may be reelected, but their total term of office should not exceed twelve years. Should a member of the Board of Directors leave the Company, the remaining members may choose a substitute member by a simple majority vote until the next general meeting of shareholders.

Any amendment to the Company's Articles of Association made by the general meeting of shareholders shall require a two-thirds majority of the voting rights present or represented at the meeting provided there is a quorum of 50 % of the share capital at the general meeting of shareholders. Should the quorum requirement not be met in the initial general meeting of shareholders, a second general meeting of shareholders may be convened for the same purpose for which there is no quorum requirement.

i) The Board of Directors is endowed with wide-ranging powers to exercise all administrative tasks in the interest of the Company. Information regarding the powers of the Board of Directors to issue, redeem and repurchase shares can be found in the Notes to the Consolidated Financial Statements in the section entitled "Equity" contained in this annual report.

j) In October 2012, the Company issued a corporate bond with a nominal value of EUR 75 million, a coupon of 7 % and maturing in 2018. In the event of a change of control, as defined in detail in Article 5 (3) (b) of the bond's terms and conditions, each bondholder has the discretionary right to declare due any or all of the bonds plus the interest accrued up to the chosen redemption date. After a change of control, the chosen redemption date is specified by the Company and communicated in an announcement to the bondholders on a business day between 60 to 90 calendar days following the announcement's publication.

The Company issued a convertible bond with a nominal value of EUR 100.2 million, a coupon of 1 % and a maturity in 2020. As described in greater detail in Article 10 (7) of the convertible bond's terms and conditions, in the event of a change of control, each holder of such a convertible bond may exercise the discretionary right to declare due on the effective date all or a part of the holder's convertible bonds not previously converted or repurchased.

After a change of control, the effective date is specified by the Company and communicated in an announcement to the bondholders. The effective date is a business day between 40 to 60 calendar days following the announcement's publication. The Company will redeem the convertible bonds declared due by the bondholder on the effective date at their nominal value plus any interest that may have accrued. The conversion price will be adjusted by the calculation agent for each conversion right exercised on or before the effective date in accordance with Article 10 (3) of the convertible bond's terms and conditions.

On December 7, 2017, the Board of Directors decided for the first time, to convert 4 convertible bonds into 33,190 shares that were then subsequently issued. This led to an increase in the share capital of EUR 331.90.

The Company has issued several tranches of a promissory note totaling EUR 200 million with differing maturities. In the case of a change of control, the contractual terms of the respective notes, as described in detail in Article 13 (3) and (4) of the respective contractual 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 in a total volume of EUR 156 million. Following a change of control, the Company must immediately inform the paying agent of that event. 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 notification within 10 days.

Under two loan agreements dated June 13, 2016, SAF-HOLLAND S.A. together with SAF-HOLLAND Inc., is acting as a guarantor to IKB Deutsche Industriebank AG with SAF-HOLLAND GmbH as the borrower. Each of the loans amounts to EUR 25 million and are to be repaid no later than June 26, 2026.

The Company is not party to any other important agreements that take effect, change or terminate upon a change of control in the Company following a takeover bid.

k) No agreements exist between the Company and members of the Board of Directors or members of the Management Board that, in the event of a takeover bid, provide for compensation arrangements for the members of the Board of Directors or members of the Management Board if the employment relationship is terminated without good reason or due to a takeover bid.

Agreements do, however, exist between the Company and a few 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 for 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. The amount of the expenses which could arise in this connection should be deemed as very small in both their total amount and in relation to a takeover offer.

ECONOMY AND INDUSTRY ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT: GROWTH ACCELERATES IN THE WORLD ECONOMY

The global economy posted stronger than expected growth in 2017. According to the estimates of International Monetary Fund (IMF), global growth in 2017, at 3.7 %, was half a percent above the level of 2016. Nearly all the major economies recorded stronger growth, mainly as a result of the continuation of relatively expansionary monetary policies worldwide, generally low commodity prices and the increase in investment volumes.

Gross domestic product (GDP) in the eurozone grew 2.4 % in the 2017 financial year. This compares to the IMF forecast at the start of the year for a slight increase of only 1.6 %. The economies of Germany, France, Italy and Spain were the main contributors to this positive performance. The US economy also surpassed expectations with a growth rate of 2.3 %. The US central bank increased key interest rates on three occasions in 2017 without causing any visible downturn in the US economy. The major emerging economies of the BRIC countries also recorded favorable overall economic development. Economic growth was at a very high 6.8 % in China and 6.7 % in India. Brazil recorded growth of 1.1 % while Russia recorded GDP growth of 1.8 %. Both countries turned around to achieve positive performance after still being mired in a recession in 2016.

DEVELOPMENT OF GLOBAL TRUCK MARKETS POSITIVE OVERALL – US TRUCK MARKET SIGNIFICANTLY STRONGER THAN EXPECTED IN THE COURSE OF 2017

The positive economic development experienced in most economies coupled with the rebound in global trade sparked significantly better performance in the global truck markets in 2017 than expected at the start of the year.

The recovery in order intake for trucks in North America, which began at the end of 2016, continued uninterrupted into the 2017 financial year and went on to gain unexpectedly strong momentum in the course of the year. The growing recovery in order intake also led to a noticeable increase in the production figures starting in mid-2017. Following a decline early in the year (–21 %) and a stabilization in the second quarter of 2017 (+4 %), the production of Class 8 trucks increased significantly in both the third quarter (+35 %) and the fourth quarter of 2017 (+40.5 %). This resulted in production growth for full-year 2017 of 12 % and far exceeded ACT’s expectations at the start of the year for a production downturn of around 11 %. Growth was recorded in the US (+12 %) and Canada (+32 %), in particular, while the difficult environment in Mexico caused production there to decline by 10 %.

These developments were also confirmed by analyses from National Sources, LMC Automotive and ACT Research. Sales figures for the North American truck market jumped in the second half of the year bringing the full-year 2017 increase in truck sales to an unexpected 3.7 %. This followed a decline in truck sales in 2016 of –9.4 %.

In 2017, the entire Western European truck sales market grew a further 2.4 %, despite coming off of a very strong year in 2016 with year-on-year growth of 9.8 %. According to the industry association European Automobile Manufacturers Association (ACEA), new registrations for all types of commercial vehicles in 2017 increased by 3.2 % across the EU. In the heavy truck segment (over 16 tons), the relevant vehicle class for SAF-HOLLAND, new registrations increased by 0.5 % in 2017. Growth momentum had slowed down slightly over the course of the year. Whereas registrations of heavy trucks increased 2.2 % in the first half-year, sales in the second half of 2017 were virtually unchanged. In the core market of Europe, development remained steady at a high level and was in line with our expectations.

According to assessments from National Sources, LMC Automotive and ACT Research, the Central and Eastern European truck sales markets had exceptional growth of 13.2 % in 2017, after relatively disappointing year-on-year growth of 1.6 % in the prior year. Forecasts at the start of the year had underestimated the strength of the economic recovery.

The Asian market also recorded extraordinary growth in truck sales in 2017, with an increase of 30.0 %. This follows an already significant increase in the Asian truck sales market of 19.5 % in the prior year.

According to the reports from National Sources, LMC Automotive and ACT Research, the Mercosur countries also recorded growth in the truck sales market of 13.8 % in 2017. This follows a host of negative developments that had caused a decline in the truck sales market in 2016 of 29.2 %. The Brazilian market was able to rise significantly again in 2017 for the first time after registering strong losses in recent years. It should be taken into consideration that the high percentage growth rates are based on low comparisons. According to estimates by the Brazilian Manufacturers Association Anfavea (Associação Nacional dos Fabricantes de Veículos Automotores), heavy truck production increased by 52 % in 2017.

In Australia, another important regional market for SAF-HOLLAND, sales of commercial vehicles in 2017 developed significantly better than originally expected. Registrations of heavy trucks, for example, rose 22% in the reporting year, whereas the forecast at the start of the year from LMC Automotive was for an increase of only 2.5%.

TRAILER DEMAND IN EUROPE REMAINS AT A HIGH LEVEL

Encouraged by the good overall economic development in Europe, many fleet operators invested in the expansion and modernization of their transportation capacities in 2017. According to estimates by the market research institute Clear International Consulting, the Western European trailer market recorded an increase in production for the fifth consecutive year in 2017. Compared to the strong growth in the years 2014 to 2016, however, momentum actually slowed over the course of 2017. A solid first half-year was followed by a slight decline in the second half of 2017 versus the same period last year. Nevertheless, Clear International Consulting is forecasting a slight increase in production of 0.1% for the whole of 2017, which is still a high absolute level. This is slightly higher than the projections at the beginning of the year for a decline of 2%. In Eastern Europe, Clear International Consulting expects that trailer production in 2017 was also close to the level achieved in the prior year.

DEVELOPMENT OF US TRAILER MARKET SIGNIFICANTLY BETTER THAN EXPECTED IN 2017

The rebound in new trailer orders in North America, which began at the end of 2016, continued uninterrupted during the 2017 financial year, gaining unexpectedly strong momentum as the year progressed. With 2.0% growth, the recovery in trailer production, however, was only moderate in 2017 (according to FTR) on the basis of 2016 comparisons. In 2016, the high order backlog at the beginning of the year stemming from prior years had kept 2016 trailer production virtually unchanged.

BOOM IN CHINA TRIGGERED BY REGULATORY REQUIREMENTS

The Chinese commercial vehicle market posted steep growth rates again in 2017. According to CAAM (China Association of Automotive Manufacturers), heavy truck sales in China increased 53% last year. Sales of trailers – the more relevant segment for SAF-HOLLAND China – also reached a very high level in 2017. Both truck and trailer sales profited significantly from tightened regulatory requirements and particularly from the GB 1589 transportation standard, which limits the maximum weight and length of truck and trailer combinations. At the same time, dimension limits and loading regulations came into force for the segment of automobile transporters, which lead to a significant reduction in the number of vehicles that can be transported per trailer. Experts believe that existing transportation capacities in this segment will have to be expanded by between 20 and 40% as a result. In addition, the new GB 7258 regulation, which will take effect gradually, prescribes the use of disc brake technology and air suspension for safety reasons for all trucks and trailers transporting dangerous goods. The bus segment in China, on the other hand, recorded a renewed decline in sales of 15% in 2017. One reason for this is the structural change in long-haul traffic, which led to a decline in demand for journeys with intercity buses.

KEY EVENTS

RESTRUCTURING OF THE NORTH AMERICAN PLANT NETWORK

In January 2017, SAF-HOLLAND announced the consolidation and restructuring of its North American plant network. These measures were aimed at adapting the structure to the changes in the market situation and ensuring the long-term competitiveness of North American activities. Optimizing the internal logistics processes and centralizing production should also provide closer proximity to the customer's locations and improved delivery times.

At the center of the restructuring measures was the plant consolidation in which the number of manufacturing plants in the U.S. was reduced from the previous seven plants to five. This led to a transfer of the production from the Muskegon (MI) and Holland (MI) locations to the Group locations in Dumas (AR), Cincinnati (OH), Warrenton (MO), and Wylie (TX). The production of individual product groups, which until that time had been dispersed over different Group locations, was largely centralized at one location. The remaining locations are closer geographically to the major truck and trailer customers making it easier to deliver to these customers and meet their requests for local supply.

NEW PLANT OPENING IN TURKEY

At the end of March 2017, SAF-HOLLAND opened a new plant in the Turkish city of Düzce. The Company invested a total of roughly EUR 5 million in the new 11,000 square meter plant. Over the next two to three years, the production volume in Turkey is expected to expand to a total of 35,000 axles annually. The range of products produced in Turkey is set to increase over the medium term and will include fifth wheels, among others. SAF-HOLLAND also plans to significantly expand its local spare parts business.

By setting up local production, SAF-HOLLAND is targeting higher market share in the strategically important Turkish market. The plan over the medium-term is to develop this location into a hub for fast and affordable delivery to the adjacent sales markets in the Middle East and North Africa. By opening a new plant in Turkey, SAF-HOLLAND has completed a further step on the road to benefiting from the future growth of the transport industry in new emerging markets, which is one of the Company's stated objectives under its Strategy 2020.

ADJUSTMENT IN FULL-YEAR OUTLOOK

On October 9, 2017, SAF-HOLLAND adjusted its outlook for the 2017 financial year with its publication of inside information under Article 17 MAR. Based on the high organic growth recorded in the first nine months of the year and the business development expected during the remainder of the 2017 financial year, the Company raised its forecast for organic sales in the 2017 financial year to a range of EUR 1,125 million to EUR 1,135 million (previous year: EUR 1,042 million). The Group had previously expected sales to tend toward the upper end of the range of EUR 1,060 million to EUR 1,090 million.

SAF-HOLLAND also revised its earnings expectations in this context due to temporary additional expenses caused by the strong demand from numerous original equipment customers in North America during the ongoing US plant consolidation. The target for the EBIT margin remained unchanged at a range of 8 to 9 % percent. However, after previously forecasting a margin tending toward the middle of this range, SAF-HOLLAND updated its forecast to a margin rather tending toward the lower end of the projected range.

SALES AND EARNINGS PERFORMANCE, NET ASSETS AND CASH FLOWS

FORECAST VERSUS ACTUAL BUSINESS DEVELOPMENT

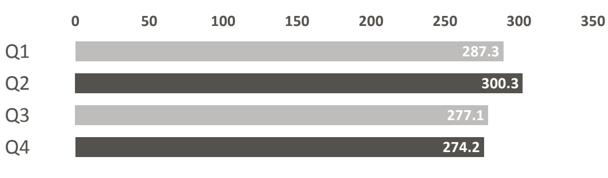
COMPANY EXCEEDS 2017 HIGHER REVISED SALES TARGET AND REACHES LOWER END OF TARGETED MARGIN CORRIDOR

Sales of the SAF-HOLLAND Group increased by 9.3% to EUR 1,138.9 million in the 2017 financial year. Organic sales grew by 9.3% to EUR 1,138.8 million and clearly exceeded SAF-HOLLAND's original full-year organic sales target of EUR 1,060 million to EUR 1,090 million. All of the Group's regions contributed to surpassing the Group's sales target.

With the presentation of the half-year figures in August 2017, SAF-HOLLAND had slightly adjusted its sales target, expecting sales at the upper end of the targeted range of EUR 1,060 million to EUR 1,090 million. Unexpected strong demand in North America during the year, increasing sales in China and solid sales performance in the EMEA/I region prompted SAF-HOLLAND to raise its target sales range on October 9, 2017 to EUR 1,125 million to EUR 1,135 million. After a renewed acceleration in organic growth in the fourth quarter of 2017, SAF-HOLLAND managed even to surpass the upper end of this higher forecast range.

