CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

kEUR	Notes	Q1–Q4/2017	Q1–Q4/2016
Sales	(4)	1,138,933	1,041,995
Cost of sales	(5.1)	−933,876	−835,496
Gross profit		**205,057**	**206,499**
Other income	(5.2.1)	1,614	1,159
Selling expenses	(5.2.2)	−62,079	−60,729
Administrative expenses	(5.2.3)	−53,542	−50,927
Research and development costs	(5.2.4)	−20,411	−19,689
Operating result	(4)	**70,639**	**76,313**
Share of net profit of investments accounted for using the equity method	(6.3)	2,086	2,136
Earnings before interest and taxes		**72,725**	**78,449**
Finance income	(5.2.5)	1,247	8,359
Finance expenses	(5.2.5)	−17,760	−21,853
Finance result	(5.2.5)	**−16,513**	**−13,494**
Result before tax		**56,212**	**64,955**
Income tax	(5.3)	−15,252	−21,494
Result for the period		**40,960**	**43,461**
Attributable to:			
Equity holders of the parent		42,887	44,234
Non-controlling interests		−1,927	−773
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	(6.10)	2,443	1,303
Income tax effects on items recognized in other comprehensive income	(6.10)	−3,111	−698
Items that may be reclassifed subsequently to profit or loss			
Exchange differences on translation of foreign operations	(6.10)	−24,651	5,277
Changes in fair values of derivatives designated as hedges, recognized in equity	(6.10)/(7.1)	–	−274
Income tax effects on items recognized directly in other comprehensive income	(6.10)	–	76
Other comprehensive income		**−25,319**	**5,684**
Comprehensive income for the period		**15,641**	**49,145**
Attributable to			
Equity holders of the parent		18,002	49,814
Non-controlling interests		−2,361	−669
Basic earnings per share in EUR	(7.2)	**0.95**	**0.98**
Diluted earnings per share in EUR	(7.2)	**0.82**	**0.85**

CONSOLIDATED BALANCE SHEET

kEUR

	Notes	12/31/2017	12/31/2016[1]
Assets			
Non-current assets		**377,849**	**407,194**
Goodwill	(6.1)	54,134	56,985
Other intangible assets	(6.1)	140,336	149,520
Property, plant and equipment	(6.2)	137,766	144,263
Investments accounted for using the equity method	(6.3)	16,234	15,425
Financial assets	(7.1)	858	1,243
Other non-current assets	(6.4)	3,180	3,528
Deferred tax assets	(5.3)	25,341	36,230
Current assets		**620,259**	**606,818**
Inventories	(6.5)	133,745	129,378
Trade receivables	(6.6)	135,662	116,666
Income tax assets		1,865	1,808
Other current assets	(6.7)	11,824	13,423
Financial assets	(7.1)	82	975
Other short-term investments	(6.8)	58,306	–
Cash and cash equivalents	(6.9)	278,775	344,568
Balance sheet total		**998,108**	**1,014,012**
Equity and liabilities			
Total equity	(6.10)	**300,975**	**304,893**
Equity attributable to equity holders of the parent		**298,842**	**300,399**
Subscribed share capital		454	454
Share premium		269,044	268,644
Legal reserve		45	45
Other reserve		720	720
Retained earnings		67,983	45,055
Accumulated other comprehensive income		−39,404	−14,519
Shares of non-controlling interests		**2,133**	**4,494**
Non-current liabilities		**461,880**	**555,436**
Pensions and other similar benefits	(6.11)	34,134	38,393
Other provisions	(6.12)	9,333	6,872
Interest bearing loans and bonds	(6.13)	361,284	435,599
Finance lease liabilities	(7.1)	23	–
Other financial liabilities	(6.15)	15,910	18,238
Other liabilities	(6.16)	595	615
Deferred tax liabilities	(5.3)	40,601	55,719
Current liabilities		**235,253**	**153,683**
Other provisions	(6.12)	8,205	9,918
Interest bearing loans and bonds	(6.13)	81,321	6,067
Finance lease liabilities	(7.1)	32	1,587
Trade payables	(6.14)	114,219	106,714
Income tax liabilities		8,966	5,660
Other financial liabilities	(6.15)	655	972
Other liabilities	(6.16)	21,855	22,765
Balance sheet total		**998,108**	**1,014,012**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR

Q1–Q4/2017

	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests[1]	Total equity (Note 6.10)
As of 01/01/2017 (as before reported)	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**5,178**	**305,577**
Effect of the retroactive correction due to IAS 8.42	–	–	–	–	–	–	–	–684	**–684**
As of 01/01/2017	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**4,494**	**304,893**
Result for the period	–	–	–	–	42,887	–	**42,887**	–1,927	**40,960**
Other comprehensive income	–	–	–	–	–	–24,885	**–24,885**	–434	**–25,319**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**42,887**	**–24,885**	**18,002**	**–2,361**	**15,641**
Dividend	–	–	–	–	–19,959	–	**–19,959**	–	**–19,959**
Conversion convertible bond	–	400	–	–	–	–	**400**	–	**400**
As of 12/31/2017	**454**	**269,044**	**45**	**720**	**67,983**	**–39,404**	**298,842**	**2,133**	**300,975**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

Q1–Q4/2016

	Attributable to equity holders of the parent								
	Subscribed share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Accumulated other comprehensive income	Total amount	Shares of non-controlling interests[1]	Total equity (Note 6.10)
As of 01/01/2016	**454**	**268,644**	**45**	**436**	**36,338**	**–20,099**	**285,818**	**1,982**	**287,800**
Result for the period	–	–	–	–	44,234	–	**44,234**	–773	**43,461**
Other comprehensive income	–	–	–	–	–	5,580	**5,580**	104	**5,684**
Comprehensive income for the period	**–**	**–**	**–**	**–**	**44,234**	**5,580**	**49,814**	**–669**	**49,145**
Dividend	–	–	–	–	–18,144	–	**–18,144**	–	**–18,144**
Transfer to other reserve	–	–		284	–284	–	**–**	–	**–**
Put option for acquisition of remaining shares of KLL Equipamentos para Transporte Ltda.	–	–	–	–	–17,089	–	**–17,089**	–	**–17,089**
Addition of shares of non-controlling intersts	–	–	–	–	–	–	**–**	**3,181**	**3,181**
As of 12/31/2016	**454**	**268,644**	**45**	**720**	**45,055**	**–14,519**	**300,399**	**4,494**	**304,893**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR

		Notes	Q1–Q4/2017	Q1–Q4/2016
Cash flow from operating activities				
Result before tax			**56,212**	**64,955**
–	Finance income	(5.2.5)	–1,247	–8,359
+	Finance expenses	(5.2.5)	17,760	21,853
+/–	Share of net profit of investments accounted for using the equity method	(6.3)	–2,086	–2,136
+	Amortization/depreciation of intangible assets and property, plant and equipment	(5.2.7)	24,630	22,609
+	Allowance of current assets	(6.5)/(6.6)	2,853	4,458
+/–	Loss/Gain on disposal of property, plant and equipment		187	125
+	Dividends from investments accounted for using the equity method		1,178	943
Cash flow before change of net working capital			**99,487**	**104,448**
+/–	Change in other provisions		1,484	1,506
+/–	Change in inventories		–13,805	–8,205
+/–	Change in trade receivables and other assets		–27,018[1]	–4,100
+/–	Change in trade payables and other liabilities		13,927	12,748
Change of net working capital			**–25,412**	**1,949**
Cash flow from operating activities before income tax paid			**74,075**	**106,397**
–	Income tax paid	(5.3)	–17,328	–13,729
Net cash flow from operating activities			**56,747**	**92,668**
Cash flow from investing activities				
–	Purchase of other short term investments	(6.8)	–58,083	–
+	Proceeds from sale of other short tem investments		–	115,000
–	Purchase of property, plant and equipment	(6.2)	–21,761	–19,311
–	Purchase of intangible assets	(6.1)	–5,361	–5,695
+	Proceeds from sales of property, plant and equipment		490	944
+	Proceeds from sales of other financial assets	(5.2.5)	–	5,730
–	Payments for acquisition of subsidiaries net of cash	(3)	–	–7,513
+	Interest received		367	670
Net cash flow from investing activities			**–84,348**	**89,825**
Cash flow from financing activities				
–	Dividend payments to shareholders of SAF-HOLLAND S.A.	(6.10)	–19,959	–18,144
+	Proceeds from borrowing of non-current other loans	(6.13)	–	50,000
–	Paid transaction costs relating to the finance agreement		–	–514
–	Proceeds from foreign currency derivatives		–	–5,232
–	Payments for finance lease		–1,477	–532
–	Interest paid		–13,683	–11,938
+/–	Change in drawings on the credit line and other financing activities	(6.13)	1,428	1,622
Net cash flow from financing activities			**–33,691**	**15,262**
Net increase / decrease in cash and cash equivalents			**–61,292**	**197,755**
+/–	Effect of changes in exchange rates on cash and cash equivalents		–4,501	1,065
Cash and cash equivalents at the beginning of the period		(6.9)	**344,568**	**145,748**
Cash and cash equivalents at the end of the period		(6.9)	**278,775**	**344,568**

[1] As of December 31, 2017, trade receivables in the amount of EUR 27.0 million (previous year: EUR 26.4 million) were sold in the context of a factoring contract. Assuming the legal validity of the receivable, no further rights of recourse exist against SAF-HOLLAND from the sold receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the January 1 through December 31, 2017 Financial Year

1. CORPORATE INFORMATION

SAF-HOLLAND S.A. (the "Company") was incorporated on December 21, 2005 as a "Société Anonyme" according to Luxembourg law. The Company's registered office is located at 68-70, Boulevard de la Pétrusse, Luxembourg. The Company is entered in the Commercial Register of the District Court of Luxembourg under No. B 113.090. The Company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange under the symbol "SFQ" (ISIN: LU0307018795). The shares have been included in the SDAX since 2010.

The consolidated financial statements for SAF-HOLLAND S.A. and its subsidiaries (the "Group") as of December 31, 2017 were authorized for publication by the resolution of the Board of Directors on March 15, 2018. Shareholder approval of the financial statements is required under Luxembourg law.

2. ACCOUNTING AND VALUATION PRINCIPLES

2.1 BASIS OF PREPARATION

The SAF-HOLLAND S.A. consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and applicable as of the reporting date.

The consolidated financial statements are prepared using the historical cost principle, except for derivative financial instruments, which are measured at fair value.

The balance sheet presents current and non-current assets and current and non-current liabilities. The statement of comprehensive income is prepared according to the cost of sales method. Certain items in the consolidated statement of comprehensive income and the balance sheet are aggregated. They are disclosed separately in the notes to the consolidated financial statements.

The consolidated financial statements are prepared in euros. Unless otherwise stated, all amounts are presented in euro thousands (kEUR). Due to rounding, individual figures may not add up precisely to the totals provided.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, management has made assumptions and estimates that affect the reported amounts of assets, liabilities, income, expenses and contingent liabilities as of the reporting date. In certain cases, actual amounts may differ from these assumptions and estimates. Any such changes are recognized in profit and loss as soon as they become known. The following section details the key forward-looking assumptions as well as other main sources of estimation uncertainty as of the reporting date which pose a significant risk that a material adjustment to the carrying amounts of assets and liabilities may be necessary within the subsequent financial year.

Impairment of goodwill and intangible assets with indefinite useful lives

The Group tests goodwill and other intangible assets with indefinite useful lives for impairment at least once a year and when there is an indication of impairment. The Group's impairment tests as of October 1, 2017 are based on calculations of the recoverable amount using a discounted cash flow model. Future cash flows are derived from the Group's five-year financial plan, which was approved by the Board of Directors. Cash flows beyond the planning period are extrapolated using individual growth rates. The recoverable amount depends heavily on the discount rate used in the discounted cash flow model, expected future cash inflows and outflows and the growth rate used for purposes of extrapolation.

Assumptions are based on the information available at the time, particularly the expected business developments, current conditions and realistic assessments of the future development of the global and industry-specific environment. The key assumptions underlying the Company's planning are based on projected unit volumes for the truck and trailer markets published by market research companies and planning discussions with the Group's major customers. Although management believes that the assumptions used to calculate the recoverable amount are reliable, any unforeseen changes in these assumptions could lead to an impairment charge that could adversely affect the Group's net assets, financial position and results of operations. The basic assumption to determine the recoverable amount for the various cash-generating units and intangible assets with indefinite useful lives, including a sensitivity analysis, are discussed in more detail in Note 6.1. As of December 31, 2017, the carrying amount of goodwill totaled EUR 54.1 million (previous year: EUR 57.0 million), and that of intangible assets with indefinite useful lives amounted to EUR 33.0 million (previous year: EUR 34.9 million).

Measurement of property, plant and equipment and intangible assets with finite useful lives

Measurement of property, plant and equipment and intangible assets with finite useful lives requires the use of estimates for determining the fair value at the acquisition date, particularly for assets acquired in a business combination. Furthermore, the expected useful lives of these assets must be determined. The determination of fair values and useful lives of assets and impairment testing in the case of indications of impairment are based on management's judgment. As of December 31, 2017, the carrying amounts of property, plant and equipment totaled EUR 137.8 million (previous year: EUR 144.3 million), and those of intangible assets with finite useful lives amounted to EUR 107.3 million (previous year: EUR 114.6 million). Further details are provided in Notes 6.1 and 6.2.

Deferred tax assets

At each balance sheet date, the Group assesses whether the realization of future tax benefits is probable enough to recognize deferred tax assets. Among others, this requires management to assess the tax benefits arising from the available tax strategies and future taxable income and to take into account any other positive or negative factors. In order to make this assessment, the projected taxable income is estimated based on the Company's planning. The reported amount of deferred tax assets could decline if the projected taxable income and tax benefits achievable through available tax strategies are lower than expected, or if changes in current tax legislation restrict the timing or scope of future tax benefits.

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that there will be taxable profits against which the losses can be utilized. Deferred tax assets for all unused interest carryforwards are recognized to the extent that it is probable that they can be used in the future to reduce taxable income. As of December 31, 2017, the carrying amount of deferred tax assets for tax loss carryforwards amounted to EUR 0.8 million (previous year: EUR 3.7 million). Unrecognized tax loss carryforwards amounted to EUR 54.9 million (previous year: EUR 41.1 million). In addition, as of December 31, 2017, the carrying amount of capitalized deferred tax assets for interest carryforwards was EUR 10.7 million (previous year: EUR 18.2 million). Further details are provided in Note 5.3.

Pensions and other similar obligations

The expense of defined benefit pension plans and post-employment medical benefits is determined using actuarial calculations. These actuarial valuations are based on assumptions about discount rates, future salary and wage increases, mortality rates, future pension increases, expected staff turnover and trends in healthcare costs. All assumptions are reviewed on the reporting date. Management derives the appropriate discount rates based on the interest rates on corporate bonds in the respective currency that have at least an AA rating. Bonds with higher default risks or offering much higher or lower returns (statistical outliers) compared to other bonds in the same risk category are not considered. The bonds are adjusted to the expected term of the defined benefit obligations through extrapolation. Mortality rates are based on publicly available mortality tables for the respective country. Future wage, salary and pension increases are based on expected future inflation rates for a given country and the structure of the defined benefit plan.

Due to the long-term nature of pension plans, such estimates are subject to significant uncertainty. As of December 31, 2017, the carrying amount of pensions and other similar obligations was EUR 34.1 million (previous year: EUR 38.4 million). Further details, including a sensitivity analysis, are given in Note 6.11.

Other provisions

The recognition and measurement of other provisions is based on estimates of the probability of the future outflows of benefits based on past experience and the circumstances known as of the balance sheet date. As a result, the actual outflow of benefits may differ from the amount recognized under other provisions.

As of December 31, 2017, other provisions amounted to EUR 17.5 million (previous year: EUR 16.8 million). Further details are provided in Note 6.12.