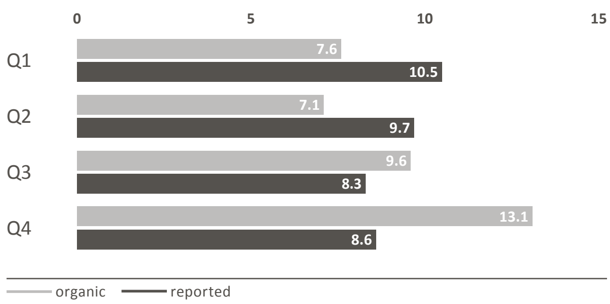
Sales by quarter 2017

in EUR millions



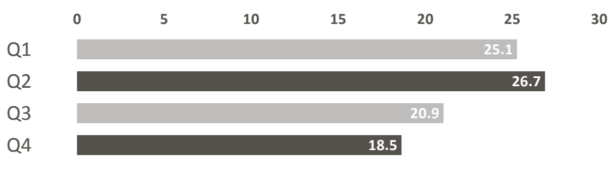
Sales growth by quarter (yoy) 2017

in %



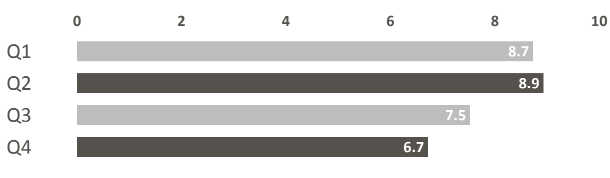
Adjusted EBIT by quarter 2017

in EUR millions



Adjusted EBIT margin by quarter 2017

in EUR millions



The SAF-HOLLAND Group also recorded a solid overall operating result in the 2017 financial year, which was overshadowed by unplanned additional operating expenses in both the third and fourth quarters of 2017 stemming from the ongoing US plant consolidation. The significantly higher-than-expected demand from many original equipment customers in North America, which coincided with the already advanced relocation measures from the ongoing plant consolidation and the resulting temporary capacity constraints, led to significant production inefficiencies starting in the middle of 2017.

The Americas region recorded one-time restructuring costs of EUR 10.9 million in the 2017 financial year, which were excluded in the calculation of adjusted EBIT. The region also incurred unscheduled additional operating expenses of EUR 10.3 million in connection with the US plant consolidation, which placed an equal burden on the gross profit and adjusted EBIT.

SAF-HOLLAND adjusted its earnings target on October 9, 2017 as a consequence of the unplanned additional expenses and due to the further development expected in the Americas segment in the third quarter of 2017. The Company reconfirmed its target range of 8 to 9 % for the adjusted EBIT margin. After previously forecasting a margin tending toward the middle of this range, SAF-HOLLAND changed its forecast to a margin tending toward the lower end of the planned 8 to 9 % target range.

At EUR 6.3 million, additional operating expenses in connection with the US plant relocations in the US were higher in the fourth quarter of 2017 than was assumed in the forecast adjustment in October 2017. The EMEA/I and APAC/China regions were able to largely offset these burdens in the fourth quarter of 2017 with their above-plan sales and earnings performance. All in all, with an adjusted EBIT margin of 8.0 %, the SAF-HOLLAND Group reached the lower end of the 8 to 9 % range forecast for 2017 and thereby remained within the target corridor.

	Actual 2016	Forecast 2017 (March 2017)	Adjustment August 2017	Adjustment October 2017	Actual business development 2017
Sales	EUR 1,042.0 million	Between EUR 1,060 million and EUR 1,090 million (organic)	To tend toward upper end of the range of EUR 1,060 million and EUR 1,090 million (organic)	Between EUR 1,125 million and EUR 1,135 million (organic)	EUR 1,138.9 million reported (organic: EUR 1,138.8 million)
Adjusted EBIT margin	8.7 %	To tend toward the middle of the 8 to 9 % range	–	To tend toward the lower end of the 8 to 9 % range	8.0 %
Net working capital ratio	10.9 %*	12 to 13 %	–	–	11.0 %

* The net working capital ratio was adjusted retroactively for the 2016 financial year.

NET WORKING CAPITAL REMAINS NEAR THE PRIOR YEAR'S LEVEL

In terms of capital efficiency, SAF-HOLLAND has either achieved or slightly exceeded its target for the 2017 financial year. At 11.0 % (previous year: 10.9 %), the Group's net working capital ratio remained below the forecast range of 12 to 13 %. Although the 9.3 % increase in sales led to an increase in net working capital of EUR 10.3 million, active receivables and inventory management allowed the Group to keep its net working capital ratio stable versus the good prior-year figure and come in below the target range.

SALES AND EARNINGS PERFORMANCE

GROUP SALES EXCEED EXPECTATIONS

In the 2017 financial year, SAF-HOLLAND was able to further expand its market position and increase Group sales by 9.3 % to EUR 1,138.9 million (previous year: EUR 1,042.0 million). Total sales adjusted for currency and consolidation effects also increased 9.3 %. The negative currency effects of EUR 9.1 million for full-year 2017 were offset by the additional sales contribution of EUR 9.2 million from the Brazilian company KLL Equipamentos para Transporte Ltda. (KLL) in the first nine months of the 2017 financial year. SAF-HOLLAND acquired a majority stake in KLL in 2016. The Brazilian company has been included in the SAF-HOLLAND Group's scope of consolidation since October 2016. Consequently, KLL's sales contribution in the first nine months of the 2017 financial year was adjusted in the calculation of the Group's organic sales growth.

Organic sales growth accelerates in the fourth quarter of 2017

In the fourth quarter of 2017, organic sales growth gained further momentum versus the previous quarter (Q3 2017: 9.6 %) and increased by 13.1 %. Reported sales increased by 8.6 % to EUR 274.2 million (previous year: EUR 252.6 million) and included negative currency translation effects of EUR 11.4 million.

Effect on Group sales

	Q4 2017		2017	
	in EUR millions	change	in EUR millions	change
Sales in the prior-year period	252.6	–	1,042.0	–
Organic growth	33.0	13.1 %	96.8	9.3 %
Currency effects	–11.4	–4.5 %	–9.1	–0.9 %
M&A (KLL)	0.0	0.0 %	9.2	0.9 %
Sales in the 2017 reporting period	**274.2**	8.6 %	**1,138.9**	9.3 %

All of the Group's regions contributed to the higher-than-expected sales growth. Starting from a comparably low level, SAF-HOLLAND achieved the highest growth rate in the 2017 financial year of 37.8 % in the APAC/China region. The increase in organic sales amounted to 40.5 %. Sales in the EMEA/I region increased 7.6 % on a reported basis and 7.7 % on an organic basis. In the Americas region, reported sales increased 6.7 %. Adjusted for currency and consolidation effects, the Americas region achieved growth of 6.0 %.

Sales performance by business area

	2017		2016	
	in EUR millions	share	in EUR millions	share
Original equipment	861.3	75.6 %	772.2	74.1 %
Spare parts	277.6	24.4 %	269.8	25.9 %
Total	**1,138.9**	**100.0 %**	**1,042.0**	100.0 %

ORIGINAL EQUIPMENT BUSINESS STANDS OUT AS KEY SALES DRIVER

Sales in the original equipment (OE) business increased by 11.5 % to EUR 861.3 million in the 2017 financial year (previous year: EUR 772.2 million). The consolidation of KLL, which added EUR 9.2 million to original equipment sales, contributed to the double-digit growth. Strong growth resulted in an increase in the proportion of original equipment sales versus total Group sales to 75.6 % (previous year: 74.1 %).

In the original equipment business in the 2017 financial year, the APAC/China region achieved the highest percentage growth rate within the Group. Sales development benefited in particular from the significant increase in demand from the Chinese commercial vehicle market as a result of legislation.

The Americas region also recorded surprisingly strong growth, which had not been expected to such an extent at the beginning of 2017. In addition to the launch of new products in the trailer segment and the increasingly evident trend among customers to buy fully dressed axle and suspension systems, the unexpected improvement in the market environment was the main driver of the positive development of the original equipment business in North America. Brazil also saw the first signs of a recovery in demand.

The EMEA/I region was also able to increase sales in the original equipment business segment. The persistently strong demand for heavy trucks and trailers along with expanding market share fueled the region's positive business development.

In the period from October through December 2017, sales in the original equipment business increased 11.4 %, reaching EUR 209.3 million (previous year: EUR 187.9 million). In the fourth quarter of 2017, the APAC/China region achieved the highest growth rate of the year in the original equipment business. The strong market recovery in the United States continued in the fourth quarter of 2017 and led to a significant revival of sales in the OE business compared to the same quarter a year ago. Based on constant exchange rates, original equipment sales in the United States increased 13.7 %.

SALES DEVELOPMENT IN THE SPARE PARTS BUSINESS AFFECTED BY PRODUCTION RESTRAINTS IN NORTH AMERICA

In the spare parts business (Aftermarket), sales increased 2.9 % to EUR 277.6 million in full-year 2017 (previous year: EUR 269.8 million). After a slight decline in sales in the spare parts business during the third quarter of 2017 due to production restraints in the Americas region, the aftermarket business recorded positive growth of 0.4 % to EUR 65.0 million in the fourth quarter of 2017 (previous year: EUR 64.7 million).

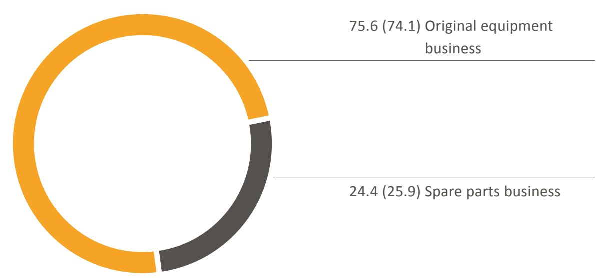
The main factors driving the lower year-on-year increase in sales in the spare parts business were not only negative currency effects but also the lower than planned sales trend in the Americas region. The unexpected strong demand in the original equipment business in combination with temporary capacity constraints resulting from the ongoing US plant consolidation led to noticeable restraints in deliveries to the aftermarket. This resulted in discernible order overhangs in the spare parts business in the Americas region until the end of 2017. Overall, sales in the spare parts business in the region held steady at the prior year's level.

The EMEA/I region posted sales increases in its spare parts business in both the fourth quarter of 2017 and the year 2017 as a whole, driven by the significant increase in the number of SAF-HOLLAND systems sold in the market in recent years, the age structure of the fleets and continued positive demand for transportation services in most of the region's submarkets.

The APAC/China region posted the strongest percentage growth in both the fourth quarter of 2017 and the year 2017 as a whole. Similar to the original equipment business, however, sales in the spare parts business were starting off from a relatively low level. SAF-HOLLAND's focus in the APAC/China region was on building up its original equipment customer base and broadening its product range. At the same time, the Company began actively expanding its network of spare parts and service stations in the Chinese market for the aftermarket business. At the end of the year, SAF-HOLLAND had already more than 60 service partners in China (previous year: 35).

Share of Group sales by business area in 2017

in %



Income Statement

	2017		2016	
	in EUR millions	share of sales	in EUR millions	share of sales
Sales	1,138.9	100.0%	1,042.0	100.0%
Cost of sales	–933.8	–82.0%	–835.5	–80.2%
Gross profit	**205.1**	**18.0%**	**206.5**	**19.8%**
Other operating income	1.6	0.1%	1.2	0.1%
Selling expenses	–62.1	–5.5%	–60.7	–5.8%
Administrative expenses	–53.6	–4.7%	–50.9	–4.9%
Research and development costs	–20.4	–1.8%	–19.7	–1.9%
Operating result	**70.6**	**6.2%**	**76.4**	**7.3%**
Share of net profit of investments accounted for using the at equity method	2.1	0.2%	2.1	0.2%
Earnings before interest and taxes	**72.7**	**6.4%**	**78.5**	**7.5%**
Finance result	–16.5	–1.4%	–13.5	–1.3%
Result before tax	**56.2**	**4.9%**	**65.0**	**6.2%**
Income taxes	–15.2	–1.3%	–21.5	–2.1%
Result for the period	**41.0**	**3.6%**	**43.5**	**4.2%**
Number of shares[1]	45,361,385		45,361,112	
Basic earnings per share in EUR	0.95		0.98	
Diluted earnings per share in EUR	0.82		0.85	

[1] Weighted average number of ordinary shares.

2017 EARNINGS PERFORMANCE AFFECTED BY RESTRUCTURING COSTS AND ADDITIONAL EXPENSES FOR US PLANT CONSOLIDATION

The overall solid operating earnings performance of the SAF-HOLLAND Group in the 2017 financial year was overshadowed by temporary pressure from the US plant consolidation carried out in the course of 2017 (see Segment Reporting on p. 50).

In the 2017 financial year, SAF-HOLLAND incurred EUR 10.9 million of non-recurring restructuring costs for the plant consolidation measures in North America. These cost mainly consisted of relocation costs, impairment charges on tools and equipment and severance payments. Of this amount, EUR 3.0 million was attributable to the third quarter and EUR 1.6 million to the fourth quarter of 2017. The completed merger of the two production sites in Brazil required EUR 1.0 million in restructuring costs, while restructuring and product reorganization of the Chinese bus suspension specialist Corpco required EUR 0.7 million.

In the 2017 financial year, the Group incurred a total of EUR 13.2 million (previous year: EUR 6.6 million) in one-off restructuring and transaction costs. A total of EUR 1.7 million in one-off restructuring expenses was recognized in the fourth quarter of 2017.

In the 2017 financial year, noticeable production inefficiencies resulted from the significantly higher than anticipated demand from many original equipment customers in North America, which coincided with the already advanced relocation measures as part of the ongoing US plant consolidation and the resulting temporary capacity constraints. Managing the high production volumes temporarily required a significantly higher number of employees than originally planned and sharply higher freight and logistics costs.

In the Americas region, these factors resulted in unplanned additional operating expenses of EUR 10.3 million in the second half of 2017, which were charged to expenses and had an equal impact on gross profit, the operating result and adjusted EBIT. A total of EUR 6.3 million in additional operating expenses were necessary in the fourth quarter of 2017 alone. This amount also included compensation payments of EUR 1.1 million made at the end of 2017 that were based on supply agreements.

In addition, one-time effects in connection with the takeover bid for Haldex and the takeover of KLL, both of which occurred in the 2016 financial year, should also be taken into account when making a year-on-year comparison of earnings. The previous year's result included transaction costs of EUR 4.1 million and expenses of EUR 5.2 million for hedging the purchase price offered in Swedish krona for Haldex. These amounts were offset by income of EUR 5.7 million from the sale of Haldex shares.

MAJORITY OF US CONSOLIDATION EXPENSES RECOGNIZED IN GROSS PROFIT

The strong increase in sales in conjunction with the efficiency enhancement measures carried out allowed for a disproportionate improvement in earnings in the EMEA/I and APAC/China segments. This improvement, however, was overshadowed at the Group level by the pressure on earnings from the plant consolidation in North America.