Share-based payments
The Group initially recognizes the cost of share units (appreciation rights) granted to members of the Management Board and certain managers at the fair value of the appreciation rights at the grant date and subsequently measures them on each balance sheet date as well as on the settlement date. Estimating the fair value of share-based payments requires the selection of an appropriate valuation model depending on the terms and conditions of the agreements. This model incorporates a variety of inputs for which assumptions must be made to estimate the fair value. The main inputs are the expected life of the option, the volatility of the share price and the forecast dividend yield. The period of volatility is based on the remaining period of the performance share unit program. In 2017, the carrying amount of obligations was EUR 4.5 million (previous year: EUR 5.0 million). Further details are presented in Note 6.12.

Derivative financial instruments
Where the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be derived from an active market, it is determined by using valuation models. The inputs for these models are taken from observable markets when possible; otherwise determining the fair value requires a degree of judgment. This judgment considers inputs such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the recognized fair value of financial instruments. As of December 31, 2017, the fair value of derivative financial instruments was EUR –0.7 million (previous year: EUR –0.6 million). Further details are provided in Note 7.1.

2.3 SUMMARY OF KEY ACCOUNTING POLICIES

Consolidation principles
The consolidated financial statements consist of the financial statements of SAF-HOLLAND S.A. and its subsidiaries as of December 31 of each year. The financial statements of the consolidated subsidiaries, associates and joint ventures are prepared for the same reporting date as the parent company and apply uniform accounting and measurement policies.

All receivables and payables, sales and income, expenses and unrealized gains and losses from intercompany transactions are eliminated in full during consolidation.

Subsidiaries are fully consolidated from the date of acquisition, i.e., from the date on which the Company obtains control. SAF-HOLLAND S.A. controls an investee when it has direct or indirect power over the investee, is exposed to the variable returns from its involvement with the company and has the ability to affect the variable returns through its power over the investee. An entity is no longer consolidated when a control relationship with the parent company no longer exists.

Business combinations
Business combinations are accounted for using the acquisition method. Under this method, the cost of an acquisition represents the total consideration transferred measured at fair value on the acquisition date, including the amount of any non-controlling interest in the acquired company. For each business combination, the acquirer measures the non-controlling interest in the acquired company either at fair value or the proportionate share of the acquired company's identifiable net assets measured at fair value. Acquisition costs related to a business combination are expensed as incurred. The contingent consideration agreed is recognized at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration, which represents an asset or liability, are recognized in profit and loss. If the contingent consideration is classified as equity, it will not be remeasured. The subsequent settlement is accounted for within equity. In a business combination achieved in stages, the acquirer's previously held interest in the acquired company is first remeasured at its fair value on the acquisition date and any resulting gain or loss is recognized is profit and loss.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the parent company loses control over a subsidiary, it will

- derecognize the assets (including goodwill) and liabilities of the subsidiary,
- derecognize the carrying amount of any non-controlling interest in the former subsidiary,
- derecognize the accumulated translation differences recognized in equity,
- recognize the fair value of the consideration received,
- recognize the fair value of any investment retained,
- recognize any gains and losses in profit and loss,
- reclassify the parent company's share of other comprehensive income components to profit and loss or retained earnings, if required by IFRS.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

An associate is an entity over which the Group can exercise significant influence by participating in the entity's financial and operating policy decisions, but cannot exert control or joint control over those policies. Significant influence is generally assumed when the Group holds between 20% and 50% of the voting rights.

A joint venture is a joint arrangement in which the parties have joint control over the arrangement and rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control via an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations for determining whether significant influence or joint control exists are similar to those for determining control over the subsidiaries. Investments in associates and joint ventures are no longer included in the consolidated financial statements using equity method when the Group no longer exercises significant influence or participates in the joint control over decision processes. Gains and losses on transactions between the Group and an associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

The complete list of the Group's shareholdings is provided in Note 7.6.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the Group's functional and reporting currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially translated into the functional currency at the spot rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the reporting day's closing rate. All exchange differences are recognized in profit and loss. Non-monetary items measured at historical cost in a foreign currency are translated at the rate prevailing on the date of the transaction. Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of this foreign operation are accounted for as assets and liabilities of the foreign operation and translated at the reporting day's closing rate. As of the balance sheet date, the assets and liabilities of foreign operations are translated into euros at the closing rate. Income and expenses are translated at the weighted average exchange rate for the financial year. The exchange differences arising from translation are recognized in equity. On disposal of a foreign operation, the accumulated amount recognized in equity relating to that particular foreign operation is recognized in profit and loss. Exchange differences from foreign currency loans that are part of a net investment in a foreign operation are recognized directly in equity until disposal of the net investment, at which time they are recognized in profit and loss.

The most important functional currencies of foreign operations are the US dollar (USD) and the Canadian dollar (CAD). The exchange rates for these currencies as of the balance sheet date were EUR/USD = 1.19786 (previous year: 1.05356) and EUR/CAD = 1.50340 (previous year: 1.41884). The weighted average exchange rates for these two currencies were EUR/USD = 1.12679 (previous year: 1.10635) and EUR/CAD = 1.46254 (previous year: 1.46572).

Goodwill

Goodwill acquired in a business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated as of the acquisition date to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired company are allocated to those cash-generating units.

Intangible assets

Intangible assets acquired separately are measured at cost upon their initial recognition.

The acquisition cost of an intangible asset acquired in a business combination is its fair value as of the acquisition date.

Research costs are expensed in the period in which they are incurred. Development costs for internally generated intangible assets are only capitalized as an intangible asset when the Group can demonstrate

- the technical feasibility of completing the intangible asset to make it available for internal use or sale,
- the intention to complete the intangible asset and its ability to use or sell the asset,
- the recoverability of any future economic benefits,
- the availability of resources to complete the asset, and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Following their initial recognition, intangible assets are carried at amortized cost less any accumulated impairment losses.

For development costs, amortization begins when development is complete, and the asset is available for use.

A distinction is made between intangible assets with finite useful lives and those with indefinite useful lives.

Intangible assets with finite useful lives are amortized over their useful lives and tested for impairment whenever an indication of impairment exists. The useful life and the amortization method used for an intangible asset with a finite useful life are reviewed at the end of each financial year at a minimum. Amortization is recognized in the expense category that corresponds to the intangible asset's function within the Company.

Intangible assets with indefinite useful lives are not subject to scheduled amortization, but are tested for impairment at least once annually. The useful life of these intangible assets is also examined annually to determine whether the assessment of an indefinite useful life still applies. If this is not the case, the change in the assessment of indefinite to limited useful life is made prospectively.

Because the Group expects to expand acquired brands in the future, brands are assumed to have indefinite useful lives. However, a finite useful life is assumed for acquired intangible assets such as technology and customer relationships.

The accounting principles applied to the Group's intangible assets can be summarized as follows:

	Customer relationship	Technology	Capitalized development cost	Brand	Service net	Licenses and software
Amortization method used	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life	No amortization	Amortized on a straight line basis over the useful life	Amortized on a straight line basis over the useful life or over the period of the right
Useful life	25–40 years	8–13 years	8–10 years	Indefinite	20 years	3–10 years

Gains or losses on the derecognition of intangible assets are determined as the difference between the net realizable value and the carrying amount of the asset and are recognized in profit and loss in the period in which the asset is derecognized.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of self-constructed property, plant and equipment includes direct material and production costs, any allocable material and production overheads, as well as production-related depreciation. Administrative expenses are capitalized only when there is a direct link to production. Ongoing maintenance and repair expenses are immediately recognized as expenses.

The cost of replacing components or of overhauling plant and equipment are capitalized only when the recognition criteria are met.

If an item of property, plant and equipment consists of several components with different useful lives, the components are depreciated separately over their respective useful lives.

The residual values of the assets, useful lives and depreciation methods are reviewed and adjusted prospectively at the end of each financial year when appropriate.

Scheduled depreciation is generally based on the following useful lives:

	Buildings	Plant and equipment	Other equipment, office furniture and equipment
Depreciation method used	Depreciated on a straight line basis over the useful life	Depreciated on a straight line basis over the useful life	Depreciated on a straight line basis over the useful life
Useful life	5–50 years	3–15 years	3–10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected from its continued use or disposal. Gains or losses on the derecognition of the asset are measured as the difference between the net realizable value and the carrying amount of the asset and are recognized in profit and loss in the period in which the item is derecognized.

Borrowing costs

Borrowing costs consist of interest and other costs incurred by an entity when assuming liabilities. Borrowing costs directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they are incurred.

Leases

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

Leases in which the Group as the lessee bears substantially all the risks and rewards incidental to the ownership of the leased asset are accounted for as finance leases. Under a finance lease, the Group capitalizes the leased asset at the asset's fair value or the present value of the minimum lease payments, if lower, and subsequently depreciates the leased asset over its estimated useful life or the contractual term, if shorter. Lease payments are apportioned between finance expenses and the redemption of the lease liability to achieve a constant rate of interest on the remaining carrying amount of the lease liability. Finance expenses are recognized immediately in profit and loss.

All other leases in which the Group is the lessee are accounted for as operating leases. Lease payments under a finance lease are recognized as an expense in profit and loss on a straight-line basis over the term of the lease.

Investments accounted for using the equity method

Under the equity method, investments in associates and joint ventures are recognized on the balance sheet at cost plus any changes in the Group's interest in the net assets of the equity investment following its acquisition. The Group's interest in the profit or loss of the associate or joint venture is reported separately in the result for the period. Any changes recognized directly in the equity of the associate or joint venture are recognized by the Group according to its share and reported in accumulated other comprehensive income. Goodwill resulting from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associates or jointly controlled entities and is neither amortized nor separately tested for impairment. After applying the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. At each balance sheet date, the Group determines whether there is any objective evidence indicating that investments in associates or joint ventures are impaired. If evidence exists, the Group calculates the amount of the impairment as the difference between the investment's fair value and carrying amount and recognizes the amount in profit and loss.

Impairment of non-financial assets

An impairment test for goodwill and intangible assets with indefinite useful lives is conducted at least on an annual basis on October 1 of each financial year. In addition, whenever there are specific indications of impairment, an impairment test is carried out. An impairment test is conducted for other intangible assets with finite useful lives, property, plant and equipment and other non-financial assets only if there are specific indications of impairment.

Impairment is recognized in profit and loss if the recoverable amount of the asset or cash-generating unit is lower than the carrying amount. The recoverable amount must be determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market expectations of the time value of money and the risk specific to the asset. In determining fair value less costs to sell, an appropriate valuation model based on discounted future cash flows is used. To ensure the objectivity of the results, these calculations are corroborated by valuation multiples, quoted prices for shares in publicly traded companies or other available fair value indicators.

If the reason for impairment recognized in previous years no longer exists, the carrying amount of the asset (the cash-generating unit; with the exception of goodwill), is increased to the amount of the new estimate of the recoverable amount. The increase in the carrying amount is limited to the value that would have been determined had no impairment loss been recognized for the asset (the cash-generating unit) in previous years. Such a reversal is recognized through profit and loss.

Financial instruments

A financial instrument is any contract that creates a financial asset at one entity and a financial liability or equity instrument at another entity.

The Group recognizes financial assets and financial liabilities at fair value upon initial measurement. If financial assets and financial liabilities are not measured at fair value through profit and loss, the Group also includes transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

For the purpose of subsequent measurement, IAS 39 classifies financial assets into the following categories:

— Loans and receivables
— Held-to-maturity investments
— Available-for-sale financial assets
— At fair value through profit and loss:
  — held for trading
  — upon initial recognition at fair value through profit and loss (fair value option).

IAS 39 classifies financial liabilities into the following categories:

— financial liabilities at amortized cost
— at fair value through profit and loss:
  — held for trading
  — upon initial recognition at fair value through profit and loss (fair value option).

The Group determines the classification of its financial assets and liabilities at initial recognition. Where permissible, any reclassifications deemed necessary are performed at the end of the financial year.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the related liabilities simultaneously.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either

— in the principal market for the asset or liability or,
— in the absence of a principal market, in the most advantageous market for the asset or liability

The Group must have access to the principal or most advantageous market.

The fair value of an asset or liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming market participants act in their own economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate an economic benefit with the asset's highest and best use or by selling it to another market participant who would make the highest and best use of the asset.

The Group uses valuation techniques appropriate for the respective circumstances and for which sufficient data is available to measure fair value while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy based on the lowest level of input that is significant for the fair value measurement as a whole:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level of input that is significant for the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level of input that is significant for the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether reclassifications have occurred between levels in the hierarchy by reassessing their categorization (based on the lowest level of input that is significant for the fair value measurement as a whole) at the end of each reporting period.

An analysis of the fair value of financial instruments and further details on the method of their measurement are provided in Note 7.1.

Primary financial instruments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment. Gains and losses are recognized in profit and loss when loans and receivables are derecognized or impaired. Loans and receivables include the Group's trade receivables, certain current assets and cash and cash equivalents.

The category **held-to-maturity** comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are measured at amortized cost using the effective interest method less impairment. No financial assets were allocated to this category in the reporting period.

Available-for-sale financial investments are non-derivative financial assets that do not fall into any other category. After initial recognition, available-for-sale financial investments are measured at fair value, with any gains or losses, net of income tax effects, being recognized in accumulated other comprehensive income. This does not apply if the impairment is prolonged or significant, in which case it is recognized in profit and loss. The accumulated gains or losses from measurement previously reported in equity are only recognized in profit and loss upon disposal of the financial asset. No financial assets were allocated to this category in the reporting period.

Financial instruments at fair value through profit or loss include **financial instruments held for trading** and financial assets and financial liabilities designated upon initial recognition **at fair value through profit or loss**. The Group has not designated any primary financial instruments upon initial recognition as at fair value through profit or loss.

After initial recognition, other primary financial liabilities are measured at amortized cost using the effective interest method. They include the Group's interest-bearing loans and bonds as well as its trade payables.

Derivative financial instruments

Derivative financial instruments are measured at fair value both on the date on which a derivative contract is entered into and in subsequent periods. Derivative financial instruments are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative financial instruments such as forward exchange contracts, interest rate swaps and caps to hedge risk positions arising from currency and interest rate fluctuations. The hedges cover financial risk from recognized underlying transactions, future interest rate and currency risks (hedged with interest rate swaps and caps) and risks from pending goods and service transactions.

The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using the mean spot exchange rate prevailing on the balance sheet date taking into account the forward premiums and discounts for the residual term of each contract and compared with the contracted forward exchange rate. Interest rate swaps are measured at fair value by discounting estimated future cash flows using interest rates with matching maturities.

Any measurement gain or loss is recognized immediately in profit and loss unless the derivative is designated as a hedging instrument under hedge accounting and is effective. A derivative that has not been designated as a hedging instrument must be classified as held for trading.

At the inception of the hedge relationship, the Group determines the hedge relationship and strategy under the risk management objective. Depending on the type of hedge relationship, the Group classifies the individual hedging instruments either as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. When entering into hedges and at regular intervals during their terms, the Group also reviews in each period whether the hedging instrument designated in the hedge is highly effective in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Hybrid financial instruments

Financial instruments that contain both a debt and an equity component are classified and measured separately according to their nature. Convertible bonds are examples of such equity instruments. The fair value of conversion rights is recognized separately under share premium on the bond's issue date and therefore deducted from the bond's liability. The fair value of conversion rights from bonds with below-market interest rates are calculated using the present value of the difference between the coupon rate and the market interest rate. The interest expense for the debt component is calculated over the bond's term based on the market interest rate on the issue date for a comparable bond without a conversion right. The difference between the calculated interest and the coupon rate accrued over the term increases the carrying amount of the bond's liability. The convertible bond's issuing costs are deducted directly from the carrying amount of the debt and equity components in the same proportion.

Impairment of financial assets

Financial assets or a group of financial assets, with the exception of those recognized at fair value through profit and loss, are tested for indications of impairment at each balance sheet date. Financial assets are considered as impaired if there is objective evidence that the asset's estimated future cash flows were negatively impacted by one or more events that have occurred after the asset's initial recognition (an incurred "loss event").

For financial assets measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of the expected future cash flows determined using the financial asset's original effective interest rate. An impairment loss directly reduces the carrying amount of the financial assets concerned with the exception of trade receivables whose carrying amount is reduced via an allowance account. Changes in the allowance account are recognized in profit and loss.

Objective evidence of impairment for available-for-sale financial investments would include a significant or prolonged decline in the fair value of the investment to a level below its carrying amount. Where such an asset is impaired, a loss previously recognized in equity is transferred to profit and loss. Impairment losses on equity instruments are not reversed through profit and loss; any subsequent increases in their fair value are recognized directly in other comprehensive income. Subsequent reversals of impairment losses for available-for-sale equity instruments are recognized directly in equity rather than profit and loss.

Derecognition of financial assets and liabilities

A financial asset (or a portion of a financial asset or a portion of a group of similar financial assets) is derecognized when one of the following conditions has been met:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from a financial asset to a third party or has accepted a contractual obligation to remit a cash flow to a third party without material delay in the context of an agreement which fulfills the conditions of IAS 39.19 (a "transfer contract") and at the same time either (a) has transferred substantially all risks and rewards associated with the ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards associated with the ownership of the financial asset but has transferred control over the asset.

If the Group transfers its contractual rights to receive cash flows from an asset or concludes a transfer contract, it evaluates whether and to what extent it retains the associated risks and rewards. If the Group neither transfers nor retains substantially all risks and rewards associated with the ownership of this asset nor transfers control over the asset, the Group recognizes the asset to the extent of its continuing involvement with the asset. In such a case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

When the continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the asset's original carrying amount and the maximum amount of the consideration received that the Group could be required to repay.

Inventories
Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary selling expenses.

Costs incurred in bringing inventories to their present location and current condition are accounted for as follows:

Raw materials and supplies	cost of purchase on a weighted average cost basis
Finished goods and work in progress	direct material and labor costs, an appropriate proportion of manufacturing overheads based on normal operating capacity (but excluding borrowing costs), production-related depreciation as well as production-related conveyance and administrative costs

Cash and cash equivalents
The balance sheet item cash and cash equivalents consists of cash on hand, cash at banks and short-term deposits with an original maturity of less than three months.

Other provisions
A provision is recognized when the Group has a present obligation (legal or constructive) resulting from a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation's amount can be made. If the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to the formation of a provision is recognized in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense.

Share-based payments
Members of the Management Board and certain managers of the Group receive share-based payments in the form of share units (share appreciation rights) in return for services rendered; these share appreciation rights can only be settled in cash (cash-settled payment transactions). The cost of cash-settled payment transactions is measured initially at fair value at the grant date using a “Monte Carlo” simulation. The fair value is expensed over the period recognizing a corresponding liability until the vesting date. The liability is remeasured at each reporting date up to and including the settlement date. Changes in the fair value are assigned to the costs of the functional areas. No cost is recognized for appreciation rights that do not vest. If the conditions for a transaction with cash settlement are changed, these changes are considered within the scope of the remeasurement on the respective balance sheet date. If a cash-settled payment transaction is canceled, the relevant liability is derecognized through profit and loss.

Pensions and other similar obligations

Defined benefit plans and similar obligations

The obligations resulting from defined benefit plans are determined separately for each plan using the projected unit credit method. The remeasurement of defined benefit plans includes actuarial gains and losses, returns on plan assets (provided they are not included in net interest expense) as well as effects from the upper limitation of asset values (the “asset ceiling”). The Group recognizes the remeasurement of defined benefit plans in other comprehensive income. All other expenses under defined benefit plans are immediately recognized in the result for the period.

Past service cost is recognized immediately in profit and loss.

The amount recognized as a defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets from which the obligations are to be settled directly. The value of any asset is limited to the present value of any economic benefits available in the form of plan refunds or reductions in future contributions to the plan. Insofar as payment obligations in connection with fund assets exist as a result of minimum funding requirements for benefits already earned, this can also lead to the recognition of an additional provision if the economic benefit of a financing surplus is limited for the Company when taking into account the minimum funding requirements yet to be paid.

The effects of closure or curtailing plans are recognized in the result for the period in which the curtailment or closure takes place.

In the North American subgroup, existing obligations for the payment of post-employment medical benefits are classified as pensions and other post-employment obligations due to their pension-like nature.

Defined contribution plans

The Group’s obligations under defined contribution plans are recognized in profit and loss within operating profit. The Group has no further payment obligations once the contributions have been paid.

Other post-employment benefit plans

The Group grants its employees in Europe the option of concluding phased retirement agreements. The block model is used for these agreements. Obligations of the phased retirement model are accounted for as non-current employee benefits.

Other long-term employee benefit plans

The Group grants long-service awards to a number of employees. The corresponding obligations are measured using the projected unit credit method.

Taxes

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of the amount is based on the tax rates and tax legislation applicable on the balance sheet date.

Deferred income taxes

Deferred income tax assets and liabilities arise from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases and tax loss carryforwards and interest carryforwards with the exception of

— deferred tax liabilities from the initial recognition of goodwill and deferred tax assets and liabilities from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit and loss under commercial law nor the taxable profit and loss; and
— deferred taxes from temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, which are not to be recognized if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized only if it is probable that sufficient taxable profit will be available to allow the deductible temporary difference to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, or the liability is settled. The tax rates and tax laws used to calculate the amount are those that are applicable on the balance sheet date. Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current income tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income taxes relating to items recognized directly in equity are recognized in other comprehensive income rather than in profit and loss.

Revenue recognition

Revenue is recognized if it is probable that the economic benefits will accrue to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, sales taxes or other duties. Revenue from the sale of goods and merchandise is recognized when the significant risks and rewards of ownership of the goods and merchandise sold have passed to the buyer. This transfer usually occurs upon delivery. Interest income is recognized after a period of time using the effective interest method. Dividends are recognized when the Group's right to receive payment is established.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Expense-related grants are recognized as income over the same period as the corresponding expenses. Where the grant relates to an asset, it is recognized as deferred income and recognized as income in equal amounts over the expected useful life of the related asset.

2.4 AMENDMENTS TO ACCOUNTING AND MEASUREMENT STANDARDS

The accounting and measurement methods applied are essentially unchanged compared to those applied in the prior year, with the following exceptions:

Amendments to IAS 7 Statement of Cash Flows

The amendments provide for the disclosure of information about cash-effective and non-cash-effective changes in liabilities arising from financing activities. The Group has made the required disclosures for the current and the comparative periods in Note 7.

Amendments to IAS 12 Income Taxes: "Recognition of deferred taxes for unrealized losses"

The amendment clarifies that in terms of the deductibility of a future reversing deductible difference resulting from unrealized losses, an entity must consider whether tax laws limit the source of future taxable income from which that deductible temporary difference could be deducted. Furthermore, the amendment contains guidelines on how an entity should determine future taxable income and to what extent the realization of assets above their present value can be taken into account.

The amendment has no impact on the Group's net assets, financial position and results of operations because it has no deductible temporary differences or tax claims that fall within the scope of the amendment.

Other amendments were also made to the accounting and measurement standards, but these did not have an effect on the Group's net assets, financial position and results of operations.

Correction according to IAS 8.42

The Group has made a retrospective correction as defined by IAS 8.42 with respect to the presentation of the business combination of the previous year. The correction is based on the recognition of inventory. As part of the correction, inventories had to be reduced retroactively by kEUR 1,610 as of the acquisition date. Goodwill and shares of non-controlling interests were adjusted accordingly by kEUR 926 and kEUR –684, respectively. No further adjustments were required.

2.5 PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

The following new or amended standards and interpretations, which are relevant for the business operations of the Group, have already been adopted by the International Accounting Standards Board (IASB) but are not yet mandatory in the reporting period or have not yet been endorsed by the European Union. The Group has decided to forego early adoption of the following standards that have already been adopted. They will be applied at the latest in the year in which they first become mandatory.

IFRS 9 "Financial Instruments – Classification and Measurement"

IFRS 9, issued in July 2014, replaces the existing guidelines of IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 combines the three project phases for the accounting of financial instruments: "Classification and Measurement," "Impairment", and "Hedge Accounting."

Application of IFRS 9 is required for financial years beginning on or after January 1, 2018, whereby early application is permitted.

The Group is applying IFRS 9 for the first time in the 2018 financial year; the adjustment of prior-year figures was waived in accordance with the transitional provisions of IFRS 9. In fiscal 2017, the Group performed a detailed assessment of the impact of all three aspects of IFRS 9. This assessment is based on currently available information and may change as a result of other reasonable and reliable information that the Group will become aware of in 2018 when first applying IFRS 9. Overall, the Group expects no significant impact on its balance sheet and equity.

(a) Classification and Measurement

The Group does not expect any significant impact on its balance sheet or equity when applying the classification and measurement requirements of IFRS 9. It assumes that all financial assets held at fair value will continue to be measured at fair value.

(b) Impairment

Under IFRS 9, expected credit losses (ECL) expected by the Group for all its debt securities, loans and trade receivables are to be based on either the 12-month ECL or the ECL over total term. The Group will apply the simplified approach and recognize the total term ECL from all trade receivables. By applying the new impairment regulations, the Group expects risk provisions to increase by EUR 0.5 million and defer deferred tax liabilities to decline accordingly by EUR 0.1 million.

(c) Hedge Accounting

The Group currently has no hedges that fall within the scope of hedge accounting in accordance with IAS 39 or IFRS 9.

Loans and trade receivables are held to collect the contractual cash flows that are solely repayments of the outstanding principal. The Group has reviewed the characteristics of the contractual cash flows agreed for these instruments and determined that they meet the criteria for measurement at amortized cost in accordance with IFRS 9. As a result, no reclassification of these instruments is required.

IFRS 15 "Revenue from Contracts with Customers"
IFRS 15 establishes a comprehensive framework for determining whether, to what extent and at what time revenue is recognized. It replaces existing guidelines for the recognition of revenue, including IAS 18 "Revenue," IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs."

Application of IFRS 15 is required for financial years beginning on or after January 1, 2018, whereby early application is permitted.

Based on analysis carried out by SAF-HOLLAND, no impact is seen on the consolidated financial statements as a result of the application of IFRS 15.

IFRS 16 "Leases"
IFRS 16 replaces IAS 17 and the related interpretations. IFRS 16 requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting under IAS 17 "Leases." As a result of the first-time adoption, the majority of the obligations from operating rental and lease agreements currently presented under section 7.4 "Other financial obligations" will be presented as an extension to the balance sheet. Application of IFRS 16 is required for financial years beginning on or after January 1, 2019.

The Company expects to apply the regulations under the modified retrospective approach for the first time on January 1, 2019 (i.e., it will refrain from adjusting the previous year's figures). The Company has already analyzed the effects of IFRS 16 during the past 2017 financial year ("impact analysis") as part of a Group-wide implementation project to introduce IFRS 16. This analysis showed that the new IFRS 16 leasing standard will not have a material effect on the presentation of the Company's net assets, financial position and results of operations.

Other amendments were also made to the accounting and measurement standards, but these did not have an effect on the Group's net assets, financial position and results of operations.

3. SCOPE OF CONSOLIDATION

ACQUISITIONS

No acquisitions took place in the reporting year.

In the prior year, SAF-HOLLAND do Brasil Ltda. acquired a 57.5 % interest in KLL Equipamentos para Transporte Ltda., an unlisted company based in Brazil specializing in the manufacture of air suspension systems for trucks and buses and axles and mechanical and air suspension systems for trailers. As part of the acquisition, the contract parties received a call/put option for the purchase/sales of the remaining 42.5 % interest, which can be exercised four years after the acquisition. The other financial liability that resulted from the put/call options was recognized in accordance with IAS 39. Because SAF-HOLLAND do Brasil Ltda. held the majority of voting rights, it obtained control over KLL Equipamentos para Transporte Ltda. on the acquisition date.

The purchase price of EUR 8.1 million was paid in cash.

The preliminary purchase price allocation as of December 31, 2016 for KLL Equipamentos para Transporte Ltda. was finalized in the 2017 financial year. The following information shows the final purchase price allocation and the amounts of the main categories of assets acquired and liabilities assumed that were recognized as of the acquisition date:

kEUR	Fair value as of acquisition date
Brand	1,095
Other intangible assets	1,087
Property, plant and equipment	12,588
Inventories	2,386
Trade receivables	1,985
Other assets	926
Cash and cash equivalents	552
	20,619
Deferred tax liabilities	2,252
Interest bearing loans and borrowings	8,577
Trade payables	925
Other liabilities	1,380
	13,134
Total of identified net assets	**7,485**
Shares with non-controlling interests	–3,181
Goodwill from the acquisition	3,761
Consideration transferred	**8,065**

The correction of an error pursuant to IAS 8.42 in connection with the purchase price allocation caused a retrospective change in the amounts on the consolidated balance sheet as of December 31, 2016, leading to the following adjustments:

kEUR	12/31/2016[1]		
	Before Adjustment	KLL Equipamentos para Transporte Ltda.	After Adjustment
Non-current assets	**406,268**	**926**	**407,194**
thereof:			
Goodwill	56,059	926	56,985
Current assets	**608,428**	**–1,610**	**606,818**
thereof:			
Inventory	130,988	–1,610	129,378
Total assets	**1,014,696**	**–684**	**1,014,012**
Equity	**305,577**	**–684**	**304,893**
thereof:			
Shares of non-controlling interests	5,178	–684	4,494
Non-current Liabilities	**555,436**	**–**	**555,436**
Current liabilities	**153,683**	**–**	**153,683**
Total equity and liabilities	**1,014,696**	**–684**	**1,014,012**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

Goodwill in the amount of kEUR 3,761 includes non-separable intangible assets such as employee expertise and expected synergies. The tax deductibility of the goodwill assumes the acquisition of all remaining outstanding shares in KLL and a future reorganization of the Group’s activities in Brazil.

The value of the put option for the remaining 42.5 % interest in KLL Equipamentos para Transporte Ltda. amounted to kEUR 15,910 as of December 31, 2017 (previous year: kEUR 18,238) and is dependent on the level of future results.

Newly established companies
No companies were established during the reporting year.

Deconsolidations
No companies were deconsolidated during the reporting year.

Other changes
No other changes were made to the scope of consolidation in the reporting year.

4. SEGMENT INFORMATION

For corporate management and reporting purposes, the Group is organized by region and divided into the segments “EMEA/India,” “Americas” and “APAC/China.”

Management monitors the regions’ operating results separately for the purpose of making decisions about resource allocation and performance assessment. Regional performance is evaluated based on adjusted operating profit (adjusted EBIT). The determination of operating profit (EBIT) may deviate to a certain extent from the consolidated financial statements. The reason for this deviation may be due to adjustments made for special items such as depreciation and amortization of property, plant and equipment and intangible assets from purchase price allocation (PPA), impairment and reversals of impairment and restructuring and integration costs (see the table below). Group financing (including finance expenses and finance income) and income taxes are managed on a Group basis and not allocated to the individual regions. Transfer prices between the regions are determined under normal market conditions for transactions with third parties.