Almost all of the aforementioned restructuring costs and additional operating expenses for the consolidation of the North American plant network were recognized in the cost of sales. As a result, the Group's gross profit fell by 0.7 % to EUR 205.1 million (previous year: EUR 206.5 million) despite the EUR 96.9 million increase in sales in the 2017 financial year. The gross margin fell to 18.0 % (previous year: 19.8 %). The gross margin for the 2017 financial year would have remained essentially unchanged had both, restructuring costs of EUR 10.9 million (previous year: EUR 1.1 million), which were recognized in the cost of sales, and additional operating expenses of EUR 10.3 million been excluded. The segment mix between the original equipment and spare parts businesses had a negative impact because the growth of the original equipment business significantly outpaced the growth of the spare parts business. The declining share of the higher-margin aftermarket business amid booming growth in the original equipment business was particularly evident in North America. The gross margins in both Europe and North America were also impacted by the steady rise in steel and steel scrap prices in the course of 2017. Generally, there is a considerable time lag between price increases and when these increases can be passed on to customers. This cost pressure was offset by the positive impact from the cost-cutting and productivity-enhancing measures implemented at the production sites in Europe and Asia, as well as by the increased bundling of purchasing volumes within the Group.

In the fourth quarter of 2017, SAF-HOLLAND generated a gross profit of EUR 46.4 million (previous year: EUR 48.5 million) and a gross margin of 16.9 % (previous year: 19.2 %). Next to restructuring costs of EUR 1.7 million, additional operating expenses of EUR 6.3 million related to the US plant consolidation were the main factor responsible for the reduction in gross profit. The cost situation in the Americas region, which was also accompanied by further increases in steel prices, was partially offset by the positive development of the gross margins of the Group's other segments. In the EMEA/I region, SAF-HOLLAND also benefited from a positive effect on the cost of materials amounting to EUR 4.5 million in the fourth quarter of 2017 as a result of attaining specific purchasing volumes.

STRICT COST MANAGEMENT LIMITS THE RISE IN OPERATING EXPENSES

Operating expenses, consisting of selling and administrative expenses and research and development costs, increased by a total of 3.6 % to EUR 136.1 million (previous year: EUR 131.3 million). This rise, however, was well below the rise in sales. Measured in terms of Group sales, the total operating expense ratio declined to 11.9 % (previous year: 12.6 %). This was the result of strict cost management. It should be noted that costs relating to the Haldex offer were also included in the comparable prior-year figure.

Cost management had a significant impact, particularly on selling expenses, which increased only around 2.3 % to EUR 62.1 million in the 2017 financial year (previous year: EUR 60.7 million).

Administrative expenses also recorded disproportionately low growth of 5.3 % to EUR 53.6 million in the 2017 financial year (previous year: EUR 50.9 million). This slight increase compared to the 2016 financial year was also due, however, to the high comparative figures from the prior year. The 2016 figure included one-time transaction costs (such as legal, consulting and brokerage fees) of EUR 4.1 million in relation to the takeover bid for Haldex and the acquisition of KLL.

The Company incurred research and development costs for numerous development projects launched in the course of 2017 of EUR 20.4 million (previous year: EUR 19.7 million). Development costs of EUR 4.2 million (previous year: EUR 3.7 million) were capitalized and partly offset by scheduled amortization of EUR 1.1 million (previous year: EUR 0.7 million). Including capitalized development costs, the Group spent EUR 24.6 million (previous year: EUR 23.4 million) on research and development (R&D). Due to the higher level of sales, the R&D ratio remained unchanged at 2.2 % compared to the previous year.

Other operating income totaled EUR 1.6 million in the 2017 financial year (previous year: EUR 1.2 million).

ADJUSTED EBIT SLIGHTLY EXCEEDS PREVIOUS YEAR'S LEVEL WITH MARGIN AT LOWER END OF 8 TO 9% FORECAST RANGE

The Group's earnings before interest and taxes (EBIT) amounted to EUR 72.7 million in the 2017 financial year (previous year: EUR 78.5 million). The decline of 7.4% compared to the previous year was mainly due to the additional operating expenses of EUR 10.3 million described in connection with the US plant consolidation and the increase in restructuring and transaction costs to a total of EUR 13.2 million (previous year: EUR 6.6 million), which were also largely due to the restructuring of the US plant network. These costs could not be fully offset by the earnings contributions from incremental sales and the disproportionately low increase in other operating expenses. The EBIT margin in the 2017 financial year was 6.4% (previous year: 7.5%).

EBIT amounted to EUR 15.5 million in the fourth quarter of 2017 (previous year: EUR 17.6 million).

At EUR 91.2 million, adjusted EBIT in 2017, which excludes the one-time restructuring and transaction costs of EUR 13.2 million (previous year: EUR 6.6 million) and negative purchase price allocation effects (depreciation/amortization from PPA) of EUR 5.3 million (previous year: EUR 5.3 million), was slightly above the previous year's level of EUR 90.4 million. Due to their operational nature, the aforementioned EUR 10.3 million of additional operating expenses for the US plant consolidation were not adjusted and are, therefore, recognized as an expense in the adjusted EBIT for the financial year. The adjusted EBIT margin was 8.0% (previous year: 8.7%) and thus at the lower end of the initial forecast range of 8 to 9% for 2017 as a whole.

Adjusted EBIT in the fourth quarter of 2017 fell to EUR 18.5 million (previous year: EUR 19.8 million), mainly due to the burdens in the Americas region already mentioned. The adjusted EBIT margin was 6.7% (previous year: 7.8%) in what is usually a weaker quarter in the year due to seasonal factors.

Reconciliation of operating results to adjusted EBIT

in EUR millions

	2017	2016
Operating result	70.6	76.4
Share of net profit of investments accounted for using the at equity method	2.1	2.1
EBIT	**72.7**	**78.5**
Depreciation/amortization of property, plant and equipment and intangible assets from PPA	5.3	5.3
Restructuring and transaction costs	13.2	6.6
Adjusted EBIT	**91.2**	**90.4**

INCREASED INTEREST EXPENSE IN FINANCE RESULT

The finance result for full-year 2017 amounted to EUR –16.5 million (previous year: EUR –13.5 million). This decline versus the previous year resulted, in part, from higher net interest expenses on interest-bearing loans and bonds in the amount of EUR 13.3 million (previous year: EUR 11.7 million). This higher interest expense was caused by the creation of the financing base necessary for the prior year's takeover bid for Haldex, which was ultimately withdrawn. SAF-HOLLAND had taken out additional loans and a promissory note loan to create this financing base. In addition, the prior year's finance result had included a positive net effect of EUR 0.5 million from the income of EUR 5.7 million from the sale of Haldex shares that were acquired before the takeover offer was submitted. In the previous year, this income was offset by expenses of EUR 5.2 million for hedging the purchase price in Swedish krona (SEK). The previous year's figure also included realized gains on foreign currency loans and dividends amounting to EUR 0.8 million. In the 2017 financial year, this item recorded a significantly lower level of income in the amount of EUR 0.2 million.

In the fourth quarter of 2017, the finance result was EUR –3.8 million (previous year: EUR –4.1 million). Net interest expenses fell EUR 0.1 million to a total of EUR 3.1 million compared to EUR 3.2 million in the prior year. It should be noted, however, that the fourth quarter of the previous year included an extraordinary expense of EUR 0.9 million. Although the disposal of Haldex shares resulted in income for the year 2016 as a whole, it had resulted in a loss in the fourth quarter of 2016 because the carrying amount as of September 30, 2016 was higher than the average selling price achieved.

EFFECT ON EARNINGS FROM US PLANT CONSOLIDATION AND HIGHER INTEREST EXPENSES CAUSE DECLINE IN RESULT BEFORE TAX

The 22.2% increase in net finance costs meant that the result before tax in the 2017 financial year declined more sharply than EBIT. At EUR 56.2 million (previous year: EUR 65.0 million), the Group's result before tax was 13.5% lower than in the previous year. In the fourth quarter of

2017, the result before tax amounted to EUR 11.7 million (previous year: EUR 13.5 million).

GROUP INCOME TAX RATE SIGNIFICANTLY LOWER THAN IN THE PRIOR YEAR

While the US tax effects, including the statutory changes from the US tax reform, resulted primarily in one-time positive extraordinary effects in the amount of EUR 4.5 million, impairment on recognized deferred tax assets for loss carryforwards at other subsidiaries had a countering effect of around EUR 2.6 million. If the earnings situation at the respective subsidiaries improves in the years ahead, the related impairment would be reversed. The net positive effect of these items in relation to the Group's income taxes amounted to approximately EUR 2.0 million in the 2017 financial year. The Group's overall income tax rate fell to 27.1 % in the 2017 financial year (previous year: 33.1 %).

RESULT FOR THE PERIOD AT EUR 41.0 MILLION

The Group's result for the period amounted to EUR 41.0 million in the 2017 financial year (previous year: EUR 43.5 million). This corresponded to a year-over-year decline of 5.8 %.

After deducting non-controlling interests (EUR –1.9 million in the 2017 financial year compared to EUR –0.8 million in the 2016 financial year), the result for the period attributable to the shareholders of the parent company in 2017 was at EUR 42.9 million (previous year: EUR 44.2 million) and slightly below the previous year's level. The year-on-year increase in the loss attributable to non-controlling interests was mainly due to negative contributions from the KLL, Brazil, and Corpco, China, subsidiaries. The SAF-HOLLAND Group holds a 57.5 % stake in the Brazilian company KLL and an 80.0 % stake in the Chinese company Corpco.

The US tax effects and impairment of recognized deferred tax assets for loss carryforwards in the fourth quarter of 2017 were responsible for the fact that income tax expenses were significantly lower in the quarter, dropping to EUR 1.3 million (previous year: EUR 6.4 million). This partially compensated for the effect of the additional operating expenses for the US plant consolidation on the result after tax. In the fourth quarter of 2017, the result for the period rose to EUR 10.4 million (previous year: EUR 7.1 million).

Based on approximately 45.4 million ordinary shares outstanding, basic earnings per share amounted to EUR 0.95 in the 2017 financial year (previous year: EUR 0.98). Diluted earnings per share amounted to EUR 0.82 (previous year: EUR 0.85).

Reconciliation of adjusted earnings figures

in EUR millions

	2017	2016
Result for the period	41.0	43.5
Income taxes	15.2	21.5
Finance result	16.5	13.5
Depreciation and amortization from PPA	5.3	5.3
Restructuring and transaction costs	13.2	6.6
Adjusted EBIT	**91.2**	**90.4**
in % of sales	8.0	8.7
Adjusted result for the period	**52.7**[1]	**53.7**[2]
in % of sales	4.6	5.2
Number of shares[3]	45,361,385	45,361,112
Adjusted basic earnings per share in EUR[4]	**1.16**	**1.18**
Adjusted diluted earnings per share in EUR[5]	**1.00**	**1.03**

1 A uniform tax rate of 29.4 % was assumed to calculate the adjusted result for the period.
2 A uniform tax rate of 30.2 % was assumed to calculate the adjusted result for the period.
3 Weighted average number of ordinary shares.
4 The calculation of adjusted basic earnings per share also includes the result attributable to non-controlling interests of EUR –1.9 million (previous year: EUR –0.8 million).
5 Calculated taking into account 8.3 million shares equivalents (previous year: 8.1 million) and EUR 1.2 million (previous year: EUR 1.2 million) of earnings contribution from the convertible bonds issued in 2014 and non-controlling interests of EUR –1.9 million (previous year: EUR –0.8 million).

ADJUSTED RESULT FOR THE PERIOD NEAR PRIOR YEAR'S LEVEL

The adjusted result for the period of EUR 52.7 million in the 2017 financial year (previous year: EUR 53.7 million) was slightly below the previous year's level. Restructuring and transaction costs, as well as effects from the purchase price allocation, were excluded from the calculation of the adjusted result for the period and a uniform tax rate of 29.4 % (previous year: 30.2 %) was applied.

The development of the adjusted result for the period was largely determined by the aforementioned additional operating expenses of EUR 10.3 million for the US plant consolidation. These additional operating expenses were not adjusted due to their operational nature, while the one-off restructuring and transaction costs were adjusted and increased adjusted earnings. Based on the approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the year as a whole amounted to EUR 1.16 (previous year: EUR 1.18) and adjusted diluted earnings per share amounted to EUR 1.00 (previous year: EUR 1.03).

DIVIDEND TO INCREASE TO EUR 0.45 PER SHARE

SAF-HOLLAND's dividend policy provides that, as a rule, between 40 % and 50 % of the net income should be distributed as a dividend to the shareholders. The Management Board and the Board of Directors will propose to SAF-HOLLAND S.A.'s Annual General Meeting to be held on April 26, 2018, that a slightly higher dividend of EUR 0.45 per share (previous year: EUR 0.44) be distributed for the 2017 financial year. This corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.0 million) and a payout ratio of 49.9 % (previous year: 45.9 %) of the result for the period and 47.6 % (previous year: 45.1 %) of the result for the period attributable to shareholders of the parent company. Based on the 2017 year-end SAF-HOLLAND share price of EUR 17.94, the dividend yield for shareholders amounts to 2.5 % (previous year: 3.2 %).

SEGMENT REPORTING

Regional overview

in EUR millions

	EMEA/I		Americas		APAC/China		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Sales	611.8	568.8	429.4	402.3	97.7	70.9	1,138.9	1,042.0
Cost of sales	–483.9	–451.6	–371.9	–326.9	–78.0	–57.0	–933.8	–835.5
Gross profit	**127.9**	**117.2**	**57.5**	**75.4**	**19.7**	**13.9**	**205.1**	**206.5**
in % of sales	20.9	20.6	13.4	18.7	20.2	19.6	18.0	19.8
Sundry operating income and expenses[1]	–60.2	–58.9	–41.4	–45.4	–12.3	–11.8	–113.9	–116.1
Adjusted EBIT	**67.7**	**58.3**	**16.1**	**30.0**	**7.4**	**2.1**	**91.2**	**90.4**
in % of sales	11.1	10.3	3.7	7.4	7.6	3.0	8.0	8.7

[1] Sundry operating income and expenses consist of selling and administrative expenses, research and development costs, other operating income and the share of net profit of investments accounted for using the equity method less restructuring and transaction costs of EUR 13.2 million (previous year: EUR 6.6 million) and depreciation/amortization from PPA of EUR 5.3 million (previous year: EUR 5.3 million).

STRONG SALES AND EARNINGS GROWTH IN EMEA/I SEGMENT

In the EMEA/I region, sales increased 7.6 % to EUR 611.8 million in the 2017 financial year (previous year: EUR 568.8 million). Sales on a currency-adjusted basis increased 7.7 % to EUR 612.6 million. The market environment was robust in most countries. Fleet operators continued to invest in expanding and upgrading their transportation capacities as the economic growth in the EMEA/I region accelerated. Significant growth impetus in the 2017 financial year came from Southern European countries such as Spain, Italy and France. Some of the Eastern European countries also posted a noticeable increase in sales momentum. This was especially true for Poland, as well as for Russia where there was significant pent-up demand after years of market weakness.

SAF-HOLLAND recorded solid overall development in the markets in the Middle East and Africa despite the difficult political conditions in some countries in the region, which had a growth-restraining effect.

At the end of March 2017, SAF-HOLLAND opened a new assembly plant for the production of axle systems in the Turkish city of Düzce, thereby strengthening its relationships with local customers. This location will also be used to supply neighboring growth markets in the region. Despite the difficult conditions in the overall market in 2017 and a strong decline in the trailer market in Turkey versus 2016, production at the new plant was still ramped up on schedule during the year. By the end of 2017, the plant's single-shift operation was well utilized based on significant orders from Turkish customers and customers from major neighboring countries. Over the medium term, this location will be expanded further and used as a hub for fast delivery to the adjacent sales markets.

The increase in the adjusted EBIT in the EMEA/I region of 16.1 % outpaced the increase in sales in the 2017 financial year and amounted to EUR 67.7 million (previous year: EUR 58.3 million). The effect of higher steel prices and a high sales volume of standard products were offset by cost reductions, further process improvements and economies of scale. The strong increase in sales and pooling purchases made it possible to achieve high purchase volumes at important suppliers, which had a favorable effect on the cost of materials in the fourth quarter of 2017. The adjusted EBIT margin for the full year of 2017 reached 11.1 % and was above the previous year's level (10.3 %).

The EMEA/I region seamlessly continued the solid business performance of the first nine months of 2017 in the fourth quarter of 2017. In the period from October to December 2017, SAF-HOLLAND increased its sales in the region by 7.1 % (currency-adjusted: 8.1 %) to EUR 147.8 million (previous year: EUR 138.0 million). Adjusted EBIT increased to EUR 19.4 million (previous year: EUR 13.7 million). In the year-end quarter, a favorable product mix and the aforementioned cost of materials development also had a positive effect, enabling the adjusted EBIT margin to reach 13.1 % (previous year: 9.9 %).

AMERICAS SEGMENT: UNEXPECTED STRONG DEMAND DURING ONGOING US PLANT CONSOLIDATION CAUSES HIGH ADDITIONAL OPERATING EXPENSES

Sales in the Americas region increased 6.7 % to EUR 429.4 million in 2017 (previous year: EUR 402.3 million). Adjusted for negative currency effects of EUR 6.3 million and the first-time sales contribution of EUR 9.2 million from the Brazilian axle and suspension system specialist KLL, which was acquired in October 2016, the region was able to increase organic sales by 6.0 %. After organic growth of 3.6 % in the first half-year, growth rates in the region continued to increase in the third (6.4 %) and fourth quarters of 2017 (11.0 %). This rise was mainly the result of the unexpectedly strong jump in customer demand in the original equipment business. Sales in the spare parts business, in contrast, remained at a level only slightly higher than in the prior year. Strong growth was achieved by the Americas segment, particularly in the US and Canadian markets, while the Mexican market, which is important for SAF-HOLLAND, was weak due to economic and political conditions and lagged far behind the original sales and earnings expectations.

Based on the 2017 forecasts from market research institutes and customers at the beginning of the year, the Company had anticipated a significant decline in trailer and truck production in North America and therefore decided to consolidate the existing US plant network and reduce the number of production locations from a total of seven locations to just five locations. The goal was to produce the respective product groups closer to the customers, centralize processes and optimize delivery times. Implementation started in the spring of 2017. The relocation of production from the Holland (Michigan) and Muskegon (Michigan) sites to the Cincinnati (Ohio), Warrenton (Missouri), Dumas (Arkansas) and Wylie (Texas) sites resulted in one-time restructuring costs for relocation, severance payments and impairment on machinery and tools amounting to EUR 10.9 million, which were readded in the calculation of adjusted EBIT. In the second half of 2017, the unexpectedly strong customer demand in the original equipment business coincided with the relocation measures in progress and the resulting temporary capacity constraints. Coping with the high volume of production temporarily required a higher number of employees than originally planned and significantly higher costs for logistics and express freight. Strong fluctuations in capacity utilization – especially in the third and fourth quarters of 2017 – also led to significant production inefficiencies.

The above led to additional operating expenses of EUR 10.3 million in the Americas region in the second half of 2017 in addition to restructuring costs. Due to their operational nature, these expenses were recognized in full as expenses and had an equal impact on the operating result and the adjusted EBIT. The continued rise in customer demand in the fourth quarter of 2017 also caused capacity constraints during this period and resulted in additional operating expenses of EUR 6.3 million in the period from October 2017 to December 2017. In addition to higher personnel and freight costs, these additional expenses also included compensation payments in the amount of EUR 1.1 million in accordance with supply agreements. Despite the difficult conditions, the plant consolidation measures in North America were completed at the end of 2017. The relocations of the production sites in Holland and Muskegon were important milestones achieved.

Now that the actual relocation measures have been completed, the focus in 2018 will be on improving the plants' production and internal logistics processes and optimizing their capacity utilization. There will also be a reduction in the temporary increase in the number of employees and the higher express freight and logistics costs.

The merger of the production of the two Brazilian companies at the larger and more modern KLL site in Alvorada was also completed in the course of 2017. SAF-HOLLAND spent a total of EUR 1.0 million on restructuring measures in the 2017 financial year for the closure of the old Jaguariúna site and the relocation of tools and equipment to KLL's Alvorada site.

In addition, profit and loss was burdened by further increases in steel prices, which can usually be passed on to customers but only with a considerable delay. The adjusted EBIT in the Americas region fell to EUR 16.1 million in 2017 (previous year: EUR 30.0 million), and the segment's adjusted EBIT margin fell to 3.7 % (previous year: 7.4 %). Consequently, the result for the region in 2017 was significantly lower than originally planned.

In the fourth quarter of 2017, sales in the Americas region increased by 1.6 % to EUR 94.1 million (previous year: EUR 92.6 million). Excluding negative currency effects of EUR 8.7 million, organic growth was 11.0 %. Sales of original equipment in the US increased by a currency-adjusted 13.7 %. As a result, the Americas region achieved its highest organic growth rate for the year 2017 in the fourth quarter during the ongoing plant consolidation. In addition to restructuring costs of EUR 1.6 million, the associated capacity restraints in the fourth quarter of 2017 also resulted in noticeable additional operating expenses of EUR 6.3 million. Strong growth in the original equipment business led to restraints in the supply of the higher-margin aftermarket business. As a result, adjusted EBIT decreased to EUR –3.9 million in the fourth quarter of 2017 (previous year: EUR 5.7 million) bringing the adjusted EBIT margin to –4.1 % (previous year: 6.2 %).

APAC/CHINA SEGMENT: MORE STRINGENT TRANSPORTATION REGULATIONS DRIVE DEMAND IN CHINA, PROFITABILITY IMPROVES

The APAC/China region generated the strongest percentage increase in sales in the 2017 financial year with growth of 37.8 % to EUR 97.7 million (previous year: EUR 70.9 million). Sales in the region on a currency-adjusted basis even rose by 40.5 %.

Business development in the APAC/China region was largely driven by strong demand for trailer components in China. The regulatory introduction of load limits for commercial vehicles (GB 1589) and the announcement of stricter safety regulations (GB 7258) for dangerous goods transportation starting at the beginning of 2019 led to a noticeable increase in the investments of fleet operators in new trucks and trailers (see Risk and Opportunities Report, page 68). The premium segment, to which SAF-HOLLAND traditionally sells its products, benefits in particular from this higher investment.

In this changed environment, SAF-HOLLAND, with its weight-saving components and range of air suspensions and axle systems with high-performance disc brake technology, was able to gain market share and acquire important large orders. Production volumes increased significantly at the Xiamen site. To prepare for the strong need for capacity in China, in early 2018, SAF-HOLLAND announced the construction of a new production center at the Yangzhou site in the Yangtze River Delta with a production area of around 46,000 m² (see Events after the Balance Sheet Date, page 70).

Business was difficult, on the other hand, for our subsidiary Corpco Beijing Technology and Development Co. Ltd. (Corpco). Due to persistently weak demand in the intercity bus segment in China, Corpco adapted its capacities to the changes in the market environment and began expanding its product portfolio for bus suspension systems to new segments in the bus market. Amid this environment, the company recorded a significant decline in sales in the 2017 financial year as well as a loss. SAF-HOLLAND spent EUR 0.7 million on restructuring costs for the realignment.

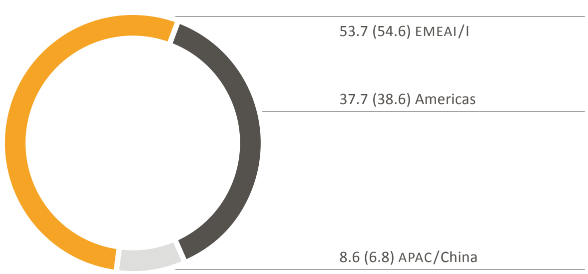
In the other APAC countries, demand in the 2017 financial year was generally subdued. By the end of the year, most of the APAC markets experienced a noticeable recovery in demand.

The clear double-digit sales growth in the 2017 financial year and the economies of scale that were achieved led to a noticeable improvement in the adjusted EBIT in the APAC/China region. Adjusted EBIT increased to EUR 7.4 million (previous year: EUR 2.1 million). As a result, the adjusted EBIT margin rose to 7.6 % (previous year: 3.0 %). This positive development was all the more pleasing because SAF-HOLLAND is still almost exclusively active only in the original equipment business in China. In the current 2018 financial year, the main focus will be on further expanding the aftermarket network in China. The improved profitability was driven by the restructuring and automation measures initiated at the end of last year. It should be noted that the previous year's result came under pressure from extraordinary factors totaling EUR 1.6 million. In 2016, typhoon damage and valuation adjustments with the introduction of a SAP system led to impairments on inventories and old stock at the Xiamen subsidiary. Warranty expenses and inventory adjustments at Corpco were also required in the 2016 financial year.

Despite the difficult comparisons based on the fourth quarter of 2016 where sales had already increased by 51.8 %, the APAC/China region once again achieved dynamic sales growth of 46.8 % to EUR 32.3 million in the fourth quarter of 2017 (previous year: EUR 22.0 million). Sales on a currency-adjusted basis increased 52.9 % to EUR 33.6 million. Adjusted EBIT in the APAC/China region improved significantly to EUR 3.0 million in the fourth quarter of 2017 (previous year: EUR 0.4 million). The corresponding adjusted EBIT margin increased to 9.3 % (Q4 2016: 1.8 %). It should be noted that the fourth quarter in the prior year had included a large part of the aforementioned warranty expenses and inventory adjustments from Corpco.

Group sales by segment in 2017 (2016)

in %



NET ASSETS

TOTAL ASSETS NEARLY UNCHANGED DESPITE STRONG BUSINESS EXPANSION

Despite the strong increase in sales in the 2017 financial year, total assets as of December 31, 2017 decreased by EUR 15.9 million to EUR 998.1 million (previous year: EUR 1,014.0 million). A key factor in this decline was a EUR 29.3 million drop in non-current assets. This reduction, however, was offset by an increase in current assets of EUR 13.4 million resulting from higher working capital.

GROWTH-RELATED RISE IN NET WORKING CAPITAL

Net working capital grew by EUR 10.3 million to EUR 120.6 million in the 2017 financial year (previous year: EUR 110.3 million). The strong increase in sales led to a significant increase in net working capital to EUR 144.8 million in the first quarter of 2017. In the quarters that followed, the increase in net working capital was limited by improvements in the management of receivables and inventory. The Group was able to reduce net working capital in the fourth quarter of 2017 alone by EUR 22.1 million, supported by year-end factors.

At 11.0 %, the net working capital ratio remained almost at the previous year's level (previous year: 10.9 %) and well below the target range for the 2017 financial year of 12 to 13 %. As of September 30, 2017, the net working capital ratio was still 12.9 %. In the fourth quarter of 2017, it was possible to reduce the ratio by 190 basis points.

The main reason for the minor rise in working capital in 2017 as a whole was the trend in trade receivables, which had increased by EUR 19.0 million to EUR 135.7 million as of December 31, 2017 (previous year: EUR 116.7 million). In addition to the strong rise in sales, a planned reduction in factoring led to an increase in receivables of EUR 2.8 million. Days sales outstanding (DSO) as of December 31, 2017 rose accordingly to a total of 45 days (previous year: 42 days). Compared to their level as of September 30, 2017 (EUR 157.3 million or 51 days), receivables by the end of the year had fallen by EUR 21.6 million to EUR 135.7 million and DSO by 6 days.

Despite the strong sales growth, there was only a slight increase in inventories by the end of 2017 to EUR 133.7 million compared to EUR 129.4 million in the previous year. Because the rise in inventories was lower than the rise in sales, days inventory outstanding as of December 31, 2017 decreased to 53 days (previous year: 57 days). The Group was able to reduce inventories by EUR 5.6 million in the fourth quarter of 2017 in comparison to the levels as of September 30, 2017 (EUR 139.3 million and 54 days).

CONTINUED HIGH LIQUIDITY

Cash and cash equivalents (total cash and cash equivalents as well as other short-term investments) declined slightly to EUR 337.1 million as of December 31, 2017 (previous year: EUR 344.6 million) but still represented the largest single asset item.

CURRENCY-RELATED DECLINE IN NON-CURRENT ASSETS

Non-current assets decreased by EUR 29.4 million as of December 31, 2017 to EUR 377.8 million (previous year: EUR 407.2 million) partly due to the reduction in deferred tax assets (EUR –10.9 million). Exchange rate effects mainly from the appreciation of the euro against the US dollar led to a lower valuation of other intangible assets (EUR –9.2 million) and property, plant and equipment (EUR –6.5 million). Investments in property, plant and equipment and intangible assets amounted to EUR 27.1 million and exceeded related depreciation of EUR 24.6 million by EUR 2.5 million.

Overview of net assets

in EUR millions

	12/31/2017	12/31/2016[2]
Total assets	998.1	1,014.0
Equity	301.0	304.9
Equity ratio in %	30.2	30.1
Net debt[1]	105.5	97.1
Net working capital	120.6	110.3
Net working capital in % of sales	11.0	10.9

[1] Taking into account cash and cash equivalents and other short-term investments of EUR 337.1 million as of December 31, 2017 (previous year: EUR 344.6 million).
[2] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

EQUITY RATIO REMAINS STABLE AT 30.2 %

The Group’s equity as of December 31, 2017 was 1.3 % lower year-on-year, amounting to EUR 301.0 million (previous year: EUR 304.9 million). A key reason for this decline was the appreciation in the euro against important Group currencies. This resulted in the recognition of negative foreign exchange differences directly in equity in the amount of EUR 25.3 million (previous year: positive currency difference of EUR 5.7 million) from the translation of financial statements from foreign operations. The dividend payment for the 2016 financial year of EUR 20.0 million also had an effect. These equity-reducing factors in the 2017 financial year were in contrast to a result for the period of EUR 41.0 million. The equity ratio remained virtually unchanged as of December 31, 2017, amounting to 30.2 % (previous year: 30.1 %).