The reconciliation of operating profit to adjusted EBIT is provided as follows:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Operating result	70,639	76,313
Share of net profit of investments accounted for using the equity method	2,086	2,136
EBIT	**72,725**	**78,449**
Additional depreciation and amortization from PPA	5,309	5,353
Restructuring and transaction costs	13,175	6,612
Adjusted EBIT	**91,209**	**90,414**

Segment information for the periods from January 1 through December 31:

kEUR				Q1–Q4/2017
				Regions
	Americas [1]	EMEAI [2]	APAC/China [3]	Consolidated
Sales	429,409	611,814	97,710	**1,138,933**
Cost of sales	–371,944	–483,966	–77,966	**–933,876**
Gross profit	**57,465**	**127,848**	**19,744**	**205,057**
Gross margin	13.4 %	20.9 %	20.2 %	**18.0 %**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method	–56,154	–62,862	–13,316	**–132,332**
Adjustements[4]	14,768	2,754	962	**18,484**
Adjusted EBIT	**16,079**	**67,740**	**7,390**	**91,209**
Adjusted EBIT margin	3.7 %	11.1 %	7.6 %	**8.0 %**
Depreciation	–12,178	–10,901	–1,551	**–24,630**

[1] Includes Canada, the USA as well as Central and South America.
[2] Includes Europe, Middle East, Africa and India.
[3] Includes Asia/Pacific and China.
[4] Adjustments comprise depreciation and amortization expenses from PPA in the amount of kEUR 5,309 as well as restructuring and transaction costs in the amount of kEUR 13,175.

kEUR				
				Q1–Q4/2016
				Regions
	Americas [1]	EMEAI [2]	APAC/China [3]	Consolidated
Sales	402,242	568,819	70,934	**1,041,995**
Cost of sales	–326,855	–451,574	–57,067	**–835,496**
Gross profit	**75,387**	**117,245**	**13,867**	**206,499**
Gross margin	18.7 %	20.6 %	19.5 %	**19.8 %**
Selling and administrative expenses, research and development costs, other income, share of net profit of investments accounted for using the equity method, and reversal of impairment	–49,754	–66,327	–11,969	**–128,050**
Adjustements[4]	4,334	7,434	197	**11,965**
Adjusted EBIT	**29,967**	**58,352**	**2,095**	**90,414**
Adjusted EBIT margin	7.4 %	10.3 %	3.0 %	**8.7 %**
Depreciation	–10,560	–10,601	–1,448	**–22,609**

[1] Includes Canada, the USA as well as Central and South America.
[2] Includes Europe, Middle East, Africa and India.
[3] Includes Asia/Pacific and China.
[4] Adjustments comprise depreciation and amortization expenses from PPA in the amount of kEUR 5,353 as well as restructuring and transaction costs in the amount of kEUR 6,612.

Finance income and expenses are not allocated to any one business segments as the underlying financial instruments are controlled at the Group level.

Business in the EMEA/India region includes the manufacture and sale of axles and suspension systems for trailers and semi-trailers as well as fifth wheels for heavy trucks. In this region, the Group also provides spare parts for the trailer and commercial vehicle industry.

In America, the Group manufactures and sells key components for the semi-trailer, trailer, truck, bus and recreational vehicle industries. In this region, the Group provides axle and suspension systems, fifth wheels, kingpins and landing legs as well as coupling devices. In North America, the Group also provides spare parts for the trailer and commercial vehicle industry. The focus of business activities in the APAC/CHINA region is the manufacture and sale of axle and suspension systems for buses, trailers and semi-trailers. The Group also offers spare parts for the trailer and commercial vehicle industry in this region.

The following table presents the sales development by business unit:

Revenues from external customers

kEUR	Q1–Q4/2017	Q1–Q4/2016
OEM	861,310	772,219
Aftermarket	277,623	269,776
Total	**1,138,933**	**1,041,995**

No significant sales are generated in the country where the Company is located. In addition, the Company does not have any significant share in the Group's non-current assets in the country where it is located.

In both the reporting year and the previous year, no one customer reached a share of 10 % of the Group's total sales.

The following table shows information by geographic region.

kEUR	12/31/2017	12/31/2016[1]
Non-current assets		
Americas	167,392	183,107
EMEAI	166,382	167,671
APAC/ China	17,876	18,943
Total	**351,650**	**369,721**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 "Changes in Accounting Policies" incl. in the Notes to the Consolidated Financial Statements)

Non-current assets include goodwill, other intangible assets, property, plant and equipment, investments accounted for using the equity method and other non-current assets.

5. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5.1 COST OF SALES

Cost of sales consists of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Cost of materials	747,946	674,293
Personnel expenses	122,070	118,224
Depreciation and amortization of property, plant, and equipment and intangible assets	13,763	12,207
Repair and maintenance expenses	10,648	9,420
legal and consulting expenses	1,966	459
Travel expenses	1,224	450
Warranty expenses	7,099	6,805
Temporary employees expenses	8,845	4,455
FX-Valuation expenses	2,797	2,014
Restructuring and transaction costs	11,066	1,145
Other	6,452	6,024
Total	**933,876**	**835,496**

In the 2017 financial year, cost of sales included inventory usage of kEUR 903,272 (previous year: kEUR 818,599).

5.2 OTHER INCOME AND EXPENSES

5.2.1 Other operating income

Other operating income consists of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Gain from disposal of property, plant and equipment	41	68
Claim for damages	500	–
Other	1,073	1,091
Total	**1,614**	**1,159**

5.2.2 Selling expenses

The following overview shows the composition of selling expenses:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	31,989	30,909
Expenses for advertising and sales promotion	8,944	9,994
Depreciation and amortization of property, plant and equipment and intangible assets	4,496	4,166
Expenses for distribution	3,714	4,206
Trade receivable allowance and write-off	2,181	2,946
Commissions	308	714
Restructuring and transaction costs	299	613
FX-Valuation	423	–970
Other	9,725	8,151
Total	**62,079**	**60,729**

5.2.3 Administrative expenses

Administrative expenses are shown in the following table:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	28,722	25,167
Expenses for office and operating supplies	4,968	4,186
Depreciation and amortization of property, plant and equipment and intangible assets	4,126	4,216
Legal and consulting expenses	4,208	3,568
Travel costs	2,026	1,835
Restructuring and transaction costs	1,402	4,854
Other	8,090	7,101
Total	**53,542**	**50,927**

5.2.4 Research and development costs

Research and development costs consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Personnel expenses	11,199	10,994
Depreciation and amortization of property, plant and equipment and intangible assets	2,245	2,020
Testing Cost	2,184	2,099
Restructuring and transaction costs	408	–
Other	4,375	4,576
Total	**20,411**	**19,689**

Development costs of kEUR 4,221 (previous year: kEUR 3,697) were capitalized in the financial year. No performance-based grants paid by the Bavarian Ministry of Economic Affairs in the reporting year (previous year: kEUR 102) were offset against research and development costs.

5.2.5 Finance result

Finance income consists of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Finance income from the sale of other financial instruments	–	5,730
Unrealized foreign exchange gains on foreign currency loans and dividends	29	579
Realized foreign exchange gains on foreign currency loans and dividends	178	805
Finance income due to derivatives	376	488
Finance income due to pensions and other similar benefits	–	23
Interest income	367	670
Other	297	64
Total	**1,247**	**8,359**

In the previous year, finance income from the sale of other financial instruments was derived mainly from the sale of Haldex shares. The Group had acquired around 3.6% of Haldex shares before the takeover bid was submitted. During the fourth quarter of 2016, all of these shares were sold on the stock exchange, as this position was no longer considered of strategic importance.

Finance expenses consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Interest expenses due to interest bearing loans and bonds	–13,715[1]	–12,399[1]
Amortization of transaction costs	–775	–920
Finance expenses due to pensions and other similar benefits	–1,121	–1,239
Finance expenses due to derivatives	–828	–6,157
Unrealized foreign exchange losses on foreign currency loans and dividends	–30	–
Other	–1,291	–1,138
Total	**–17,760**	**–21,853**

[1] Includes the non-cash interest expense of kEUR 647 (previous year: kEUR 644) for the convertible bond.

The increase in interest expenses due to interest-bearing loans and bonds mainly resulted from the addition of a new loan with a volume of EUR 50 million in June 2016, the full-year effect of which was borne for the first time in the 2017 financial year. The bank liabilities assumed as part of the acquisition of KLL Equipamentos para Transporte Ltda. also led to an increase in interest expenses.

The amortization of transaction costs of kEUR –775 (previous year: kEUR –920) represents the contract closing fees recognized as expenses in the period in accordance with the effective interest method.

Finance expenses related to derivative financial instruments in the past financial year mainly include the effect from the measurement of interest rate swaps at fair value at the end of the year.

Finance expenses related to derivatives in the previous year resulted from the redemption of foreign currency derivatives of kEUR 5,131. These were originally used to secure the payment of the purchase price in SEK in the event the acquisition of Haldex was successful. Finance expenses related to derivatives also resulted from a change in accounting in previous year for the valuation of a derivative embedded in the promissory note issued in November 2015. The variable interest-bearing tranches of the promissory note include a zero floor cap, which specifies that a decline in the Euribor is limited to 0%. In 2015, a zero floor cap was accounted for and measured separately as what is known an “embedded derivative.” Based on the clarification of the IFRS IC in relation to the separation of interest rate floors from variable interest rate basic contracts in a negative interest rate environment in 2016, a separate measurement of the zero floor cap was waived. At the same time, in the prior year, hedge accounting for the hedging relationship between the variable interest-bearing tranche of the promissory note and interest rate hedges was terminated due to ineffectiveness. The changes in the value of the interest rate hedges recorded so far in other comprehensive income were therefore recycled to profit and loss in the prior year.

Further information on the above is presented in Notes 6.13 and 7.1.

5.2.6 Expenses for employee benefits

Expenses for employee benefits consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Wages and salaries	–167,408	–159,773
Social insurance contributions	–23,977	–22,784
Pension expenses	–1,173	–1,355
Termination benefits	–1,422	–1,382
Total	**–193,980**	**–185,294**

Social insurance contributions include expenses from defined contribution plans in the amount of von kEUR 8,051 (previous year: kEUR 6,970).

5.2.7 Depreciation and amortization

Depreciation and amortization expenses according to functional area are as follows:

kEUR	Depreciation of property, plant and equipment		Amortization of intangible assets		Total	
	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Cost of sales	–12,877	–11,424	–886	–783	–13,763	–12,207
Selling expenses	–1,084	–1,143	–3,412	–3,023	–4,496	–4,166
Administrative expenses	–1,546	–1,441	–2,580	–2,775	–4,126	–4,216
Research and development costs	–981	–902	–1,264	–1,118	–2,245	–2,020
Total	**–16,488**	**–14,910**	**–8,142**	**–7,699**	**–24,630**	**–22,609**

Depreciation and amortization of property, plant and equipment and intangible assets arising from purchase price allocation amounted to kEUR 5,309 (previous year: kEUR 5,343).

5.3 INCOME TAXES

Income taxes primarily consist of the following:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Current income taxes	–20,987	–18,041
Deferred income taxes	5,735	–3,453
Income tax reported in the result for the period	**–15,252**	**–21,494**

The effective income tax rate for the Group for the year ended December 31, 2017 is 27.13 % (previous year: 33.09 %). The following table reconciles the actual versus the expected income taxes for the Group using the Group's corporate income tax rate of 29.40 % (previous year: 30.20 %). The Group tax rate is the weighted tax rates in the EMEA/India, Americas and APAC/China regions applied to the result before taxes. The German corporate income tax rate of 27.22 %, consisting of a corporate income tax of 15.83 % (including the solidarity surcharge) and a trade tax of 11.39 %, was used for the EMEA/India region. The tax rate for the Americas region was equivalent to the US tax rate of 37.00 % which consists of a federal tax rate of 35.00 % and a state tax rate of 2.00 %. The Chinese corporate tax rate of 25.00 % was applied in the APAC/China region.

The expected income tax expenses (current and deferred) based on the Group's income tax rate of 29.40 % deviate from the reported income tax expenses as follows:

kEUR	12/31/2017	12/31/2016
Result before income tax	**56,212**	**64,955**
Income tax based on Group's income tax rate of 29,40 % (previous year: 30.20 %)	–16,526	–19,616
Unused tax loss carry-forwards	–6,527	–2,561
Use of previously not recognized tax loss carry-forwards	103	806
Non-deductible operating expenses	–1,521	–982
Tax-Exempt income	4,289	907
Differences in tax rates	2,171	–77
Income taxes resulting from previous year	–1,852	–38
Other	63	67
US Tax effects incl. Effects from the US Tax reform	4,548	–
Income tax based on effective income tax rate of 27.13 % (previous year: 33.09 %)	**–15,252**	**–21,494**

The development of the deferred income taxes are impacted directly and indirectly from the U.S. tax reform and consist of the following:

kEUR	12/31/2017	12/31/2016
Inventories	1,683	2,637
Pensions and other similar benefits	7,742	12,978
Other financial liabilities	156	261
Other provisions	1,815	2,629
Tax loss carry-forwards	802	3,710
Interest carry-forwards	10,684	18,231
Other	4,823	5,274
Deferred income tax assets	**27,705**	**45,720**
Intangible assets	–29,181	–39,745
Property, plant and equipment	–9,099	–11,789
Investments accounted for using the equity method	–299	–5,736
Other assets	–301	–423
Interest bearing loans and borrowings	–2,123	–859
Other	–1,962	–6,657
Deferred income tax liabilities	**–42,965**	**–65,209**

As of the balance sheet date, deferred tax assets and liabilities of kEUR 2,364 (previous year: kEUR 9,490) were offset, having met the requirements for offsetting. The balance sheet thus includes deferred tax assets of kEUR 25,341 (previous year: kEUR 36,230) and deferred tax liabilities of kEUR 40,601 (previous year: kEUR 55,719).

The Group has tax loss carryforwards of kEUR 58,196 (previous year: kEUR 55,284) that are available indefinitely or with defined time limits to several Group companies to offset against future taxable income of the companies in which the losses arose or of other Group companies. Deferred tax assets have not been recognized with respect to tax loss carryforwards of kEUR 54,934 (previous year: kEUR 41,144) due to insufficient taxable income or opportunities for offsetting at the individual companies or other Group companies.

Unrecognized tax loss carryforwards expire as follows:

kEUR	12/31/2017	12/31/2016
Expiry date		
Infinite	46,835	37,731
Within 5 years	7,469	3,413
Within 10 years	630	–
Total	**54,934**	**41,144**

In addition to tax loss carryforwards, the Group has interest carryforwards of kEUR 47,292 (previous year: kEUR 70,253), which are available indefinitely to various Group companies for use in the future as a tax deduction. Interest carryforwards result from the interest limitation rules introduced by the business tax reform in Germany as well as a comparable regulation in North America.

In financial year 2017 deferred income taxes amounting to kEUR –3,111 (previous year: kEUR –622) were recognized in other comprehensive income.

Furthermore, temporary differences associated with investments in subsidiaries for which no deferred taxes have been recognized amounted to EUR –1,1 million (previous year: EUR 11.1 million).