When viewing the equity ratio, it is important to keep in mind that the balance sheet ratios continue to be influenced by the high level of liquidity being maintained in anticipation of acquisitions and investments planned as part of the 2020 growth strategy.

LITTLE CHANGE IN TOTAL LIABILITIES

Non-current liabilities totaled EUR 461.9 million at the end of 2017 (previous year: EUR 555.4 million). The decline of EUR 93.5 million resulted mainly from the reclassification of non-current loans and bonds to current interest-bearing loans and bonds with residual maturities of less than one year. Non-current interest-bearing loans and bonds as of December 31, 2017 declined to EUR 361.3 million (previous year: EUR 435.6 million), primarily due to the shorter remaining term of an issued EUR 75 million corporate bond, moving it to the “current” category from the “non-current” category.

Current liabilities, in contrast, increased to EUR 235.3 million as per the end of December 2017 (previous year: EUR 153.7 million). Current interest-bearing loans and bonds rose to EUR 81.3 million (previous year: EUR 6.1 million). Trade payables increased to EUR 114.2 million (previous year: EUR 106.7 million). This rise partially compensated for the increase in the asset positions of working capital. In comparison to September 30, 2017, trade payables had declined by EUR 5.7 million as of the end of the fourth quarter of 2017, and trade payables had risen by EUR 7.5 million compared to the end of 2016.

NET DEBT SLIGHTLY HIGHER

Non-current and current liabilities from interest-bearing loans and bonds stood at a virtually unchanged level of EUR 442.6 million as of December 31, 2017 (previous year: EUR 441.7 million). The Group’s net debt (after deducting cash and other short-term investments) was relatively low at the end of 2017, amounting to EUR 105.5 million (previous year: EUR 97.1 million). Operating free cash flow in the fourth quarter of 2017 was supported by the lower capital commitment in working capital and amounted to EUR 26.8 million, almost matching the high level of the previous year (EUR 29.2 million). As a result, net debt declined by EUR 22.7 million in the final quarter of 2017.

FINANCIAL POSITION: CASH FLOWS

2017 OPERATING CASH FLOW REMAINS STRONG

Cash flow before changes in net working capital declined by 4.7 % to EUR 99.5 million in the 2017 financial year (previous year: EUR 104.4 million). This was primarily due to the decline of 13.5 %, or EUR 8.7 million, in the result before tax in the 2017 financial year. The higher net balance of finance expenses of EUR 16.5 million (previous year: EUR 13.5 million), which are readded in the calculation of cash flow before changes in net working capital, partially offset the decline in result before tax.

It should be noted that the substantial increase in restructuring and transaction costs amounting to EUR 13.2 million (previous year: EUR 6.6 million) and the additional operating expenses in connection with the US plant consolidation in the amount of EUR 10.3 million – a major portion of which was cash effective – not only affected the result before tax, but also cash flow.

GROWTH-RELATED RISE IN NET WORKING CAPITAL

At the same time, the growth-related increase in net working capital led to a cash outflow of EUR 25.4 million (previous year: cash inflow of EUR 2.0 million). After the strong increase in net working capital at the beginning of 2017, further expansion was effectively limited in the following quarters. In the fourth quarter of 2017, the decline in net working capital resulted in a cash inflow of EUR 14.4 million (previous year: EUR 18.6 million).

High organic sales growth of EUR 96.8 million resulted in an accompanying cash outflow of EUR 27.0 million from higher trade receivables (previous year: cash outflow of EUR 4.1 million). The increase in inventories also resulted in a cash outflow of EUR 13.8 million (previous year: cash outflow of EUR 8.1 million). The US plant consolidation also had an impact, as certain volumes had to be held in advance of the upcoming relocation measures. The increase in trade payables, in contrast, generated a cash inflow of EUR 13.9 million (previous year: EUR 12.7 million). Net working capital increased overall in the 2017 financial year. Net cash flow from operating activities fell by 38.7 % to EUR 56.8 million (previous year: EUR 92.7 million). At EUR 33.2 million, net cash flow from operating activities in the fourth quarter of 2017 was below the previous year's level of EUR 38.8 million.

The cash conversion rate, which is an indicator of the Company's ability to generate cash inflows from its operating business, reached 81.3 % in the 2017 financial year (previous year: 117.7 %).

Overview of financial position

in EUR millions

	2017	2016
Cash flow from operating activities before income taxes paid	74.1	106.4
Cash conversion rate in %[1]	81.3	117.7
Net cash flow from operating activities	56.8	92.7
Net cash flow from investing activities	–84.3	89.8
Investments in property, plant and equipment and intangible assets	–27.1	–25.0
in % of sales	2.4	2.4
Net cash flow from financing activities	–33.7	15.3
Free cash flow[2]	29.7	67.7

[1] Cash flow from operating activities before income taxes paid divided by adjusted EBIT.
[2] Net cash flow from operating activities less investments in property, plant and equipment and intangible assets.

HIGHER INVESTMENT IN FUTURE GROWTH

Net cash flow from investing activities in the 2017 financial year amounted to EUR –84.3 million (previous year: EUR 89.8 million). The 2017 financial year was affected by the acquisition of other financial assets resulting in a cash outflow of EUR 58.1 million. This was in contrast to the prior year, which saw a positive impact from the sale of other short-term investments with a cash inflow of EUR 115.0 million. Excluding these two opposing effects, net cash flow from investing activities in 2017 would have been EUR –26.2 million and EUR –25.2 million in the previous year.

In preparation for future growth, the SAF-HOLLAND Group increased its payments for investments in property, plant and equipment and intangible assets by EUR 2.1 million in 2017. In total, payments for investments in property, plant and equipment increased by EUR 2.5 million to EUR 21.8 million (previous year: EUR 19.3 million), while investments in intangible assets amounted to EUR 5.3 million (previous year: EUR 5.7 million). Overall, the SAF-HOLLAND Group's investment ratio in the 2017 financial year remained unchanged at 2.4 %.

Net cash flow from investing activities in the prior year included a payout for the takeover of KLL in the amount of EUR 7.5 million. In addition, the acquisition of Haldex shares in the second quarter of 2016 and the subsequent sale of the shares in the fourth quarter of 2016 resulted in a positive effect on net cash flow from investing activities of EUR 5.7 million.

FREE CASH FLOW OF APPROX. EUR 30 MILLION

Free cash flow (net cash flow from operating activities less investments in property, plant and equipment and intangible assets) reached a solid EUR 29.7 million in the 2017 financial year (previous year: EUR 67.7 million). As a result, the dividend distribution in 2017 for the 2016 financial year was once again fully covered by the generation of internal funds. The decline in free cash flow compared to the previous year was due, in part, to the temporary increase in restructuring and transaction costs and the necessary additional operating expenses in connection with the US plant consolidation, which together amounted to EUR 21.2 million. The growth-related increase in net working capital also caused a decline. Despite again high additional operating expenses in the US, at EUR 26.8 million, free cash flow in the fourth quarter of 2017 almost reached the previous year's high level (previous year: EUR 29.2 million).

The net cash flow from financing activities amounted to EUR –33.7 million in the 2017 financial year (previous year: EUR 15.3 million). In addition to the dividend payment of EUR 20.0 million (previous year: EUR 18.1 million), this amount mainly reflected interest paid. It should be noted that the net cash flow from financing activities for 2016 had included a cash inflow of EUR 50.0 million from the assumption of a loan and a cash outflow of EUR 5.1 million from hedging the Haldex purchase price offered in Swedish krona.

MANAGEMENT'S GENERAL STATEMENT ON THE FINANCIAL SITUATION IN THE 2017 FINANCIAL YEAR

The year 2017 for the SAF-HOLLAND Group was satisfactory overall. We were very pleased with the business development in the EMEA/I and APAC/China regions where SAF-HOLLAND was able to further expand its market position and achieve solid sales and earnings growth. These successes, however, were overshadowed by the unsatisfactory earnings performance in North America. The unexpected strong recovery of the truck and trailer markets in the second half of 2017, which coincided with the relocation measures for the US plant consolidation that were already at an advanced stage, presented the SAF-HOLLAND Group with significant production and logistical challenges. Due to the resulting additional operating expenses, only the lower end of the originally planned target corridor for the adjusted EBIT margin, the Group's key performance indicator, was achieved in the 2017 financial year.

There were also important operational milestones achieved in the past year. With the relocation of production from the Holland site at the end of September 2017 and the Muskegon site at the end of December 2017, the Group completed the US plant consolidation as scheduled at the end of 2017. In the current 2018 financial year, the focus will be on optimally linking the logistics and production processes of the new production network and, after a successful start-up phase, realizing the cost advantages and efficiency gains associated with restructuring the plant network. The region's profitability is therefore expected to see a gradual and sustainable improvement.

Significant progress has been made in the implementation of the 2020 Growth Strategy objectives, not only in terms of the Group's strong organic growth but also the achievement of significantly above-average growth rates in the emerging markets outside the existing core markets of Europe and North America. SAF-HOLLAND benefits from the strong growth of the premium segment, for example in China, where the Company was able to position itself early on. With the new plant in Turkey, SAF-HOLLAND is well equipped to benefit from the future growth of the transportation industry in this region and in the neighboring markets.

Overall, the SAF-HOLLAND Group believes it is well on track to participate disproportionately in the structural growth in the target markets and at the same time achieve the objectives of its 2020 Growth Strategy.

OPPORTUNITIES AND RISK REPORT

PRINCIPLES OF THE SAF-HOLLAND GROUP RISK MANAGEMENT SYSTEM

SAF-HOLLAND has a comprehensive risk management system anchored in all of its key operational and decision-making processes and implemented by the Company's Management Board on a Group-wide basis. The purpose of the risk management system is to identify potential risks at an early stage by continuously monitoring the relevant markets, regions, customers, suppliers and internal processes so that effective corrective measures can be initiated. The risks identified that are considered significant because of their size and likely to occur are systematically and uniformly recognized, analyzed and evaluated as best as possible and then communicated. The risk management system intentionally omits general and non-specific risks to the Company (for example, macroeconomic risks), as well as risks that are impossible to monitor (for example, natural catastrophes). The risk management system is solely devoted to recognizing risks and not opportunities.

A risk management handbook is continuously updated for effectiveness and appropriateness and available Group-wide. This handbook defines the risk management processes, mandatory limits, use of financial instruments for financial risk control and provides supplementary Group guidelines to ensure that procedures are uniformly applied throughout the Group.

Risk assessment takes place both at the level of the Group and the individual subsidiaries and takes into consideration the respective loss potential and probability of occurrence. Control instruments and, if possible, corrective measures have been defined for each risk. Individual risks are combined into risk areas, each with their own specified risk policy.

CENTRALLY ORGANIZED INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEMS THAT APPLY GROUP-WIDE

All of the essential Group reporting activities, including the consolidation of financial data and the preparation of quarterly and annual financial statements, are centralized in the Group accounting department. Key financial data gathered by the individual segments and subsidiaries are reported to this department for the purpose of consolidation in accordance with uniform guidelines and defined processes.

An internal controlling and risk management system is used to ensure the reliability and accuracy of financial reporting and the compliance of the Group's accounting and financial statements with IFRS reporting standards. This system features both integrated and independent process monitoring as well as surveillance measures such as spot checks, plausibility checks and IT-based validation processes. The authorization procedure for accessing the accounting system is clearly defined, and the four-eye principle is applied.

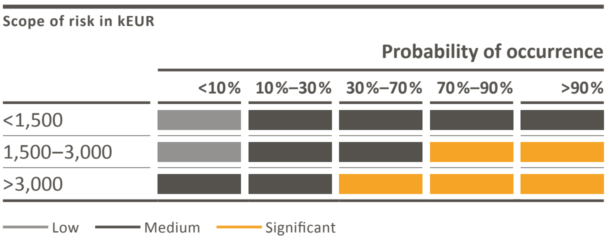
INTERNAL CONTROLLING SYSTEM MEETS ALL STATUTORY REQUIREMENTS

The other business processes are also included in the Internal Controlling and Risk Management System (ICS). The risk-adequate design of the ICS and the guarantee of compliance with its specifications, rules and process instructions are the responsibility of the Management Board. The Board of Directors does its own review to determine the effectiveness of the ICS in the context of performing its supervisory role through the Audit Committee. The independent Internal Audit department reviews the implementation and effectiveness of the internal controlling system and provides suggestions for its continual improvement. The financial reporting of the segments and subsidiaries are included in these reviews. The Internal Audit department forwards its audit reports to the respective divisional management, the Management Board and the auditor and reports to the Audit Committee of the Board of Directors. The Audit Committee regularly receives reports on the results of the audits carried out and the status of the implementation of the improvement measures. A further method of external monitoring of the Group's financial reporting process is the audit of the consolidated financial statements by independent auditors.

OVERALL RISK SITUATION IMPROVES AT SAF-HOLLAND IN 2017

The criteria "probability of occurrence" and "scope of risk" are used to evaluate risks. We also subdivide risks into the categories of "low," "medium" and "significant" risk as shown in the graph below. The scope of risk is quantified at the level of adjusted earnings before interest and taxes (adjusted EBIT) prior to risk mitigation (in gross terms).

Risk categories



In gross terms, SAF-HOLLAND Group's overall risk potential at the end of the 2017 financial year amounted to around EUR 33 million, which was more than 5% lower than in the previous year (EUR 35 million). Based on the Group's business volume and economic situation, we believe the Group's overall risk position, in terms of risks that can be directly influenced by the Group, continues to be manageable and easy to control. Sufficient precautions were taken for identified risks in the form of depreciation, amortization, impairments and provisions.

Strategic risks during the past financial year represented almost 30% of the overall risk potential and continued to be the most important risk area. Due to the lower risk category assigned to the competitive situation and the dependence on individual customers, the scope of strategic risk in 2017 was significantly lower overall compared to 2016. The Group's financial risk also declined; however, this decline was partially offset by an increase in legal and regulatory risks.

RISK OVERVIEW

Risk areas[1]		Individual risks	Individual risk 2017 vs. prior year[2]	Total risk 2017 vs. prior year[3]
Strategic risks		Customer dependency risk	unchanged	
		Competitive risk	lower	
		Vertical integration	higher	lower
Legal and regulatory risks		Trademark and patent protection risks	unchanged	
		Liability risks	higher	
		Trade risks	lower	
		Other regulatory risks	unchanged	higher
Technology risks		Marketing risks	unchanged	
		Risks from technological progress	unchanged	
		Risks from the loss of a cooperation	unchanged	unchanged
Operating risks		Procurement risks	unchanged	unchanged
IT risks		System outage and cybercrime risks	unchanged	unchanged
Personnel risks		Loss of knowledge risk	higher	
		Strike risks	unchanged	unchanged
Financial risks		Financing risks	unchanged	
		Currency risks	lower	
		Impairment risks	unchanged	lower
Other risks		Compliance risks	unchanged	
		Business relationship risks	unchanged	unchanged

Low Medium Significant

[1] The individual risk areas are arranged according to their respective scope of risk (descending order).
[2] Any change in the assessment of individual risks compared to the prior year is based on a change in the risk category.
[3] Changes compared to the prior year of more than EUR 0.5 million lead to increases and decreases in risk assessments.