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 GOODWILL AND INTANGIBLE ASSETS

kEUR

	Customer relationship	Technology	Development costs	Brand	Service net	Licences and software	Intangible assets	Goodwill[1]
Historical costs								
As of 12/31/2015	**111,224**	**21,990**	**11,387**	**34,114**	**3,495**	**30,756**	**212,966**	**83,251**
Additions from initial consolidation	908	–	–	1,095	–	601	2,604	3,761
Additions	–	–	3,673	–	–	2,022	5,695	–
Disposals	–	–	–	–	–	228	228	–
Transfers	–	–	–	–	–	2,005	2,005	–
Foreign currency translation	1,630	219	121	490	–	599	3,059	660
As of 12/31/2016	**113,762**	**22,209**	**15,181**	**35,699**	**3,495**	**35,755**	**226,101**	**87,672**
Additions	–	–	4,221	–	–	1,140	5,361	–
Disposals	–	54	85	–	–	370	509	–
Transfers	–	–13	–180	69	–1	2,617	2,492	–
Foreign currency translation	–5,713	–789	–832	–1,758	–	–1,492	–10,584	–4,015
As of 12/31/2017	**108,049**	**21,353**	**18,305**	**34,010**	**3,494**	**37,650**	**222,861**	**83,657**
Accumulated amortization								
As of 12/31/2015	**30,580**	**18,085**	**1,665**	**648**	**1,706**	**14,910**	**67,594**	**30,266**
Additions from initial consolidation	–	–	–	–	–	405	405	–
Additions	3,087	894	734	136	174	2,674	7,699	–
Disposals	–	–	–	–	–	23	23	–
Foreign currency translation	484	133	25	–4	–	268	906	421
As of 12/31/2016	**34,151**	**19,112**	**2,424**	**780**	**1,880**	**18,234**	**76,581**	**30,687**
Additions	3,252	511	1,067	210	175	2,927	8,142	–
Disposals	–	54	85	–	–	370	509	–
Transfers	46	–15	–	40	2	919	992	–
Foreign currency translation	–1,727	–480	–185	–37	–4	–248	–2,681	–1,164
As of 12/31/2017	**35,722**	**19,074**	**3,221**	**993**	**2,053**	**21,462**	**82,525**	**29,523**
Carrying amount 12/31/2016	**79,611**	**3,097**	**12,757**	**34,919**	**1,615**	**17,521**	**149,520**	**56,985**
Carrying amount 12/31/2017	**72,327**	**2,279**	**15,084**	**33,017**	**1,441**	**16,188**	**140,336**	**54,134**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

Intangible assets with finite useful lives that the Group considers important are presented in the following table:

kEUR

	2017		2016	
	Netbook value	Remaining useful life in years	Netbook value	Remaining useful life in years
Customer relationship “OEM”	27,416	29	28,387	30
Customer relationship “5th-Wheel”	11,632	21	12,192	22
SAP-Software	10,043	5.5	10,710	6.5

Impairment testing of goodwill and intangible assets with indefinite useful lives

The Group carries out its annual impairment tests of recognized goodwill and intangible assets with indefinite useful lives as of October 1. In doing so, the recoverable amounts for the cash-generating units were generally estimated to be higher than the carrying amounts.

For the purpose of the impairment test, the recoverable amount of a cash-generating unit is determined on the basis of the value in use.

A discounted cash flow method was used to calculate the recoverable amount. A detailed five-year plan based on past experience, current operating earnings, management’s best estimate of future development and market assumptions served as the basis for calculating cash flows. The value contribution as of 2022 is supplemented by the perpetual annuity. The basis for the calculation of the perpetual annuity is the assumed long-term sustainably achievable result given the market environment’s cyclical nature.

To calculate the discount rates, a weighted average cost of capital (WACC) method was applied. This method considers yields on government bonds at the beginning of the budget period as a risk-free interest rate. As in the previous year, a growth rate deduction of 1.0% was applied for the perpetual annuity.

The following table presents the discount factors before taxes that are applied during the impairment tests for goodwill and intangible assets with indefinite useful lives:

%

	Discount factor before taxes	
	2017	2016
Americas	14.91	12.46
EMAI	11.69	9.18
APAC/China	18.20	15.52

As part of the Group's new alignment according to region, the regions "EMEA/India," "Americas" and "APAC/China" were defined as cash-generating units. The allocation of the carrying amounts of goodwill to the cash-generating units was based on the use of future synergies from past company acquisitions. The allocation of the brands "SAF" and "Holland" to the cash-generating units was done on the basis of the primary geographical use of these brands. The impairment test of the SAF brand was performed on the basis of the EMEA/India cash-generating unit. The impairment test of the Holland brand was performed on the basis of the Americas cash-generating unit. The carrying amounts are as follows:

kEUR	Americas		EMEAI		APAC/China		Total	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Goodwill	24,519	27,370	23,442	23,442	6,173	6,173	54,134	56,985
Brand	12,372	14,187	20,644	20,617	1	115	33,017	34,919

In addition to the "SAF" and "HOLLAND" brands, the Group owns other brands that are being amortized over their intended useful lives on the basis of the brand strategy pursued.

Within the scope of a sensitivity analysis either an increase in the average cost of capital (after taxes) of 100 basis points, a decline of future cash flows (after taxes) of 10% or a one-percent reduction in the long-term growth rate was assumed for the cash-generating units to which material goodwill and intangible assets with indefinite useful lives were allocated. Based on this method SAF-HOLLAND determined that there was no need for impairment at any of the cash-generating units.

6.2 PROPERTY, PLANT AND EQUIPMENT

kEUR	Land and buildings	Plant and equipment	Other equipment, office furniture, and equipment	Advance payments and construction in progress	Total
Historical costs					
As of 12/31/2015	**79,870**	**137,278**	**22,251**	**3,632**	**243,031**
Additions from initial consolidation	7,716	10,091	153	–	**17,960**
Additions	848	5,419	2,513	10,531	**19,311**
Disposals	963	5,894	346	–	**7,203**
Transfers	894	4,389	1,164	–7,977	**–1,530**
Foreign currency translation	1,554	3,886	344	7	**5,791**
As of 12/31/2016	**89,919**	**155,169**	**26,079**	**6,193**	**277,360**
Additions	1,218	4,714	1,260	14,569	**21,761**
Disposals	–	5,032	364	60	**5,456**
Transfers	2,720	8,016	786	–12,963	**–1,441**
Foreign currency translation	–5,013	–11,760	–1,124	–472	**–18,369**
As of 12/31/2017	**88,844**	**151,107**	**26,637**	**7,267**	**273,855**
Accumulated depreciation					
As of 12/31/2015	**19,762**	**79,439**	**16,080**	**–**	**115,281**
Additions from initial consolidation	981	4,391	–	–	**5,372**
Additions	2,891	9,727	2,292	–	**14,910**
Disposals	925	5,096	318	–	**6,339**
Transfers	481	–11	5	–	**475**
Foreign currency translation	535	2,557	306	–	**3,398**
As of 12/31/2016	**23,725**	**91,007**	**18,365**	**–**	**133,097**
Additions	3,200	10,971	2,317	–	**16,488**
Disposals	76	4,466	236	–	**4,778**
Transfers	476	–454	37	–	**59**
Foreign currency translation	–1,524	–6,439	–814	–	**–8,777**
As of 12/31/2017	**25,801**	**90,619**	**19,669**	**–**	**136,089**
Carrying amount 12/31/2016	**66,194**	**64,162**	**7,714**	**6,193**	**144,263**
Carrying amount 12/31/2017	**63,043**	**60,488**	**6,968**	**7,267**	**137,766**

The carrying amount of technical and operating and office equipment held under finance leases as of December 31, 2017 is kEUR 96 (previous year: kEUR 2,754). There were no additions to technical equipment held under finance leases in the reporting year (previous year: kEUR 0). Depreciation during the financial year amounted to kEUR 21 (previous year: kEUR 117). The present value of minimum lease payments amounted to kEUR 55 (previous year: kEUR 1,587). Undiscounted minimum lease payments amounted to kEUR 76 (previous year: kEUR 1,605).

6.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The following investments were accounted for using the equity method:

	Country of incorporation	% Equity interest
Associates		
Castmetal FWI S.A.	Luxembourg	34.1
Joint ventures		
SAF-HOLLAND Nippon, Ltd.	Japan	50.0

Details about the Group's significant associates are presented in the following table:

Name of the associate	Castmetal FWI S.A.
Nature of relationship with the Group	Supplier of components in cast steel
Principal place of business	Luxembourg
Ownership interest	34.09 %

The table below summarizes the financial information for Castmetal FWI S.A. This information corresponds to the relevant amounts in the associates' financial statements prepared in accordance with IFRS (for accounting purposes adjusted to the Group according to the equity method).

kEUR	Castmetal FWI S.A.	
	12/31/2017	12/31/2016
Current assets	54,569	46,713
Non-current assets	8,842	9,261
Current liabilities	–12,185	–10,292
Non-current liabilities	–9,071	–5,821
Sales	39,058	34,022
Net profit of the financial year from continuing operations	6,011	6,169
Other comprehensive income		–11
Total comprehensive income	**6,011**	**6,158**
Group's share in total comprehensive income	2,049	2,099
Other equity holders	3,962	4,059

The following is a reconciliation between the reported summarized financial information and the carrying amount of the investment in Castmetal FWI S.A. as shown in the consolidated financial statements:

kEUR	12/31/2017	12/31/2016
Net assets of the associate	42,149	39,861
Equity interest of the Group	34.09 %	34.09 %
Other adjustments	715	744
Carrying amount of the investment in Castmetal FWI S.A.	15,154	14,333

The reconciliation item "other adjustments" resulted primarily from the disclosure of hidden reserves in the context of the acquisition of the investment and its amortization.

A dividend of kEUR 1,178 (previous year: kEUR 943) was distributed by Castmetal FWI S.A. in the past financial year.

The following presents the summarized financial information for the "SAF-HOLLAND Nippon Ltd." joint venture:

kEUR	12/31/2017	12/31/2016
Group's share in profit or loss	37	37
Group's share in total comprehensive income	37	37
Aggregate carrying amount of Group's share in these companies	1,080	1,092

6.4 OTHER NON-CURRENT ASSETS

kEUR	12/31/2017	12/31/2016
VAT reimbursement claims	1,126	1,201
Receivables from finance lease	–	886
Claims from reinsurance	733	670
Defined benefit assets	–	68
Insurance premiums	155	96
Other	1,166	607
Total	**3,180**	**3,528**

6.5 INVENTORIES

kEUR	12/31/2017	12/31/2016[1]
Raw materials	52,868	45,626
Work in progress	36,895	33,993
Finished and trading goods	36,083	40,819
Goods in transit	7,899	8,940
Total	**133,745**	**129,378**

[1] Adjusted according to IAS 8.42 (cp. Section 2.4 “Changes in Accounting Policies” incl. in the Notes to the Consolidated Financial Statements)

Cost of sales includes allowances for inventories of kEUR 1,147 (previous year: kEUR 2,416). The inventory allowance is recorded in a separate allowance account and netted against the gross amount of inventory.

kEUR	Allowance account
As of 12/31/2015	**6,210**
Charge for the year	2,416
Utilized	1,023
Foreign currency translation	–
As of 12/31/2016	316
Charge for the year	**7,919**
Utilized	1,235
Released	1,022
Foreign currency translateion	88
As of 12/31/2017	–576
Stand 31.12.2017	**7,468**

6.6 TRADE RECEIVABLES

The total amount of trade receivables is non-interest-bearing and due within one year.

kEUR				Thereof not impaired on the reporting date and past due in the following periods					
	Carrying amount	Thereof neither impaired nor past due on the reporting date	Thereof impaired on the reporting date	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	Between 121 and 360 days	More than 360 days
Trade receivables as of 12/31/2017	135,662	100,860	1,837	19,708	4,370	1,141	326	4,622	2,798
Trade receivables as of 12/31/2016	116,666	71,871	3,624	20,432	7,392	3,022	2,067	4,438	3,820

Allowances for trade receivables are recorded in a separate allowance account and netted with the gross amount of trade receivables.

kEUR	Allowance account
As of 12/31/2015	**4,203**
Charge for the year	2,088
Utilized	1,106
Released	46
Foreign currency translation	102
As of 12/31/2016	**5,241**
Charge for the year	2,699
Utilized	307
Released	993
Foreign currency translation	–436
As of 12/31/2017	**6,204**

Trade receivables that are not impaired and past due show no indications as of the reporting date that the debtors will not meet their payment obligations. The Group has taken out trade credit insurance in Europe and the United States to hedge the default risk.

The Group disposed of receivables with a volume of kEUR 26,950 as of the balance sheet date (previous year: kEUR 26,359) under a factoring agreement. Assuming the legal validity of the receivables, the factor bears the customer default risk for the purchased receivables.

6.7 OTHER CURRENT ASSETS

kEUR	12/31/2017	12/31/2016
VAT receivables	2,778	3,928
Prepaid expenses	3,376	1,636
Insurance premiums	322	313
Creditors with a debit balance	125	1,488
Deposit within the framework of factoring	519	1,409
Other	4,704	4,649
Total	**11,824**	**13,423**

6.8 OTHER SHORT-TERM INVESTMENTS

Other short-term investments resulted from a short-term deposit of liquid funds in the amount of EUR 58.3 million (previous year: EUR 0 million).

6.9 CASH AND CASH EQUIVALENTS

kEUR	12/31/2017	12/31/2016
Cash on hand, cash at banks and checks	278,737	344,154
Short-term deposits	38	414
Total	**278,775**	**344,568**

6.10 EQUITY

Subscribed share capital

The Company's subscribed share capital increased by EUR 331.90 due to the partial conversion of convertible bonds and amounted to EUR 453,943.02 as of the balance sheet date (previous year: EUR 453,611.12). Subscribed share capital is fully paid-in and consists of 45,394,302 (previous year: 45,361,112) ordinary shares with a nominal value of EUR 0.01 per share.

Authorized share capital

As of the balance sheet date, existing authorized share capital is as follows:

Articles of Association	Date of resolution/ expiration	Euro/ number of shares	Capital increase against	Subscription rights excluded/execution of capital increase
Article 5.3.3 ICW Article 5.3.4	June 4, 2012/valid until April 27, 2022	EUR 74,227.41 = 7,422,741 shares	Contribution in cash and/or in kind	
Article 5.3.4 ICW Article 5.3.6	June 4, 2012/valid until April 27, 2022	EUR 45,361.11 = 4,536,111 shares		Capital increase can be executed under the exclusion of subscription rights
Article 5.3.3 ICW Article 5.3.5	June 4, 2012/valid until April 11, 2021	EUR 45,361.11 = 4,536,111 shares		Capital increase can be executed under the exclusion of subscription rights
Article 5.4 ICW Article 5.4.2	July 15, 2014/valid until July 14, 2019	EUR 90,722.22 = 9,072,222 shares	To serve 2014 convertible bond	Capital increase is carried out when creditors of the convertible bond exercise their conversion rights

Share premium

As of December 31, 2017, the share premium increased by kEUR 400 to EUR 269,044 (previous year: EUR 268,644) as a result of the partial conversion of convertible bonds in the past financial year.

Legal reserve

As in the previous year, legal reserve amounts to kEUR 45.

Other reserves

Other reserves consist of a reserve that is subject to restrictions on distribution. This reserve ensures the Group adheres to specific requirements under Luxembourg tax law. As of December 31, 2017, other reserves totaled kEUR 720 (previous year: kEUR 720).

Retained earnings

Retained earnings include the result for the period attributable to shareholders of SAF-HOLLAND S.A. of kEUR 42,887 (previous year: kEUR 44,234).

A dividend of EUR 0.45 per share will be proposed for the 2017 financial year, corresponding to a total dividend distribution of kEUR 20,427 based on 45,394,302 shares. This amounts to a payout ratio of the net earnings of 47.6 % attributable to the parent company shareholders and as such is essentially within the targeted range. A dividend of EUR 0.44 per share was paid in the previous year, and the total dividend distribution amounted to kEUR 19,959.

Accumulated other comprehensive income

kEUR	Before tax amount		Tax income		Net of tax amount	
	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Exchange differences on translation of foreign operations	–24,651	5,277	–	–	–24,651	5,277
Changes in fair values of derivatives designated as hedges, recognized in equity	–	–274	–	76	–	–198
Revaluation defined benefit plans	2,443	1,303	–3,111	–698	–668	605
Total	**–22,208**	**6,306**	**–3,111**	**–622**	**–25,319**	**5,684**

The total amount of exchange differences on translation of foreign operations included in accumulated other comprehensive income is kEUR –20,685 (previous year: kEUR 3,966).

The total amount of the remeasurement of defined benefit plans included in accumulated other comprehensive income after taxes is kEUR –18,617 (previous year: kEUR –17,949).

6.11 PENSIONS AND OTHER SIMILAR OBLIGATIONS

The Group offered defined benefit plans to its employees in Germany in accordance with a supplemental agreement.

Under a supplemental agreement dated January 1, 2007, SAF-HOLLAND GmbH's pension plans were frozen, and no further pension entitlements can be earned. The future pension payments for these plans depend on an employee's length of service.

Future pension payments for the plan of SAF-HOLLAND Verkehrstechnik GmbH depend on the length of service and the individual's income. In February 2011, the Company restructured its existing pension plans by amending the underlying supplemental agreements. The form was changed from a direct pension commitment to an indirect pension commitment by establishing a reinsured employee benefit fund. The conversion did not alter the benefits granted to employees. The pension plan remains a defined benefit obligation as defined by IAS 19 recorded under provisions for pensions and other similar obligations. Pension commitments of the employee benefit fund are covered by a group insurance contract. As these reinsurance claims do not constitute plan assets because the employees' claims are not protected against insolvency, the amount of the pension liability insurance of kEUR 733 (previous year: kEUR 670) is recognized under other non-current assets in accordance with IAS 19.

The asset value of the pension liability insurance developed as follows:

kEUR	2017
Claims arising from the pension liability insurance at the beginning of the period	**670**
Allocation to pension liability insurance	70
Premiums received	–14
Interest income	7
Claims arising from the pension liability insurance at the end of the period	**733**

There are no legal or regulatory minimum funding requirements in Germany.

SAF-HOLLAND Inc. maintains three pension plans that are closed to new entrants. The benefits paid under the defined benefit pension plans depend on the length of service or, in some cases, the participant's individual income. The investment oversight of the plan assets was delegated to an investment committee. The plan assets are managed by a trustee. The trustee responsible for the management of the assets acts under the instruction of the investment committee. The pension plans comply with the funding requirements of the US Employee Retirement Income Security Act of 1974, as amended. Minimum funding requirements for defined benefit plans are 80 % to avoid any performance restrictions.

SAF-Holland Canada Ltd. operates a pension plan in Canada that is still open to new entrants. Two pension plans were dissolved during the past financial year, resulting in a one-time expense of kEUR 356.

Under the terms of Canada's Ontario Pension Benefits Act and the Canadian Revenue Agency, pension plans that are not fully funded and will not be fully funded in the foreseeable future have a minimum funding requirement.

The development of the defined benefit pension plans as of December 31, 2017 is as follows:

kEUR	Defined benefit obligation (DBO) (I)		Fair value of plan assets (II)		Effects of asset ceiling (III)		Net defined benefit balance (I−II+III)	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance as of the beginning of the period	**108,447**	**103,606**	**70,122**	**66,694**	**–**	**145**	**38,325**	**37,057**
Current service cost	1,000	1,076	–	–	–	–	**1,000**	**1,076**
Past service cost	−183	279	–	–	–	–	**−183**	**279**
Settlement	356	–	–	–	–	–	**356**	**–**
Interest expenses	3,551	3,858	–	–	–	6	**3,551**	**3,864**
Interest income	–	–	2,430	2,648	–	–	**−2,430**	**−2,648**
Components of defined benefit costs recognized in the Consolidated Statements of income	**4,724**	**5,213**	**2,430**	**2,648**	**–**	**6**	**2,294**	**2,571**
Actuarial gains/losses	3,674	581	6,216	1,722	–	–	**−2,542**	**−1,141**
Effects of asset ceiling	–	–	–	–	99	−162	**99**	**−162**
Remeasurements recognized in the Consolidated Statements of Comprehensive Income	**3,674**	**581**	**6,216**	**1,722**	**99**	**−162**	**−2,443**	**−1,303**
Employer Contributions	–	–	998	489	–	–	**−998**	**−489**
Benefits paid	−8,055	−4,600	−7,653	−4,203	–	–	**−402**	**−397**
Foreign currency translation effects	−10,180	3,647	−7,538	2,772	–	11	**−2,642**	**886**
Other reconciling items	**−18,235**	**−953**	**−14,193**	**−942**	**–**	**11**	**−4,042**	**–**
Balance as of the end of the period	**98,610**	**108,447**	**64,575**	**70,122**	**99**	**–**	**34,134**	**38,325**
thereof:								
Germany	14,974	14,827	11	11	–	–	**14,963**	**14,816**
USA	60,765	66,464	50,573	53,012	–	–	**10,192**	**13,452**
Canada	13,916	17,031	13,991	17,099	99	–	**24**	**−68**
Post-employment medical	8,955	10,125	–	–	–	–	**8,955**	**10,125**
Actual return on plan assets	**–**	**–**	**8,646**	**4,371**	**–**	**–**	**–**	**–**

The net balance from defined benefit plans in the amount of kEUR 34,134 (previous year: kEUR 38,325) consists of a net liability of kEUR 34,134 (previous year: kEUR 38,393) and net plan assets of kEUR 0 (previous year: kEUR 68). The net interest expense was kEUR 1,121 (previous year: kEUR 1,216).

The major categories of plan assets as a percentage of the fair value of total plan assets and according to value are as follows:

	12/31/2017		12/31/2016	
	%	kEUR	%	kEUR
Equities	63.00	40,682	57.29	40,173
Bonds	31.00	20,018	30.35	21,284
Cash and money market	1.00	646	6.69	4,689
Real estate	3.00	1,937	2.61	1,830
Insurance	2.00	1,292	3.06	2,146
Total	**100.00**	**64,575**	**100,00**	**70,122**

Pension fund investments are managed through a diversified portfolio of highly liquid institutional investment funds, as governed by the US Investment Advisors Act of 1940. The portfolio is invested in various asset classes. Investments include US equities, global equities, US and global fixed income and real estate.

The present value of the pension obligations, the plan assets and the funding status for the current and previous reporting periods are as follows:

kEUR	12/31/2017	12/31/2016
Defined benefit obligation	**98,610**	**108,447**
Fair value of plan assets	–64,575	–70,122
Benefit liabilities	**34,035**	**38,325**
Experience losses (+)/gains (–) related to defined benefit obligation	–6,216	–1,034
Experience losses (+)/gains (–) related to plan assets	–123	–1,723
Actuarial losses (+)/gains (–) due to changes in demographic assumptions	–703	–1,382
Actuarial losses (+)/gains (–) due to changes in financial assumptions	4,599	2,836

The key assumptions used in determining pension and post-employment medical benefit obligations for the Group's pension plans are shown in the table below.

%							Pension Plan	
	German plan		US plan		Canadian plan		Post employment medical	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Discount rate	1.90	1.90	3.49	3.94	3.45	3.85	3.35	3.76
Future salary increases	0.00/2.00[1]	0.00/2.00[1]	3.50	3.50	–[3]	–[3]	n/a	n/a
Future pension increases	2.00	2.00	–[2]	–[2]	–[3]	–[3]	n/a	n/a
Turnover rates	4.60	4.60	2.88	2.88	–	–	Sarason T5	Sarason T5

1 For the calculation of SAF-HOLLAND GmbH's defined benefit obligations, no salary increases were considered because the amount of the obligation depends on the length of service of the respective employee and the pension plan has been frozen so that no additional entitlements can be earned. The future salary trend for the pension obligations of SAF-Holland Verkehrstechnik GmbH is assessed to be 2.00%.

2 For the pension plans in the USA, no future pension increases were considered as the pension payments remain constant. Therefore, only years of service or salary and wage increases up to retirement were considered in determining the defined employee benefit obligations for these plans.

3 For the Canadian pension plans, no future salary and pension increases were considered as the pension payments depend on the years of service.

The following mortality tables were applied:

Germany	Heubeck Richttafeln 2005G
USA	RP-2014 mortality table with MP-2016 generational projection
Canada	RP-2014Priv mortality table with CPM-8 generational projection

Healthcare cost inflation:

%	12/31/2017	12/31/2016
Initial rate (health care cost trend rate assumed for next year)	6.75	7.00
Ultimate rate (health care cost trend rate assumed to reduce cost)	5.00	5.00
Year of ultimate	2024	2024

A 1.00% change in the assumed trend in healthcare costs would have the following effects:

kEUR	31.12.2017		12/31/2016	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate current service cost and interest expenses	86	–73	94	–80
Effect on the defined benefit obligation	857	–746	950	–829

The discount rate is seen as a significant input for the value of defined benefit obligations. A 0.75 percentage point change in the discount rate would have the following effect on the amount of defined benefit obligations:

kEUR				12/31/2017
	Germany	USA	Canada	Total
Increase of discount rate +0.75 %	–1,874	–5,611	–1,442	**–8,927**
Reduction of discount rate –0.75 %	2,177	6,489	1,608	**10,274**

kEUR				12/31/2016
	Germany	USA	Canada	Total
Increase of discount rate +0.75 %	–1,756	–5,396	–2,006	**–9,157**
Reduction of discount rate –0.75 %	2,160	6,267	2,260	**10,687**

Future payments of defined benefit obligations are summarized in the following table:

kEUR					12/31/2017
	2018	2019–2022	2023–2027	2028 ff.	Total
Germany	481	2,043	2,773	16,022	**21,319**
USA	3,890	16,123	20,720	68,772	**109,505**
Canada	452	2,211	3,850	27,836	**34,349**
Total	**4,823**	**20,377**	**27,343**	**112,630**	**165,173**

kEUR					12/31/2016
	2017	2018–2021	2022–2026	2027 ff.	Total
Germany	435	1,876	2,582	15,417	**20,310**
USA	4,350	18,274	23,805	82,198	**128,627**
Canada	3,977	2,343	4,079	29,495	**39,894**
Total	**8,762**	**22,493**	**30,466**	**127,110**	**188,831**

The weighted average duration of pension plans is described below:

in years	Germany	USA	Canada
Weighted average duration as at 12/31/2017	18	12	11
Weighted average duration as at 12/31/2016	18	12	17

The employer contributions to defined benefit plans expected for the 2018 financial year amount to kEUR 962.

6.12 OTHER PROVISIONS

The main components of other provisions and their development are shown in the following table:

kEUR	Product warranty	Partial retirement	Environmental issues	Workers' compensation and health insurance benefits	Restructuring	Share based payment transactions	Other	Total
As of 01/01/2017	**7,956**	**554**	**217**	**1,921**	**225**	**5,016**	**901**	**16,790**
Additions	7,200	6	3	–	362	2,332	898	**10,801**
Utilized	4,982	246	–	3	213	2,639	452	**8,535**
Release	–	–	58	61	–	–	516	**635**
Interest effect from measurement	–	–	–	–	–	58	–	**58**
Foreign currency translation	–347	–	–11	–228	–29	–251	–75	**–941**
As of 12/31/2017	**9,827**	**314**	**151**	**1,629**	**345**	**4,516**	**756**	**17,538**
Thereof in 2017								
Current	6,170	147	39	436	345	789	279	**8,205**
Non-current	3,657	167	112	1,193	–	3,727	477	**9,333**
Thereof in 2016								
Current	5,442	323	39	497	225	2,639	753	**9,918**
Non-current	2,514	231	178	1,424	–	2,377	148	**6,872**

Guarantees and warranties

Provisions are recognized for expected guarantees and warranty claims on products sold during past periods. The amount of the provision is based on past experience, taking the circumstances on the reporting date into account. Product warranties include free repairs and, at the Group's discretion, the free replacement of components conducted by authorized partner repair shops.

Part-time retirement

The Group offers a part-time retirement plan to employees in Germany going into early retirement. In Germany, the Group uses what is known as a block model, which divides part-time retirement into two phases. Under such an arrangement, employees generally work full-time during the first half of the transition period and leave the Company at the start of the second half. The provision is discounted and recognized at its present value. Part-time retirement commitments are insured for potential insolvency.

Environmental levies
Provisions for environmental levies are recognized for environmental obligations based on past events – particular those that are probable and can be estimated reliably.

Occupational disability and health insurance benefits for employees
Occupational disability and health insurance benefits are recognized in the amount of the claims made. In addition, overall liability for claims of this kind is estimated based on past experience and taking into account stop-loss insurance coverage.

Restructuring provisions
Provisions include mainly personnel costs in the form of severance payments.

Share-based payments

Performance Share Unit Plan (PSU plan)
Under the PSU plan, members of the Management Board and selected managers are entitled to receive cash awards depending on the achievement of certain performance targets. Since 2013, a PSU plan with four-year term has been offered each year to the scheme's participants.

The goal of this plan is to sustainably link the interests of the management and executives with the interests SAF-HOLLAND S.A. shareholders of a long-term increase in enterprise value. The performance share unit plan takes into account both the Company's performance and the share price development for a performance period of four years.

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 determined by dividing the allowance value set annually by the Board of Directors by the average share price in the last two months of the year preceding the allowance. Upon expiration of the performance period, the number of share units allowed is adjusted by the multiplication with a target-achievement factor. The target-achievement factor is the ratio of the Company's average performance (adjusted EBIT margin) during the performance period versus the average target value previously set for the performance period.

The amount of the participant's payment entitlement is determined by multiplying the share units with the average share price during the last two months of the performance period and the target-achievement factor. An entitlement to shares of SAF-HOLLAND S.A. does not exist.

Payment under the performance share unit plan is limited to 200 % of the participant's gross annual salary at the time of payment.

The prerequisite for exercising appreciation rights is the achievement of a defined performance target. The performance target is fulfilled if during the entitlement period the Group has achieved an average minimum operating performance measured by the performance indicator "adjusted EBIT."

The total of share units granted as of the balance sheet date amounts to 460,927 and consists of the following:

kEUR

	Performance Share Unit Plan				
	2013–2016	2014–2017	2015–2018	2016–2019	2017–2020
Share Units outstanding at the beginning of the period	229,167	131,438	129,062	121,249	–
Share Units granted during the period	–	–	–	–	128,748
Share Units forfeited during the period	–	–	–	–	–
Share Units exercised during the period	229,167	–	–	–	–
Share Units expired during the period	–	10,768	11,363	12,450	14,989
Share Units outstanding at the end of the period	**–**	**120,670**	**117,699**	**108,799**	**113,759**
Share Units exercisable at the end of the period	–	–	–	–	–

The share units granted are classified and accounted for as cash-settled, share-based payments. The fair value of the share units is remeasured on each balance sheet date using a Monte Carlo simulation and in consideration of the conditions under which the share units were granted. The measurement of the options granted was based exclusively on the following parameters:

	Performance Share Unit Plan			
	2014–2017	2015–2018	2016–2019	2017–2020
Expected remaining contractual life (years)	0.00	1.00	2.00	3.00
Average share price on measurement date (EUR)	17.93	17.93	17.93	17.93
Expected volatility	n/a	20.70 %	26.69 %	29.04 %
Risk free interest rate	–0.72 %	–0.72 %	–0.63 %	–0.49 %
Dividend return	3.00 %	3.00 %	3.00 %	3.00 %

Further information on the measurement parameters is provided in Note 2.2.

The fair value is expensed over the contract term with recognition of a corresponding liability. As of December 31, 2017, provisions for these performance plans amounted to EUR 4.5 million (previous year: EUR 5.0 million). Expenses for the period in the amount of EUR 2.1 million (previous year: EUR 1.5 million) have been allocated to the relevant functional areas in the consolidated statement of comprehensive income.

6.13 INTEREST-BEARING LOANS AND BONDS

kEUR	Non-current		Current		Total	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Interest bearing bank loans	12,369	10,639	–	–	**12,369**	**10,639**
Convertible bond	97,990	97,743	–	–	**97,990**	**97,743**
Bond	–	75,000	75,000	–	**75,000**	**75,000**
Promissory note loan	200,000	200,000	–	–	**200,000**	**200,000**
Financing costs	–1,138	–1,668	–498	–722	**–1,636**	**–2,390**
Accrued interests	–	–	4,268	4,217	**4,268**	**4,217**
Other loans	52,063	53,885	2,551	2,572	**54,614**	**56,457**
Total	**361,284**	**435,599**	**81,321**	**6,067**	**442,605**	**441,666**

Loans with a volume of EUR 50 million, a 10-year maturity and a coupon of 2.75 % were assumed in the previous year.