MACROECONOMIC AND SECTOR DEVELOPMENTS ARE NOT INCLUDED IN RISK MANAGEMENT SYSTEM

Macroeconomic and sector risks are not included in SAF-HOLLAND's risk management system because they are difficult to quantify and control. These risks, however, are indirectly reflected as general conditions in the following risk categories. It is also important to keep in mind that these risks also harbor opportunities that are not quantified.

SAF-HOLLAND's business activities are naturally dependent on the economic and industry environment found in the respective sales and procurement markets. As a result, developments and any deviations from the developments expected in these markets can have a positive or negative impact on the Group's net assets, financial position and results of operations.

REDUCING RISK BY MEANS OF BROAD REGIONAL DIVERSIFICATION

We counter the risks described by means of broadly diversified products, customers and regional markets. In the past, the investment cycles in the truck and trailer markets and in our key regional markets have often failed to coincide. As a result, we were often able to at least partially offset temporary demand weakness in one market through a steady or upward trend in demand in another market. Our strength in the spare parts business – which is seldom impacted by economic cycles – also helps to compensate for fluctuations in our OEM business.

OVERALL STRATEGIC RISK FALLS

Classification of customer dependency risk unchanged due to diversification

The global truck business is dominated by a relatively small number of global manufacturers. Consequently, the dependency in this segment on individual customers is relatively high. The trailer business – the more important business for SAF-HOLLAND – has a much less condensed market structure, with several hundred manufacturers operating in both North America and Europe.

SAF-HOLLAND responds to customer dependency risk by ensuring it has a balanced customer structure. The share of sales per customer largely mirrors the market share of the respective manufacturers. SAF-HOLLAND also has a number of customers who are small and medium suppliers of vocational vehicles and are very important in their niches and respective markets. The Company's continued internationalization and positioning as a global partner for the commercial vehicles industry also improve its risk profile. In the 2017 and 2016 financial years, no one customer represented more than 10 % of the Group's sales.

Competitive risks continue to play a major role

Although competitive risk was rated lower in the 2017 financial year, it continues to be one of the "significant" individual risks for the Group. We rate the general intensity of competition in our markets as high, mainly as a result of new, usually lower cost suppliers entering established markets from emerging markets. This is the reason we conduct ongoing market and competitive analyses.

We mitigate this risk by taking several actions. For one, we make certain that our cost structures are always competitive and in line with the market. We also maintain our technological advantage through continued innovation. We accomplish this by having one of the most extensive research and development activities among our competitors, especially in the area of axle and suspension systems, coupling systems, lightweight construction and new technologies. Another crucial competitive advantage is our aftermarket network, which spans more than 10,000 spare parts and service stations, dealers and repair shops in more than 80 countries. We possess the densest network in Europe and North America, which represents a significant barrier to market entry for potential new competitors.

Vertical integration of major trailer customers in Europe remains a regional risk

The trend towards increased vertical integration has been seen among trailer manufacturers for several years, not only in Europe but also in Asia, where some manufacturers no longer purchase axles from suppliers but choose rather to manufacture them themselves. This change in purchasing behavior on the part of trailer manufacturers, however, has also presented us with some opportunities because now other trailer manufacturers, especially in North America, are starting to purchase entire axle systems, which gives us a chance to significantly increase our sales per vehicle.

Although we believe the risk posed by vertical integration is significant overall, it only affects SAF-HOLLAND to a limited extent. Manufacturing axles in-house makes economic sense for only a small number of trailer manufacturers and refers only to the manufacture of standard axles. In addition, it is the fleet customers who largely determine the trailer's specifications and, consequently, the axle system used. This makes having direct access to the end customer a decisive competitive advantage.

LEGAL AND REGULATORY RISKS INCREASE SLIGHTLY

Active management of trademark and patent protection risks

The misuse of our trademark and patent rights can lead to economic damage. We counter these risks by continually and intensively monitoring the relevant patent applications and market developments worldwide, also in the spare parts business. In the context of priority registrations, SAF-HOLLAND ensures that it patents its in-house developments at an early stage so that they are protected.

Liability risks cannot fundamentally be excluded

Liability risks include product liability and quality risks that may result from the production of products with insufficient quality or with defects. Any pollution of the soil, air and water can also give rise to corresponding environmental risks. Manufacturing companies can therefore never completely eliminate liability risks.

To isolate these risks as best as possible, SAF-HOLLAND manufactures Group-wide in accordance with high quality standards. Our quality assurance already starts at the product development stage and extends throughout the entire value chain. Our quality standards are precisely tailored to our customers' needs. They are also the reason we are able to meet the requirements of the international DIN ISO 9001:2008 quality standard and the special requirements of the automotive industry (ISO/TS 16949:2009) at all of the locations supplying to the truck industry. All of the regional locations that exclusively manufacture products for the trailer industry are DIN ISO 9001:2008 certified. The system capability of the welding technology at the German plants in Bessenbach is regularly verified through the ISO 3834-2 welding quality certification. Should any defective products still be shipped to customers despite the above quality assurance and it is necessary to recall the affected parts, the damage would be covered by insurance, the amount of which is checked annually for adequacy.

SAF-HOLLAND also maintains strict compliance with the relevant environmental protection regulations. In addition, our certifications in terms of product quality and system performance contribute significantly to environmentally friendly production. Most of our plants, especially in North America, have a certified environmental management system that conforms to the international ISO 14001 standard.

Market entry and trade risks categorized as low
Trade risks can arise when trade restrictions are tightened, particularly in international trade. We counter these risks by continuously and intensely observing international political developments and taking any potential changes into account in our internal monthly forecast.

The UK's decision to leave the European Union on March 29, 2019 (Brexit) is not expected to have a major impact on the Company's operations. SAF-HOLLAND is not operating in the United Kingdom through its own subsidiary but serves the local market through a distribution partner (local country representative) who invoices in euros. In the 2017 financial year, SAF-HOLLAND's exports to Great Britain accounted for around 2.4 % of Group sales. We do not expect Brexit or the depreciation of the British pound versus the euro since the referendum to have any effect on our relative competitive position because none of our major competitors has any significant production capacity in Great Britain.

Other regulatory risks at SAF-HOLLAND categorized as low
Other regulatory risks specifically include changes in the political and legal environments in the truck and trailer markets. To keep abreast of any changes, SAF-HOLLAND follows these issues closely, among others, through the ongoing evaluation of analyses from leading market research companies such as ACT Research and FTR.

TECHNOLOGY RISKS UNCHANGED OVERALL

Unchanged level of marketing risk by maintaining ongoing dialog with customers
We counter marketing risks first and foremost by maintaining an ongoing dialog with our customers. This enables us to recognize changes in demand at an early stage and develop new demand-oriented solutions. The information we gain helps us to avoid misdirecting our technological and conceptual efforts as a result of misinterpreting the needs of the market. We are also continuously monitoring our competitors, particularly with respect to their product range and the focus of their research and development. We use benchmarking, among other tools, to monitor our competitors' relevant products and activities.

Research and development risks mitigated with proprietary activities and continuous market monitoring
Although we place high importance on our research and development activities, we may still fail to adequately recognize new developments in general technologies. We identify the risks that can arise as a result by comprehensively monitoring the market. In our annual research and development report, we find and document the technological progress taking place in our industry. This enables us to recognize any advances early on that relate to our products, the materials we use and our manufacturing processes.

Risk of termination of cooperation contractually limited
The termination of cooperation with a business partner can lead to the loss of expertise and, thereby, the loss of sourcing and sales opportunities. We counter these risks by paying close attention to developments in both the sourcing and sales markets. We also make it our aim to cooperate only on the basis of contractual strategic alliances.

OPERATING RISKS UNCHANGED OVERALL COMPARED TO THE PRIOR YEAR

Procurement risks limited by multi-supplier strategy
Procurement risks can result from supply bottlenecks or substantial cost increases for materials and intermediate products. This includes the risk of restricted production and delivery capabilities and higher procurement costs. In terms of supply risk, the degree of the Company's dependence on individual suppliers plays a major role. To limit this risk, we employ a multi-vendor strategy where we arrange multi-year framework contracts containing defined quantities and prices with our core suppliers. In addition, we usually keep a certain level of inventory available to compensate for any short-term bottlenecks.

A particularly important price risk is the development of raw materials prices, especially the price of scrap steel. We minimize these risks by linking the prices in the majority of our customer contracts to commodity price movements, thereby passing on raw material price increases to a large extent to our customers. These types of adjustments, however, are often only possible after a certain time lag, which may result in initial temporary additional costs in procurement. The development of steel prices may vary strongly across regions in the Group's respective reporting segments. Punitive duties and other trade restrictions can have a significant impact on the short-term supply situation and purchase prices in the respective regions. Because of its global organization, SAF-HOLLAND cannot rule out this risk completely but partially limit it.

IT RISKS UNCHANGED

System outage and cybercrime risks

Information technology risks can arise from the failure of IT systems. Such failures can stem from internal hardware and/or software failures or errors, but may also result from cybercrime. We combat these types of risks by implementing sufficiently powerful structures that meet the industry's standards. Our comprehensive and up-to-date IT security approach ranges from access restrictions and controls to measures for data protection. Back-ups exist for essential hardware structures.

PERSONNEL RISKS CONTINUE TO BE CONSIDERED LOW

Loss of knowledge risk limited through systematic succession planning

Personnel risks are primarily those arising from the loss of managers and expert personnel in key positions. We prevent these risks through a systematic succession planning process and a Group-wide knowledge management system. We also have clearly defined deputy rules for all relevant management positions.

Strike risks continue to be categorized as low

To minimize strike risks, we rely on sincere and respectful cooperation with our works councils and trade union representatives. In Germany, employment agreements help to secure jobs and at the same time improve SAF-HOLLAND's competitive situation. In North America, we have similar agreements with the various local trade unions. We also make use of temporary employment contracts.

FINANCIAL RISKS LOWER THAN PRIOR YEAR DUE TO FINANCIAL ANALYSIS AND PLANNING

Financing risks continue to be categorized as low

We counter the risk of insufficient liquidity mainly through the use of a budget, medium-term planning and a monthly reporting system that includes a target-actual comparison. We also conduct sensitivity analyses based on the key underlying parameters. The management also continually monitors compliance with financial covenants from long-term credit agreements.

The financing risk of the SAF-HOLLAND Group is currently considered to be low. The Group not only has a high level of liquidity, which gives SAF-HOLLAND the financing necessary for future acquisitions under its Strategy 2020, but has also broadly diversified its liabilities in terms of their maturity and nature. SAF-HOLLAND has received a corporate rating from the rating agency Euler Hermes since 2012. The current rating is BBB with a stable outlook, which was last reconfirmed in April 2017.

Market-induced interest rate changes may have an impact on the interest burden of variable-interest financial liabilities. This interest rate risk is generally hedged by at least 70% using suitable instruments. At present, the Group's interest rate risks are low, as fixed interest rates have been agreed for a large portion of financial liabilities.

Further information on the Company's liquidity and financing can be found on pages 59ff. of this management report.

Currency risk less pronounced

As a result of its global business activities, the Group is exposed to foreign currency risks arising from its investments, financing and operating business. Individual subsidiaries invoice customers primarily in the respective local currencies. Sales and costs in most currency areas are largely recognized in the same currencies. Therefore only low transactions risk arises from the valuation of foreign currencies.

Translation risk that arises when converting the national currencies into the Group's reporting currency, the euro, is difficult to control. Currency fluctuation risks for the given outlook depend on the exchange rate development of the relevant local currencies and cannot be ruled out. These risks are generally accompanied by corresponding opportunities. Therefore, our sales forecasts are calculated on an organic basis, that is, on a constant currency basis.

When currency risks are hedged using financial instruments, these instruments are used exclusively to hedge the risk of the underlying transaction. Therefore, a net effect on the results of operations and financial position can be ruled out almost entirely.

As of the 2016 financial year, there is virtually no longer any risk that the valuation of intra-company foreign currency loans may have a potential negative impact on results. Since that time, intra- company foreign currency loans are being accounted for as part of a net investment in a foreign operation and are no longer recognized in the finance result but in "other comprehensive income" (OCI). The corresponding assessment of currency risks for the past financial year was "low" (previous year: "significant").

Impairment risks at a moderate level

Impairment risks can arise from the need to recognize unscheduled depreciation or amortization of assets. We counter these risks by adhering to a strict medium-term budget and compiling monthly reports both with respect to the Company's actual development and on the basis of a rolling planning process. Impairment risks remained unchanged at a moderate level in the 2017 financial year.

We address the risk of bad debts by comprehensively securitizing our receivables. As a rule, we are committed to securing all receivables from sales with non-Group companies to the extent that such insurance coverage is available in the market. Last year, we secured roughly 70 % of all our receivables.

NO NEW OTHER RISKS

Compliance risks addressed by Code of Conduct and Compliance Unit

We counter risks arising from non-compliance with laws and regulations through the adoption of a Group-wide Code of Conduct, which we continuously review for timeliness and expand when necessary. SAF-HOLLAND bases its compliance system on common ethical and moral principles.

Corporate integrity is a top priority at SAF-HOLLAND. We believe compliance is not just about complying with applicable national and international laws and regulations but is also about being committed to ethical values. We have set up a compliance unit to help our employees fulfill these objectives. Our Code of Conduct summarizes our compliance requirements, which are binding for SAF-HOLLAND as a company, our management and each and every employee. Other compliance matters, such as how to handle gifts or insider information, are regulated by mandatory guidelines and memorandums throughout the Group. When there are changes in the legal framework, the relevant information is updated and the employees affected are informed. The Board of Directors works to ensure compliance with and adherence to the statutory provisions and corporate policies.

Risks from individual business relationships remain at moderate level

Risks arising from individual relationships with business partners are inherently limited by the broad diversification of our customer and supplier base. Identified risks are addressed and limited as much as possible in cooperation with the respective business partner.

OVERVIEW OF OPPORTUNITIES

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 of the global megatrends. The growing world population, especially in developing and emerging countries, as well as the globalization of the economy, are leading to growing international trade. This makes a global transportation infrastructure a mandatory requirement. Urbanization is also attracting an increasing number of people to cities. Trucks and trailers are the most important means of transportation for supplying these mega cities.

Another factor is the sharp increase in the population of the middle class, especially in the Asia Pacific region. Growing incomes in the years to come will accompany a jump in the purchasing power of the global middle class, which in turn will lead to an increase in the exchange of goods and higher freight volumes.