The following table shows the total liquidity calculated as the sum of freely available credit lines valued at the rate as of the reporting date including available cash and cash equivalents and short-term freely available financial assets:

kEUR

	12/31/2017				
	Amount drawn valued as at the period-end exchange rate	Agreed credit lines valued as at the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,380	120,000	–	–	114,620
Facility B	–	29,219	–	–	29,219
Other Facilities	6,989	7,053[1]	278,775	58,306	337,145
Total	**12,369**	**156,272**	**278,775**	**58,306**	**480,984**

[1] Includes the bilateral credit line for the activities of the Group in China.

kEUR

	12/31/2016				
	Amount drawn valued as at the period-end exchange rate	Agreed credit lines valued as at the period-end exchange rate	Cash and cash equivalents	Other short-term investments	Total liquidity
Facility A	5,731	120,000	–	–	114,269
Facility B	44	33,221	–	–	33,177
Other Facilities	4,864	5,465[1]	344,568	–	345,169
Total	**10,639**	**158,686**	**344,568**	**–**	**492,615**

[1] Includes the bilateral credit line for the activities of the Group in China.

The total liquidity included other current investments. Other current investments are highly liquid and are to be viewed as cash equivalents in economic terms. In accordance with accounting policies, these current investments are still presented separately from cash and cash equivalents.

6.14 TRADE PAYABLES

Trade payables in the amount of kEUR 114,219 (previous year: kEUR 106,714) are non-interest-bearing and are normally settled within two to six months.

6.15 OTHER FINANCIAL LIABILITIES

Other financial liabilities in the amount of kEUR 15,910 (previous year: kEUR 18,238) reflect primarily the value of the put option for the outstanding shares of KLL Equipamentos para Transporte Ltda.

6.16 OTHER LIABILITIES

kEUR

	Current		Non-current	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Liabilities for salaries and social security contributions	12,235	12,368	–	–
Other taxes	4,795	4,655	–	–
Anniversary obligations	265	277	575	573
Other	4,560	5,465	20	42
Total	**21,855**	**22,765**	**595**	**615**

7. OTHER DISCLOSURES

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Carrying amounts, amounts recognized and fair values by measurement category are as follows:

kEUR

							12/31/2017
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	278,775	278,775	–	–	–	278,775
Trade receivables	LaR	135,662	135,662	–	–	–	135,662
Other financial assets							
Derivates without a hedging relationship	FAHfT	–	–	–	–	–	–
Other financial assets	LaR	940	940	–	–	–	940
Other short-term investments	LaR	58,306	58,306				58,306
Liabilities							
Trade payables	FLAC	114,219	114,219	–	–	–	114,219
Interest bearing loans and borrowings	FLAC	442,605	442,605	–	–	–	487,118
Finance lease liabilities	n.a.	55	–	–	–	55	55
Other financial liabilities							
Other financial liablities	FLtPL	15,910	–	–	15,910	–	15,910
Derivates without a hedging relationship	FLHfT	655	–	–	655	–	655
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	473,683	473,683	–	–	–	473,683
Financial liabilities measured at amortized cost	FLAC	556,824	556,824	–	–	–	601,337
Financial assets held for trading	FAHfT	–	–	–	–	–	–
Financial liabilities held for trading	FLHfT	655	–	–	655	–	655
Financial liabilities at fair value through profit and loss	FLtPL	15,910	–	–	15,910	–	15,910

kEUR

							12/31/2016
			Amounts recognized in balance sheet according to IAS 39				
	Category in accordance with IAS 39	Carrying amount	(Amortized) cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in balance sheet according to IAS 17	Fair value
Assets							
Cash and cash equivalents	LaR	344,568	344,568	–	–	–	344,568
Trade receivables	LaR	116,666	116,666	–	–	–	116,666
Other financial assets							
Derivates without a hedging relationship	FAHfT	368	–	–	368	–	368
Other financial assets	LaR	1,850	1,850	–	–	–	1,850
Liabilities							
Trade payables	FLAC	106,714	106,714	–	–	–	106,714
Interest bearing loans and borrowings	FLAC	441,666	441,666	–	–	–	475,336
Finance lease liabilities	n.a.	1,587	–	–	–	1,587	1,587
Other financial liabilities							
Other financial liablities	FLtPL		18,238	–	18,238	–	18,238
Derivates without a hedging relationship	FLHfT	972	–	–	972	–	972
Of which aggregated by category in accordance with IAS 39							
Loans and receivables	LaR	463,084	463,084	–	–	–	463,084
Financial liabilities measured at amortized cost	FLAC	548,380	548,380	–	–	–	582,050
Financial assets held for trading	FAHfT	368	–	–	368	–	368
Financial liabilities held for trading	FLHfT	972	-	-	972	-	972
Financial liabilities at fair value through profit an loss	FLtPL	18,238	–	–	18,238	–	18,238

The following table shows the allocation to the three hierarchy levels of fair values for financial assets and liabilities measured at fair value:

kEUR	12/31/2017			
	Level 1	Level 2	Level 3	Total
Bonds	76,272	–	–	**76,272**
Convertible bond	–	138,925	–	**138,925**
Promissory note loan	–	199,748	–	**199,748**
Interest bearing loans and borrowings	–	72,173	–	**72,173**
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	15,910	**15,910**
Derivative financial liabilities	–	655	–	**655**

kEUR	12/31/2016			
	Level 1	Level 2	Level 3	Total
Bonds	79,729	–	–	**79,729**
Convertible bond	–	121,893	–	**121,893**
Promissory note loan	–	199,763	–	**199,763**
Interest bearing loans and borrowings	–	73,950	–	**73,950**
Put option for the remaining shares in KLL Equipamentos para Transporte Ltda.	–	–	18,238	**18,238**
Derivative financial assets	–	368	–	**368**
Derivative financial liabilities	–	972	–	**972**

Cash and cash equivalents, trade receivables and payables, as well as non-current, non-derivative financial assets and liabilities, mainly have short remaining maturities. For this reason, their carrying amounts as of the reporting date approximate their fair values.

The fair values of interest-bearing loans, the promissory note, and the convertible bonds are calculated as the present value of the payments associated with the debt based on the applicable yield curve and currency-specific credit spreads. The fair value of the bond reported under the line item “bonds” is determined on the basis of their market values as of the balance sheet date. Foreign exchange forward contracts are the main category of derivatives measured using valuation methods based on inputs observable on the market. The valuation methods applied include forward pricing models using present value calculations.

The fair value of other financial assets and liabilities is calculated based on interest rates with matching maturities. On the balance sheet as of December 31, 2017, only derivatives of kEUR 655 (previous year: kEUR 604) and other financial liabilities from the valuation of the put-option to acquire the remaining 42.5 % of the shares in KLL Equipamentos para Transporte Ltda. in the amount of kEUR 15,910 (previous year: kEUR 18,238) were measured at fair value. The fair value of the other liability from the valuation of the put-option to acquire the remaining shares in KLL Equipamentos para Transporte Ltda. is determined on the basis of forecasted earnings. Since this information is not based on observable market data, the put-option has been assigned to level three of the measurement hierarchy. The significant unobservable inputs used in the fair value measurements of the put-option, together with a quantative sensitivity analysis as at 31 December 2017 and 2016 are as shown below:

	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Put-Option for the remaining shares in KLL Equipamentos para Transporte Ltda.	Discounted Cashflow-Methode	future earnings figures	5 % (previous year: 5 %) increase (decrease) in the growth rate would result in an increase (decrease) in fair value by EUR 0.8 million (previous year: EUR 0.9 million)
		Discount rate	1 % (previous year: 1 %) increase (decrease) of the discount rate would result in a decrease (increase) in fair value by EUR 0.5 million (previous year: EUR 0.7 million).
		Long-term development of FX-rate BRL/EUR	5 % (previous year: 5 %) increase (decrease) in the the FX rate would result in an increase (decrease) by EUR 0.8 million (previous year: EUR 0.9 million).

The fair value of liabilities from interest-bearing loans, the promissory note loan and derivative financial assets and liabilities, excluding bonds, was measured based on directly (e.g., prices) and indirectly (e.g., derived from prices) observable input factors. Under IFRS 7, this fair value measurement can, therefore, be allocated to Level 2 of the measurement hierarchy. Due to the absence of an active market as defined by IFRS 7, the convertible bonds were also allocated to Level 2. The fair value of the quoted bonds is based on price quotations on the reporting date (Level 1). The fair value hierarchy levels are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Information other than quoted market prices that are observable either directly (e.g., prices) or indirectly (e.g., derived from prices).

Level 3: Information on assets and liabilities that is not based on observable market data.

The net result according to valuation category is as follows:

kEUR						12/31/2017
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	451	–	–	–	–1,706	**–1,255**
Financial assets held for trading	–	–	–828	–	–	**–828**
Financial liabilities measured at amortized cost	–14,490	–	–	–59	–	**–14,549**
Financial liabilities held for trading	–	–	376	–	–	**376**
Total	**–14,039**	**–**	**–452**	**–59**	**–1,706**	**–16,256**

kEUR

						12/31/2016
			From subsequent measurement			
	From interest	From remuneration	At fair value	Currency translation	Impairment	Net result
Loans and receivables	486	–		–	–2,042	**–1,556**
Financial assets held for trading	–	5,730	–226	–	–	**5,504**
Financial liabilities measured at amortized cost	–13,319	–	–	567	–	**–12,752**
Financial liabilities held for trading	–	–5,131	–1,110	–	–	**–6,241**
Total	**–12,833**	**599**	**–1,336**	**567**	**–2,042**	**–15,045**

The components of the net result are recognized as finance income or finance expenses, except for impairments on trade receivables which are reported under selling expenses.

The interest result from financial liabilities in the category "financial liabilities measured at amortized cost" primarily consists of interest expenses on interest-bearing loans and bonds and the amortization of transaction costs.

Financial risk

As an internationally active group, SAF-HOLLAND S.A. is exposed to both business and industry-specific risks. Controlling opportunities and risks in a targeted manner is an integral part of management and decision-making within the Group.

To be adequately prepared for changes in competitive and environmental conditions and efficiently control the creation of value within the Group, the Management Board has implemented a risk management system, which is monitored by the Board of Directors. Risk management processes, required limits and the use of financial instruments to manage risks are defined in the Group's risk management handbook and supplementary guidelines. The risk management system strives to identify and assess the risks that arise. Identified risks are communicated, managed and monitored in a timely manner.

The Group is exposed mainly to liquidity risk, credit risk, interest rate risk and foreign currency risk. The aim of the Group's risk management is to limit the risks posed by the Group's business and financing activities mainly through the use of derivative and non-derivative hedging instruments.

Liquidity risk

The Group's liquidity risk is the risk that it will be unable to meet existing or future payment obligations because of insufficient funds. Limiting and managing the liquidity risk are among the management's primary tasks. The Group monitors the current liquidity situation on a daily basis. To manage future liquidity requirements, the Group uses a weekly 3-month forecast and a monthly rolling liquidity plan on a twelve-month basis. In addition, management continually evaluates adherence to the financial covenants as required under the long-term credit agreement.

The maturity structure of the Group's financial liabilities is as follows:

kEUR	12/31/2017			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year and up to 5 years	Remaining term of more than 5 years
Interest bearing loans and bonds	**442,605**	81,321	268,888	92,396
Finance lease liabilities	**55**	32	23	–
Trade payables	**114,219**	114,219	–	–
Other financial liabilities				
Other financial liabilities	**15,910**	–	15,910	–
Derivates without a hedging relationship	**655**	655	–	–
Financial liabilities	**573,444**	**196,227**	**284,821**	**92,396**

kEUR	12/31/2016			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year and up to 5 years	Remaining term of more than 5 years
Interest bearing loans and bonds	**441,666**	6,067	326,272	109,327
Finance lease liabilities	**1,587**	1,587	–	–
Trade payables	**106,714**	106,714	–	–
Other financial liabilities				
Other financial liabilities	**18,238**	–	18,238	–
Derivates without a hedging relationship	**972**	972	–	–
Financial liabilities	**569,177**	**115,340**	**344,510**	**109,327**

The following tables show the contractually agreed (undiscounted) interest and principal payments of primary financial liabilities and derivative financial instruments with negative fair values:

kEUR	12/31/2017								
	Cashflows 2018			Cashflows 2019			Cashflows 2020–2027		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Interest bearing loans and bonds	–4,806	–2,526	–77,551	–2,965	–2,526	–	–10,721	–8,452	–319,323
Finance lease liabilities	**–7**	**–**	**–32**	**–14**	**–**	**–23**	**–**	**–**	**–**

kEUR	12/31/2016								
	Cashflows 2017			Cashflows 2018			Cashflows 2019 – 2026		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Interest bearing loans and bonds	–8,367	–2,513	–2,572	–4,659	–2,513	–75,000	–13,354	–10,891	–304,604
Finance lease liabilities	–18	–	–1,587	–	–	–	–	–	–
Other financial liabilities									
Derivates without a hedging relationship	–972	–	–	–	–	–	–	–	–

All instruments are included that were held as of the reporting date and for which payments were already contractually agreed. Planning data for future new liabilities are not included. Amounts in foreign currencies were translated at the year-end spot rates. Variable interest payments arising from financial instruments were calculated using the most recent interest rates determined ahead of the reporting date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

The following table shows the change in financial liabilities:

kEUR	01/01/2017	Cash flows	Foreign exchange movement	Interest effect	Conversion	Additions due to M&A	12/31/2017
Interest bearing bank loans	10,639	2,453	–723	–	–	–	12,369
Bond	75,000	–	–	–	–	–	75,000
Convertible Bond	97,743	–	–	647	–400	–	97,990
Promissory note loan	200,000	–	–	–	–	–	200,000
Other Loans	56,457	–1,025	–817	–	–	–	54,615
Leasing	1,587	–1,477	–55	–	–	–	55

kEUR	01/01/2016	Cash flows	Foreign exchange movement	Interest effect	Conversion	Additions due to M&A	12/31/2016
Interest bearing bank loans	9,305	1,590	–256	–	–	–	10,639
Bond	75,000	–	–	–	–	–	75,000
Convertible Bond	97,069	–	–	674	–	–	97,743
Promissory note loan	200,000	–	–	–	–	–	200,000
Other Loans	440	50,032	–81	–	–	6,066	56,457
Leasing	1,974	–532	145	–	–	–	1,587

Credit risk

The Group is exposed to default risk through the possibility that a contracting party may fail to fulfill its commitment with respect to financial instruments. To minimize default risk, the outstanding receivables in all business areas are monitored continuously at the local level by all Group companies. To limit credit risks, the Group as a rule only does business with creditworthy business partners. In doing so, ongoing credit management is implemented that requires potential customers to undergo a credit verification procedure. To manage specific default risks, the Group also takes out commercial credit insurance coverage in Europe and the United States and defines credit limits for each customer.

Any credit risk that still arises is covered by individual and collective allowances on receivables carried in the balance sheet. The carrying amounts of financial assets stated in this note correspond to the maximum credit risk. Further significant credit risks do not exist as of the balance sheet date.

Interest rate risk

The Group is exposed to interest rate risk due to its financing activities. Market-induced interest rate changes, in particular, can have an effect on the interest burden of floating-rate loans and bonds. Changes in interest rates affect interest-related cash flows. To hedge the cash flow risk, the Group holds interest rate swaps to transform certain variable cash flows into fixed cash flows and to hedge the interest rate. The Group is also exposed to the risk of the carrying amount of financial liabilities changing as a result of interest rate changes. The Group has no plans to measure these financial liabilities at their market price so therefore there is no related economic risk.

The Group is exposed to interest rate risk mainly in the euro zone, North America and China.

As a result of the promissory note issued in November 2015 and in line with the Group risk strategy, interest rate hedges with a nominal volume of EUR 72.0 million were put in place to hedge the variable interest portion of the promissory note.