SUSTAINABLE GROWTH IN MARKET FOR TRUCKS AND TRAILERS OFFERS GROWTH POTENTIAL

According to the market research institute LMC Automotive, the market for medium and heavy trucks is projected to grow on average by around 1% p.a. until 2032. All of the world's regions are expected to contribute to this growth, whereby the highest growth rates are expected in Latin America and Central and Eastern Europe.

The steady increase in the requirements for safety and compliance with environmental standards is causing disproportionately strong growth in demand for high-quality transportation equipment. For a technology leader like SAF-HOLLAND, this means that our addressable market offers tremendous growth potential in the years ahead.

Stricter regulatory requirements (see section "Opportunities from new regulatory requirements") are causing fleet operators to begin to rethink their strategies, which will noticeably boost the use of new material combinations and technological innovations, such as lightweight construction.

The steady expansion expected in truck fleets also implies continuously growing demand for spare parts. With the launch of the trademarks SAUER GERMANY QUALITY PARTS and GoldLine, SAF-HOLLAND has penetrated another segment of spare parts supply in original equipment quality combined with special warranty packages. With a tailored brand that offers somewhat more cost-effective parts specially designed for older vehicles, SAF-HOLLAND is supplying to trucks and trailers in the "second life" marketplace. This opens up additional sales potential, particularly in the emerging markets, which have a high number of older vehicles traveling the roads. The above trademarks also play a key role in the Company's early positioning in the Strategy 2020 target markets because these brands deliver the special qualities that characterize trucks and trailers in these markets: robustness, reliability and a low price.

OPPORTUNITIES ARISING FROM NEW REGULATORY REQUIREMENTS

The use of mega trailers in Europe could result in a boost in investment

The European Union has been contemplating the admission of mega trailers (extra-long truck and trailer combinations), sometimes referred to as gigaliners, for some time. The use of the mega trailers might not only reduce traffic on the roads but also save fuel consumption and CO_2 emissions. Mega trailers are meanwhile allowed in some Scandinavian countries as well as in both the Netherlands and Spain. Germany has been running a large-scale field test for several years now. Critics fear that the introduction of mega trailers could mean an even greater shift of transport volumes from rails to roads.

Should mega trailers be allowed throughout the European Union in the coming years, it could spark a boom in the industry with the German market playing a pivotal role. The comparatively better efficiency of gigaliners, or mega trailers, with lower costs per kilometer compared to conventional truck and trailer combinations, would provide commercial benefits to fleet operators and likely trigger a multi-year boost in new truck purchases. Apart from the temporary effect on demand, SAF-HOLLAND could also benefit from the fact that mega trailers tend to increase the requirements for durability, safety and comfort.

New commercial vehicle standards in China propel growth in the premium segment

The first phase of the GB 1589 standard came into effect in China in September 2016, revising the regulations for maximum weight and gross weight per axle for medium and heavy trucks. Under GB 1589, the maximum allowable weight of a truck and trailer combination has been reduced from 55 to 49 tons. The second phase of the standard, which will take effect in July 2018, also limits the length of a truck and trailer combination to a maximum of 18.1 meters. Stricter regulations will apply to the height and width of truck and trailer combinations. Until now, the length of these combinations on China's roads has been limited to 22 meters. Due to a lack of regulatory enforcement, however, there were some truck and trailer combinations on the road that measured up to 27 meters in length. Compliance with the new standard, however, is being closely monitored by the authorities whose aim is to increase safety standards and reduce wear on the roads caused by overly heavy trucks. At the same time, dimension limits and load regulations came into force for automotive transporters that lead to a significant reduction in the number of vehicles that can be transported per trailer.

January 1, 2018 is the date set for the introduction of the GB 7258 standard, which will further tighten safety regulations for truck and trailer combinations in China. After a one-year transitional period, starting on January 1, 2019, the GB 7258 standard will require the installation of disc brakes for the transport of dangerous goods. Trucks will have 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 will also need to be equipped with air suspension systems.

Although compliance with new standards is often handled differently in the respective Chinese provinces, and it is unclear as of when old vehicles that do not meet the specifications will no longer be allowed, the introduction of the first phase of the GB 1589 standards has still led to a significant increase in new registrations of trucks and trailers. With the implementation of the second phase of the GB 1589 in mid-2018 and the implementation of the GB 7258 standard at the beginning of 2019, the Chinese market is likely to experience a boom for the foreseeable future. Apart from the somewhat short-term effect on demand, it is expected that, over the medium term, tighter regulations will cause truck and trailer manufacturers to shift their focus to weight-reduced and technologically more sophisticated solutions. We will be able to accommodate this demand through our innovations, products and highly competitive solutions, placing us in a strong position to significantly increase our market share in China.

Stricter emission regulations in the United States drive demand for lightweight components

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 was published in 2016 by the US Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA). This is the second phase of legislation on fuel efficiency and CO_2 reduction that not only includes trucks but will also include trailers starting in 2018. Even stricter requirements are scheduled to be introduced in 2021, 2024 and 2027. According to EPA, the tightened regulations planned for 2018 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 has extensive expertise in both of these product areas and is therefore expected to benefit from these stricter regulations.

INCREASING DEMAND FOR DISC BRAKE TECHNOLOGY IS HAVING A POSITIVE EFFECT

Whereas the overwhelming majority of trailers in Europe have been equipped with disc brakes for many years, disc brakes are still not broadly used in the US. Traditional drum brakes still dominate the US market despite being clearly 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 truck equipped with disc brakes, for example, needs 20 % less braking distance (dropping from 129 meters to 104 meters 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. In 2016, SAF-HOLLAND received a milestone order from U.S. Xpress to equip 1,800 newly ordered trailers with the latest generation of disc brakes. The decision of U.S. Xpress to use disc brake technology over drum brakes was widely covered by the US trade media and could inspire other fleet operators to do the same. The proportion of disc brake technology in the US is expected to increase from today's 10 % share over the medium term to 30to35 %. SAF-HOLLAND has been playing a pioneering role in this segment of the European market for years and possesses extensive know-how. By employing disc brake technology in our axle systems, we can increase our added value per vehicle by 50 % or more.

OPPORTUNITIES THROUGH ACQUISITIONS ARE A FUNDAMENTAL COMPONENT OF GROWTH STRATEGY 2020

SAF-HOLLAND has already proven its ability to successfully consolidate its market position and accelerate its growth through acquisitions. As part of Strategy 2020, the Company plans to generate a portion of its sales growth over the next few years through collaborations, joint ventures and targeted 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 businesses.

In the last few years, interesting options have presented themselves from potential sellers of family-run businesses but not at attractive terms and conditions. In view of the challenges facing many of these sellers, we expect better opportunities going forward to expand and enhance our position in selective markets. A good example of this approach was our acquisition of KLL in the 2016 financial year. This acquisition was an anti-cyclical investment and allowed us to expand our product portfolio to include products that stand out based on their durability and relatively low prices. We also see great sales potential for these types of products in other emerging markets, which should open up some cross-selling opportunities.

ACTIVE PURSUIT OF OPPORTUNITIES ARISING FROM PENETRATING NEW MARKETS

In the 2017 financial year, SAF-HOLLAND generated roughly 90% of its sales in its traditional regions of Europe and North America. Under Strategy 2020, our stated objective is to expand the share of our sales outside of these core regions to around 30% by the year 2020.

To achieve this objective, we commenced operation of a new plant in Düzce (Turkey) for the production of axle systems in 2017. The new location offers some advantages due to lower transportation costs and also provides an opportunity to deliver more quickly to bordering new markets and several of the "stan" countries. Industry experts expect a significant boom in the release of pent-up investments in infrastructure in these countries and the transportation sector in particular.

The acquisition of KLL in the 2016 financial year should also be seen in this context. Through KLL, we have gained wider access to the Brazilian market and now also have direct access to the country's truck and bus manufacturers.

REDEMPTION OF HIGH-YIELD CORPORATE BOND REDUCES INTEREST EXPENSE

In 2012, SAF-HOLLAND issued a corporate bond with a total nominal volume of EUR 75.0 million and maturing on April 26, 2018. With an interest coupon of 7.0%, the yield is relatively high from today's standpoint and no longer in line with the market. The current plan is to redeem the maturing bond using existing cash. Fully redeeming the bond using cash would have a positive effect on the net interest result of around EUR 5.0 million per full year. In 2018, the effect of the interest savings on a pro rata basis would cover approximately eight months.

TAX REFORM IN THE UNITED STATES MAY HAVE A POSITIVE IMPACT

The new US administration under President Trump voted in favor of a comprehensive tax reform package at the end of 2017. One of the key aspects of the reform package is a reduction in corporate taxes. Starting in 2018, the US federal corporate tax rate is scheduled to fall from 35% to 21%. In the 2017 financial year, SAF-HOLLAND's relevant US corporate tax rate was 37%, consisting of a federal tax rate of 35% and a state tax rate of around 2%. The Group expects its overall tax rate in the United States to decline to about 23% starting with the 2018 financial year as a result of the reduction of the federal corporate tax rate to 21%. Depending on the US subsidiary's earnings, there will be a corresponding reduction in the tax burden in the United States.

EVENTS AFTER THE BALANCE SHEET DATE

MAJOR ORDER FOR AXLE AND SUSPENSION SYSTEMS AND INVESTMENT IN NEW PRODUCTION CENTER IN CHINA

In early January 2018, SAF-HOLLAND announced a major order from the Chinese transportation vehicle and trailer manufacturer Changjiu Special Vehicle Group. Changjiu is one of the leading manufacturers of trailers for transporting vehicles and will equip its semi-trailers with axle and suspension systems from SAF-HOLLAND in the future. Special low loader axle systems equipped with the SAF MODUL air suspension system will be used. This system is unique in its versatility and number of combination options. The delivery agreement covers a period of five years. The delivery of the first systems has already begun. Sales of around EUR 15 million are expected from this order in 2018.

SAF-HOLLAND also announced that it would significantly expand its production capacity in this region. The Group is investing a high single-digit million euro amount in a new central production center with manufacturing space of roughly 46,000 m² on the Yangtze River Delta. Operation is scheduled to begin in the first half of 2019. Through this investment, SAF-HOLLAND is equipping itself in anticipation of a continued increase in demand for modern disc brake and air suspension technology in China in the future. This technology will be increasingly used by fleet operators in the wake of more restrictive legislation.

ACQUISITION OF MAJORITY STAKE IN COUPLING SYSTEM SPECIALIST V.ORLANDI S.P.A.

In the first quarter of 2018, SAF-HOLLAND signed a contract and acquired a majority stake in V.ORLANDI S.p.A., an Italian manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles. SAF-HOLLAND will initially acquire 70 % of the company's shares. The purchase price was around EUR 39 million. The parties agreed to grant SAF-HOLLAND a call option for the remaining 30 % interest in the company, which can be exercised at a later date. SAF-HOLLAND expects to close the transaction no later than the second quarter of 2018.

With V.ORLANDI, the Group is acquiring a supplier of trailer couplings for trucks as well as special fifth wheels and strengthening its position as number 2 in Europe. At the same time, SAF-HOLLAND is expanding its specialty business with couplings and drawbar eyes for trailers and specialized commercial vehicles, for example in the segments of industry, agriculture, forestry and mining. V.ORLANDI generates nearly a quarter of its sales with coupling systems for agricultural and forestry vehicles.

The company currently employs around 60 people and has two manufacturing locations in northern Italy near Brescia. The company's target sales markets aside from those in Western Europe include primarily Russia, Asia and Australia. For the 2017 financial year just completed, V.ORLANDI expects sales of approximately EUR 20 million and a low double-digit EBIT margin.

FIRE AT WAREHOUSE AT SAF-HOLLAND'S SUBSIDIARY IN RUSSIA – DAMAGE IS LIMITED

The SAF-HOLLAND subsidiary OOO SAF-HOLLAND Rus in Moscow suffered a fire at one of its rented warehouses in Moscow at the end of February 2018. No personal injuries occurred. The fire did, however, render finished goods and spare parts for the Aftermarket business unit unusable and a major portion is expected to be impaired. The precise amount of damage is currently being determined and expected to be in the low single-digit-million euro range. SAF-HOLLAND has sufficient insurance coverage and currently assumes it is fully covered against the loss, excluding a manageable deductible. The company expects limited operations at the Aftermarket business unit in Russia for three to four weeks, foregoing sales in the upper triple-digit euro thousands.

COO DEPARTS

Arne Jörn, Chief Operating Officer of SAF-HOLLAND since October 17, 2016, has left the company as of February 28, 2018 to pursue other interests outside of the SAF-HOLLAND Group.

The Management Board and the regional presidents have taken joint responsibility for his role for the time being. The Management Board and the Board of Directors have already started discussing the future allocation of responsibilities and succession in the operations area.

OUTLOOK

ECONOMIC AND SECTOR ENVIRONMENT

STRONG GROWTH PROJECTED FOR THE GLOBAL ECONOMY IN 2018

In the second half of 2017, economic sentiment, which has a direct impact on the transportation industry, had noticeably improved worldwide. In its latest assessment of the global economy, the International Monetary Fund (IMF) was more optimistic than it had been in the past several years. In its World Economic Outlook from January 2018, the IMF expects global gross domestic product (GDP) to increase by 3.9 % in 2018, marking the highest growth rate since 2011. The projected global upturn is expected to be broad-based and sustained by almost all major industrialized nations as well as a majority of the emerging markets.

The IMF is also confident about the outlook for the eurozone. With an expected GDP increase of 2.2 %, the eurozone is poised for a year of solid growth in 2018. The biggest risk factor remains the upcoming Brexit, which in the opinion of the IMF will primarily have a negative impact on the UK itself.

The IMF expects economic development in the United States to accelerate again in 2018 and is currently forecasting growth of +2.7 %. This forecast does not yet take into account the possible positive effects of the tax reform adopted at the end of 2017.

At the same time, the IMF believes that the most important emerging economies, especially China and India, will be able to achieve high growth rates ranging from 6.6 % to 7.4 %. The IMF is a little more reserved in its forecasts for Russia and Brazil. Although the economic recovery in those countries is expected to continue in 2018, the expected growth rates are only moderate in view of their low starting levels. Projected growth should provide a steady environment for the transportation industry in most economies in 2018.

Expected economic development in key markets in 2018

in %

	2016	2017	2018
Euro Area	1.8	2.4	2.2
Germany	1.9	2.5	2.3
United States	1.5	2.3	2.7
Brazil	–3.5	1.1	1.9
Russia	–0.2	1.8	1.7
China	6.7	6.8	6.6
India	7.1	6.7	7.4

Source: IMF (World Economic Outlook January 2018).

SECTOR OUTLOOK: BETTER OVERALL ENVIRONMENT DESPITE CONTINUED SHARP REGIONAL DIFFERENCES

In 2018, the market environment is projected to improve on a global scale. This is especially true in North America, where the recovery in Class 8 trucks is expected to continue to gain momentum in the course of the year.

In China, fleet operators are expected to continue their high level of investment in view of the tighter regulatory requirements for vehicle safety and load limits. This applies especially to niches in the special vehicle sector, for example, vehicle and dangerous goods transporters. SAF-HOLLAND believes it has a strong position in this premium segment.

The situation is different in Europe, one of SAF-HOLLAND's core markets, which accounted for 53.7 % of the Group's sales in 2017. After several years of growth, a slight decline in Western European production figures cannot be ruled out in 2018. Sales figures for trucks and trailers in Europe, however, should remain at a consistently high level.

SLIGHT DECLINE IN DEMAND FOR TRAILERS IN WESTERN EUROPE

After a period of growth from 2014 to 2016 and largely stable development in 2017, the market research institute CLEAR International Consulting (CLEAR) expects a high-level consolidation in the Western European trailer market in 2018. Trailer production is anticipated to decline by up to 5 %. The research institute justifies its cautious assessment with the fact that European trailer demand has been supported by catch-up effects after years of restrained investment and many European fleet operators have already modernized and expanded their vehicle fleets in recent years. The macroeconomic recovery in many European Union countries, in contrast, will continue to prompt a sustained increase in demand for transportation capacities. CLEAR revised its forecasts higher for Western Europe in the course of 2017 after its projection in the spring of 2017 for a 9% drop in trailer production in 2018.

In Eastern Europe, CLEAR currently expects a moderate increase in trailer production of around 1%. According to the forecast, a recovery in Turkey is expected to be offset by broadly stagnating markets in Poland and Russia. Pan-European trailer production is expected to see a drop in deliveries of almost 4% in 2018, coming from a high level.

WESTERN EUROPEAN TRUCK MARKET STILL ON A MODERATE GROWTH PATH

According to estimates by LMC Automotive, the Western European truck market is expected to continue its multiyear upward trend and record minor growth in 2018. In the heavy-duty segment (>15 tons), which is relevant for SAF-HOLLAND, LMC Automotive is projecting a growth rate of just under 2%.

In Eastern Europe, LMC Automotive expects a 16% increase in production, mainly driven by the continued market recovery in Russia and the early signs of a recovery in Turkey. After years of decline, demand is expected to revive somewhat, even in countries such as Belarus and the Ukraine.

NORTH AMERICAN TRUCK MARKET IS PICKING UP STRONGLY

Based on the clearly noticeable recovery in the North American market for heavy trucks (Class 8) in the second half of 2017, the year 2018 is also anticipated to see strong growth. Market research institutes such as ACT Research and FTR forecast that, in 2018, North American vehicle production should increase by around 20 to 25% year-over-year after the market's sharp decline in 2016. Around 315,000 Class 8 trucks are expected to roll off the production lines. This number would represent almost a complete recovery from the decline in 2016. Strong growth is expected above all in the US (+27%) and Canada (+39%), while the outlook for Mexico (+10%) is more subdued. In addition to the improved economic environment, high demand in the US market is also expected to be triggered by the regulations issued at the end of 2017 from the Federal Motor Carrier Safety Administration (FMCSA) introducing Electronic Logging Devices (ELDs), which are required to be implemented by April 1, 2018. The ELD regulation requires vehicle operators to take regular breaks that need to be documented. In practice, this is expected to lead to shorter operating times resulting in additional demand for transportation capacity. This development is forcing fleet operators to increase their capacities in the midst of an already strong economic environment and, at the same time, deal with a nationwide driver shortage, which represents a significant challenge.

NORTH AMERICAN TRAILER MARKET REMAINS SOLID

The outlook for the North American trailer market in 2018 is more subdued. Although market research institutes are predicting another strong year for trailers in the US the growth in the trailer market is still expected to be only moderate in 2018 compared to the dynamic increase anticipated in truck demand. The diverse trends in demand for trucks and trailers can be explained by the high order backlog of the trailer manufacturers going into 2016. Contrary to the significant slump in Class 8 truck production in 2016, trailer production remained strong, and demand for trailers continued to be solid in 2017.

BRAZIL ON A RECOVERY COURSE

In 2018, the recovery in demand in the Brazilian commercial vehicle market that started in 2017 is expected to continue. Even though heavy truck production increased nearly 50% in 2017, production figures were still approx. 60% below the 2013 pre-crisis level. Based on the outlook for a moderate economic recovery and political reforms, LMC Automotive anticipates a rise of 14% in the production of heavy trucks in Brazil in 2018. Although the demand for new trailers is comparatively more restrained, new orders in this vehicle segment are pointing to slight growth.

DEMAND IN CHINA DRIVEN BY REGULATORY REQUIREMENTS

The introduction of the second phase of the GB 1589 standard in July 2018 and the GB 7258 standard on January 1, 2018 will continue to define the demand for trucks and trailers in China in 2018 (see the Risk and Opportunities Report, page 68). The general loading limits and safety regulations introduced for dangerous goods transporters are forcing the freight forwarders to continue to invest in new vehicles. Most market participants expect a slight slowdown in demand together with a decline in production volumes of around 15% in trucks and trailers in 2018. The premium segment, however, is anticipated to have double-digit growth rates in not only 2018 but also in the years that follow. The segment for vehicle and dangerous goods transporters for fuels, gas and other chemical substances plays a major role in SAF-HOLLAND's business development in China. SAF-HOLLAND estimates that the trailer premium segment, which seeks out more demanding, weight-reduced applications using air suspension and disc brake technology, comprises roughly 15 to 20% of the market.

In Australia, which is an important regional market for SAF-HOLLAND, LMC Automotive expects a rise in the production of heavy and medium-duty trucks of around 9 % in 2018. LMC believes most of the other truck and trailer markets in the emerging countries of the APAC/China region will also tend to see slight growth.

COMPANY OUTLOOK

At SAF-HOLLAND, medium to long-term corporate development is the key focus and is being pursued via the 2020 Growth Strategy already described. The Company intends to realize growth opportunities by rolling out its business to new regions outside of the existing core markets, expanding the product portfolio in a targeted manner, as well as by entering into new joint ventures and concluding acquisitions.

Based on the outlook for the Group's relevant sales markets described above, SAF-HOLLAND expects the market environment in 2018 to be comparable to the environment experienced in the 2017 financial year. Nevertheless, SAF-HOLLAND is anticipating that the industry's development in 2018 will provide some tailwind for the Group's business development despite the potential minor decline in the core European trailer market. The Group's regional diversified structure is expected to prove itself once again in 2018.

INVESTMENTS IN NEW PRODUCTION CENTER IN CHINA AND DIGITIZATION

SAF-HOLLAND's business model is centered on application technology featuring the production of numerous variants. The development-intensive original equipment business is combined with a long-term oriented spare parts business. SAF-HOLLAND's business model, however, requires a lower level of capital intensity (around 2.5 to 3.0 % of sales) compared to other manufacturers. After investing EUR 27.1 million in property, plant and equipment and intangible assets in 2017, the plan is to raise the investment volume in 2018 to around EUR 38 to 40 million. This increase will cause a corresponding rise in the investment ratio to over 3 %.

The higher investment budget is intended primarily for building a new production center at the Yangzhou site in the province of Yangtze, China. After the major orders received and the expected increase in demand for modern disc brake and air suspension technology in China in the coming years, SAF-HOLLAND has decided to significantly expand its production capacities in the region. The new plant will have a production area of around 46,000 m² and is scheduled to begin operations in the first half of 2019. The Group plans to invest a high single-digit million Euro amount for this production center in 2018. Additionally, the Group plans to increase its production capacity for axle and suspension systems in North America.

Investment in 2018 will also focus on digitization. One example of this is SAF-HOLLAND's introduction of the in-memory database technology SAP HANA. This technology can collect and process the multitude of information and data within the Group in a targeted manner and in real time and will generate significantly higher efficiency across all divisions. The plan is to invest a low-single-digit million amount in this project in 2018.

Following the temporary increase in the investment ratio in 2018, SAF-HOLLAND expects a decline again in the ratio in the years that follow to its long-term average of 2.5 to 3 %.

SUSTAINABLE DIVIDEND POLICY: DIVIDEND TO RISE TO EUR 0.45 PER SHARE

SAF-HOLLAND pursues a long-term dividend policy aimed at giving shareholders an opportunity to participate appropriately in the Company's success. As a rule, SAF-HOLLAND plans to distribute between 40 and 50 % of its net income as a dividend to shareholders.

At the Annual General Meeting to be held on April 26, 2018, the Management Board and the Board of Directors intend to propose an increase in the dividend to EUR 0.45 per share for the 2017 financial year (previous year: EUR 0.44). This corresponds to a total payout of around EUR 20.4 million (previous year: EUR 20.0 million) and a payout ratio of 49.9 % (previous year: 45.9 %) of the result for the period or 47.6 % (previous year: 45.1 %) of the result for the period attributable to the shareholders of the parent company. The higher payout ratio reflects the overall solid operating performance in the 2017 financial year and the temporary nature of the restructuring charges and additional expenses related to the US plant consolidation. Based on a year-end closing price for SAF-HOLLAND shares of EUR 17.94 in 2017, the dividend yield amounts to an attractive 2.5 % (previous year: 3.2 %).

MANAGEMENT BOARD'S GENERAL STATEMENT ON THE COMPANY'S ANTICIPATED BUSINESS DEVELOPMENT

SAF-HOLLAND's planning is based on expected global economic growth of just over 3.5 % in 2018, as well as the anticipation that the economic growth in the Group's current core markets of Europe and, North America, as well as China, will continue to develop positively overall. With the structural market growth in innovative solutions such as lightweight technology, disc brake technology and automated driving, the Company expects to be able to increase its sales per vehicle and gain additional market share.

SOLID ORGANIC SALES GROWTH AND HIGHER EARNINGS TARGETED FOR 2018

After the high level achieved in 2017, SAF-HOLLAND's organic Group sales are expected to increase again by 4.0 to 5.0 % in the 2018 financial year. This forecast is based on the assumption of an unchanged scope of consolidation and constant exchange rates.

With the closure of the plant in Holland, Michigan, in late September 2017 and the plant in Muskegon, Michigan, at the end of December 2017, the Group was able to complete its relocation activities related to the US plant consolidation by the end of 2017. The focus will now be on gradually reducing the start-up costs of the restructured plant network during the first few months of 2018 and optimally aligning the capacity planning and logistics processes with the production processes. In addition, the temporary increase in the number of employees and the higher express freight and logistics costs are expected to decline again to their normal levels. The dynamic demand from original equipment customers is continuing as the new plant network is put into operation but is expected to be increasingly easier to master as the year progresses. Therefore, the Company expects to still incur additional operating expenses until the reduction in the production start-up inefficiencies will have been completed. The majority of these expenses are to be recognized in the first quarter of 2018. In light of the successive realization of efficiency improvements from the US plant consolidation, SAF-HOLLAND expects the Americas region to see a successive improvement in its cost structure and profitability over the course of 2018.

Based also on the anticipation of continued solid earnings performance in the EMEA/I and APAC/China regions, from today's standpoint SAF-HOLLAND expects the Group's adjusted EBIT margin in full-year 2018 to range from 8 to 8.5 %. Due to the forecasted development in the Americas region, the Company expects profitability to increase but successively meaning that the adjusted EBIT margin in the first half of 2018 will tend to be lower than in the second half of the year.

At the same time, SAF-HOLLAND expects one-time restructuring and transaction costs to decline in 2018 and tend toward the mid-single-digit millions, after having reached a level of roughly EUR 13.2 million in the previous year because of the US plant consolidation. This should also result in a disproportionate improvement in EBIT.

This outlook is based on the scope of consolidation as of December 31, 2017 and does not include the sales and earnings contribution majority-acquired company V. Orlandi S.p.A. The closing of this transaction is expected to take place no later than the second quarter of 2018.

In view of the objectives of the 2020 Growth Strategy, there may be additional sales and earnings contributions still to come from collaborations, joint ventures or acquisitions concluded during the course of the year. In its search to expand, SAF-HOLLAND places a special focus on complementing its technology portfolio and combining mechanical components with sensors and electronics. This requires, however, that the appropriate opportunities with manageable risk profiles and reasonable purchase prices are available and can be realized.

POSITIVE EFFECTS ON THE RESULT FOR THE PERIOD EXPECTED IN 2018

In addition to the anticipated improvement in adjusted EBIT described above, SAF-HOLLAND expects further positive effects on the result for the period in 2018.

At the end of April 2018, the corporate bond that was issued in 2012 with a nominal volume of EUR 75.0 million and a coupon of 7.0 % will reach maturity. This bond is to be repaid out of existing cash. Taking into account full redemption from cash a positive effect of a little over EUR 3.5 million on the interest result will be realized over the remaining eight months of the 2018 financial year.

SAF-HOLLAND expects the Group's income tax rate in the 2018 financial year to drop below the rates in 2015 (33.4 %) and 2016 (33.0 %), mainly as a result of the tax reform in the United States, which was adopted at the end of 2017.

Prior to the tax reform, the SAF-HOLLAND's US corporate tax rate was approximately 37 %, consisting of a federal tax rate of around 35 % and a state tax rate of around 2 %. As of the 2018 financial year, SAF-HOLLAND expects its overall US income tax rate to fall to around 23 %. Depending on the US subsidiary's earnings, there will be a corresponding reduction in the tax burden in the United States.

Based on the above, SAF-HOLLAND expects the development in the result for the period and earnings per share to outpace that of the adjusted EBIT in 2018.

OPERATING FREE CASH FLOW EXPECTED TO IMPROVE DESPITE HIGHER INVESTMENTS

The financial strength of the SAF-HOLLAND Group is expected to remain very solid in 2018. Investments in property, plant and equipment and intangible assets are anticipated to increase to between EUR 38 million and EUR 40 million in 2018 (previous year: EUR 27.1 million) as a result of the additional investments planned for the construction of a plant in China and the purchase of further equipment for the production of axles in the US. A positive effect on cash flow is expected from, among others, the phasing-out of additional operating expenses and restructuring costs from the US plant consolidation. SAF-HOLLAND also anticipates a lower build-up of net working capital compared to the previous year leading to an expected increase in overall operating free cash flow in 2018 versus 2017.

ALTERNATIVE PERFORMANCE MEASURES

In addition to the key figures defined or specified in the applicable IFRS financial reporting framework, SAF-HOLLAND also reports key financial ratios derived from or based on the prepared financial statements. These are known as Alternative Performance Measures (APM).

SAF-HOLLAND considers these key financial ratios to be important supplemental information for investors and other readers of the financial reports and press releases. The key financial ratios should therefore be seen as an addition to rather than a replacement of the information prepared in accordance with IFRS.

In complying with the requirements of the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures (APM), you will find an overview of the Alternative Performance Measures used presented on page 154. The definition and compilation of the APMs can be found on the SAF-HOLLAND website at https://corporate.safholland.com/apm