According to IFRS 7, the Group must show relevant interest rate risks using sensitivity analyses. These analyses demonstrate the effects of changes in market interest rates on interest payments, interest income and interest expenses.

If market interest rates on December 31, 2017 had been 100 base points lower (higher), the result would have been kEUR 419 (previous year: kEUR 401) higher (lower). All other variables are assumed to be constant.

Foreign currency risk

The international nature of the Group's investing, financing and operating activities exposes the Group to foreign currency risk. The individual subsidiaries predominantly conduct their operating activities and investments in their respective local currency. Financing the Group's companies is conducted primarily by SAF-HOLLAND S.A. and SAF-HOLLAND GmbH. Loans granted to international Group companies are generally denominated in euros. The translation of intercompany loans as of the reporting date may result in unrealized foreign exchange gains and losses. Unrealized foreign exchange losses as of the balance sheet date amounted to kEUR –13,069 (previous year: kEUR 1,571). These were reclassified to other comprehensive income (OCI) as translation effects from the valuation of intercompany foreign currency loans, which are considered part of a net investment in a foreign operation and are therefore recognized directly in equity.

The table below shows the Group's sensitivity to a 5% increase or decrease in the euro versus the US dollar. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the end of the period by a 5% change in exchange rates.

kEUR	Change in exchange rate USD/EUR	Effect on earnings before taxes	Effect on equity after taxes
2017	5%	3,760	4,223
	–5%	–3,760	–4,223
2016	5%	2,840	3,488
	–5%	–2,840	–3,488

7.2 EARNINGS PER SHARE

		Q1–Q4/2017	Q1–Q4/2016
Result for the period	**kEUR**	**42,887**	**44,234**
Weighted average number of shares outstanding	thousands	45,361	45,361
Basic earnings per share	**Euro**	**0.95**	**0.98**
Diluted earnings per share	**Euro**	**0.82**	**0.85**

Basic earnings per share are calculated by dividing the result for the period attributable to shareholders of SAF-HOLLAND S.A. by the average number of shares outstanding. New shares issued during the period are included pro rata for the period in which they are outstanding.

Diluted earnings per share are based on the assumption that the outstanding debt instruments are converted into shares (convertible bond). The convertible bond is only considered in the calculation of diluted earnings per share if it has a dilutive effect in the reporting period.

The issue of the convertible bond resulted in a dilutive effect of EUR 0.13 per share (previous year: EUR 0.13).

Diluted earnings per share are derived from basic earnings per share as follows:

kEUR	Overall potentially dilutive financial instruments 2017	Dilutive financial instruments used for the calculation 2017
Result for the period		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	42,887	42,887
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,183	1,183
Numerator for diluted earnings	**44,070**	**44,070**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,268	8,268
Denominator for potentially diluted earnings per share	**53,629**	
thereof to be included for dilution (adjusted weighted average)		**53,629**
Basic earnings per share (EUR)		**0.95**
Diluted earnings per share (EUR)		**0.82**

kEUR	Overall potentially dilutive financial instruments 2016	Dilutive financial instruments used for the calculation 2016
Result for the period		
Numerator for undiluted earnings per share (attributable to the shareholders of the parent company)	44,234	44,234
Increase in profit equivalent to effect of convertible bond recognised in profit and loss	1,198	1,198
Numerator for diluted earnings	**45,432**	**45,432**
Number of shares		
Denominator for basic earnings per share (weighted average number of shares)	45,361	45,361
Convertible bond	8,177	8,177
Denominator for potentially diluted earnings per share	**53,538**	
thereof to be included for dilution (adjusted weighted average)		**53,538**
Basic earnings per share (EUR)		**0.98**
Diluted earnings per share (EUR)		**0.85**

The calculation of potentially dilutive shares which are included in the determination of diluted earnings per share is shown in the following table:

	Par value (EUR)	Number	Days	Weighted number
01/01/2017–04/27/2017	0.01	8,208,631	118	968,618,411
04/28/2017–12/28/2017	0.01	8,297,585	239	1,983,122,719
12/29/2017–12/31/2017	0.01	8,264,395	3	24,793,184
Total			**360**	**2,976,534,314**
Average		**8,268,151**		

	Par value (EUR)	Number	Days	Weighted number
01/01/2016–04/28/2016	0.01	8,110,892	118	957,085,256
04/29/2016–12/31/2016	0.01	8,208,631	242	1,986,488,605
Total			**360**	**2,943,573,861**
Average		**8,176,594**		

7.3 STATEMENT OF CASH FLOWS

The statement of cash flows was prepared in accordance with IAS 7 and is divided into cash flows from operating, investing and financing activities.

Cash flows from operating activities are determined using the indirect method whereas cash flows from investing activities are calculated using the direct method. Cash flows from investing activities are used to generate income over the long-term, generally for one year or more. Cash flows from financing activities were also calculated using the direct method and include cash flows from transactions with shareholders and the issue and repayment of financial liabilities.

7.4 OTHER FINANCIAL OBLIGATIONS

Operating lease obligations

The Group acts as lessee in rental and lease agreements mainly for commercial buildings, office and operating equipment, IT, material handling equipment and motor vehicles. The average term of the lease agreements is between three and five years.

As of the balance sheet date, the following future minimum lease payments exist as a result of operating lease contracts:

kEUR	12/31/2017	12/31/2016
Remaining term of up to 1 year	5,509	4,175
Remaining term of more than 1 year and up to 5 years	7,477	7,989
Remaining term of more than 5 years	2,313	2,907
Total	**15,299**	**15,071**
Operate lease payments for the reporting period	8,670	8,315

Finance lease obligations

The Group has finance lease agreements for various technical facilities as well as operating and office equipment. Future minimum lease payments under these finance leases and the reconciliation to the present value of minimum lease payments are as follows:

kEUR	12/31/2017		12/31/2016	
	Lease payments	Present value including residual value and initial payments	Lease payments	Present value including residual value and initial payments
Remaining term of up to 1 year	39	32	1,605	1,587
Remaining term of more than 1 year and up to 5 years	37	23	–	–
Remaining term of more than 5 years	–	–	–	–
Total	**76**	**55**	**1,605**	**1,587**

7.5 CONTINGENT LIABILITIES

Legal disputes
In the reporting year and as of the balance sheet date, there were no material legal disputes that could potentially have a significant impact on the Group's net assets, financial position or results of operations.

7.6 RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of SAF-HOLLAND S.A. and the following subsidiaries, associates and joint ventures:

Subsidiaries	Country of incorporation	% Equity interest
SAF-HOLLAND GmbH	Germany	100.0
SAF-HOLLAND Polska Sp. z o.o.	Poland	100.0
SAF-HOLLAND France S.A.S.	France	100.0
SAF-HOLLAND Austria GmbH	Austria	100.0
SAF-HOLLAND Czechia spol.s.r.o.	Czech Republic	100.0
SAF-HOLLAND España S.L.U.	Spain	100.0
SAF-HOLLAND Italia s.r.l. unipersonale	Italy	100.0
SAF-HOLLAND Romania SRL	Romania	100.0
SAF-HOLLAND Bulgaria EOOD	Bulgaria	100.0
SAF-HOLLAND do Brasil Ltda.	Brazil	100.0
KLL Equipamentos para Transporte Ltda. (KLL)	Brazil	57.5
SAF-HOLLAND South Africa (Pty) Ltd.	South Africa	100.0
SAF (Xiamen) Axle Co., Ltd.	China	100.0
OOO SAF-HOLLAND Rus	Russia	100.0
SAF HOLLAND Middle East FZE	United Arab Emirates	100.0
SAF HOLLAND Otomotiv Sanayi ve Ticaret Limited Sirketi	Turkey	100.0
SAF-HOLLAND Inc.	USA	100.0
SAF-HOLLAND Canada Ltd.	Canada	100.0
SAF-HOLLAND (Aust.) Pty. Ltd.	Australia	100.0
SAF-HOLLAND (Malaysia) SDN BHD	Malaysia	100.0
SAF-HOLLAND (Thailand) Co., Ltd.	Thailand	100.0
SAF-HOLLAND Verkehrstechnik GmbH	Germany	100.0
SAF-HOLLAND International de Mexico S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND International Services Mexico S. de R.L. de C.V.	Mexico	100.0
SAF-HOLLAND Hong Kong Ltd.	Hong Kong	100.0
SAF-HOLLAND (Xiamen) Co., Ltd.	China	100.0
Corpco Beijing Technology and Development Co., Ltd.	China	80.0
OOO SAF-HOLLAND Russland	Russia	100.0
SAF-HOLLAND India Pvt. Ltd.	India	100.0

Associates and joint ventures	Country of incorporation	% Equity interest
SAF-HOLLAND Nippon, Ltd.	Japan	50.0
Castmetal FWI S.A.	Luxembourg	34.1

The table below shows the composition of the Management Board and the Board of Directors of SAF-HOLLAND S.A. as of the balance sheet date:

Management Board

Detlef Borghardt	Chief Executive Officer (CEO), President Region APAC / China
Dr. Matthias Heiden	Chief Financial Officer (CFO) (since 03/01/2017)
Arne Jörn	Chief Operating Officer (COO) (until 02/28/2018)
Steffen Schewerda	President Region Americas
Alexander Geis	President Region EMEA/India
Guoxin Mao	President China

Board of Directors

Martina Merz	Chairman of the Board of Directors (since 04/27/2017)
Dr. Martin Kleinschmitt	Deputy Chairman of the Board of Directors (since 04/27/2017)
Detlef Borghardt	Member of the Board of Directors
Jack Gisinger	Member of the Board of Directors (since 04/27/2017)
Anja Kleyboldt	Member of the Board of Directors
Carsten Reinhardt	Member of the Board of Directors (since 04/27/2017)

The terms of office and other positions held by the members of the Board of Directors and the Management Board are described in the chapter “Mandates of the Board of Directors and Management Board” in this annual report.

The terms of office and other positions held by the members of the Board of Directors and the Management Board are described in the chapter “Mandates of the Board of Directors and Management Board” in this annual report.

As of December 31, 2017, members of the Management Board directly or indirectly held ordinary shares amounting to kEUR 5 (previous year: kEUR 5) while members of the Board of Directors directly or indirectly held ordinary shares of kEUR 0.1 (previous year: kEUR 1).

As of the balance sheet date, appreciation rights in the amount of kEUR 3,019 have been accrued for members of the Management Board (previous year: kEUR 2,827); thereof kEUR 1,182 (previous year: kEUR 772) were recognized in profit and loss in 2017. Of the total accrual, an amount of kEUR 1,125 (previous year: kEUR 1,493) is classified as current provisions. The appreciation rights are a share-based payment. For further information, please refer to Note 6.12.

Total short-term remuneration for the Management Board members in the reporting year amounted to kEUR 2,573 (previous year: kEUR 2,944). Remuneration from the performance share unit plans, in contrast, is not included in the total remuneration presented.

Total remuneration for the Board of Directors was kEUR 287 (previous year: kEUR 280) and was recognized in profit or loss.

For further information about the remuneration of the Management Board and the Board of Directors, please refer to the Remuneration Report in the group management report.

The following shows the transactions with associates/joint ventures:

kEUR	Sales to related parties		Purchases from related parties	
	Q1–Q4/2017	Q1–Q4/2016	Q1–Q4/2017	Q1–Q4/2016
Joint Ventures	721	1,389	–	–
Associates	–	–	29,211	27,135
Total	**721**	**1,389**	**29,211**	**27,135**

kEUR	Amounts owed by related parties		Amounts owed to related parties	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Joint Ventures	426	237	1	207
Associates		–	1,278	1,303
Total	**426**	**237**	**1,279**	**1,510**

Outstanding balances as of December 31, 2017 are unsecured, interest-free and paid on time. There have been no guarantees provided or received for any receivables or payables from related parties. As of December 31, 2017 and in the previous year, the Group did not record any impairment of receivables for amounts owed by related parties. An evaluation is carried out in each reporting period which examines the financial position of the related parties as well as the markets in which these parties operate.

7.7 CAPITAL MANAGEMENT

The overriding aim of the Group's capital management is to ensure that the Group's ability to repay debt and its financial substance are maintained in the future. The foundation for steering and optimizing the existing financing structure are EBIT, EBITDA and monitoring the development of net working capital and cash flow. Net debt is comprised of interest-bearing loans and bonds less cash and cash equivalents.

kEUR	12/31/2017	12/31/2016
Interest bearing loans and bonds	442,605	441,666
Other short-term investments	–58,306	–
Cash and cash equivalents	–278,775	–344,568
Net debt	**105,524**	**97,098**
Equity attributable to equity holders of the parent	**298,842**	**300,399**
Equity and net debt	**404,366**	**397,497**

According to a financial covenant under the financing agreement signed on October 13, 2015, the Group is obliged to maintain a certain level of net debt coverage (net debt divided by adjusted consolidated EBITDA).

Net debt is defined as the aggregate principal amount of Group's financial liabilities as of the balance sheet date less debt from derivatives to hedge against price or currency exchange risk and backup obligations from guarantees, damage claims, bonds, letters of credit or any other financial instruments issued by financial institutions.

7.8 AUDITORS' FEES

The following expenses were incurred in the 2017 financial year for services provided by the auditors and their related companies:

kEUR	Q1–Q4/2017	Q1–Q4/2016
Auditing of financial statements	537	491
Tax accountancy services	3	–
Other services	45	11
Total	**585**	**502**

7.9 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. 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 V.ORLANDI S.p.A.

In the first quarter SAF-HOLLAND GmbH signed an agreement to acquire 70% of the shares in the Italian company V.ORLANDI S.p.A. headquartered in Flero, Italy, which is a manufacturer of coupling systems for trucks, trailers, semi-trailers and agricultural vehicles. As part of the acquisition, the parties are granted a call/put option for the purchase/sale of the remaining 30% of the shares. The put option is exercisable from January 1, 2019 through January 31, 2026. The exercise period of the call option starts after the end of the exercise period of the put option and is six months. The other liability resulting from the put option is accounted for in accordance with IAS 39. Because of the voting rights majority, SAF-HOLLAND GmbH will also obtain control of V.ORLANDI S.p.A. as of the acquisition date. The transaction is expected to be completed within the second quarter at the latest.

The first-time consolidation of V.ORLANDI S.p.A. will be carried out in accordance with IFRS 3 using the purchase method.

The preliminary purchase price of EUR 39.0 million is to be paid in cash.

Warehouse fire at SAF-HOLLAND's subsidiary in Russia – Limited damage

SAF-HOLLAND subsidiary OOO SAF-HOLLAND Rus in Moscow suffered a fire at its rented warehouse 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 largely impaired. The precise amount of damage is currently being determined and is 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 strained operations at the Aftermarket business unit in Russia for three to four weeks, foregoing sales in the high triple-digit euro thousands during this period.

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.

No other material events have occurred after the reporting date.

Luxembourg, March 15, 2018

Martina Merz	**Detlef Borghardt**
Chair of the	Chief Executive Officer of
Board of Directors	SAF-HOLLAND GmbH

SAF-HOLLAND S.A. ANNUAL FINANCIAL STATEMENTS

INCOME STATEMENT OF SAF-HOLLAND S.A.[1]

kEUR	Q1–Q4/2017	Q1–Q4/2016
Income from financial fixed assets	27,578	29,278
Income from financial current assets	565	741
Total income	**28,143**	**30,019**
Other external charges	–1,921	–2,959
Staff costs	–44	–36
Other operating charges	–557	–656
Interest and other financial charges	–6,252	–6,254
Other taxes	–8	–148
Result before tax	**19,361**	**19,966**
Income tax	–	–7
Result for the period	**19,361**	**19,959**

[1] Figures according to Luxembourg GAAP.

BALANCE SHEET OF SAF-HOLLAND S.A.[1]

kEUR	12/31/2017	12/31/2016
Assets		
Non-current assets	**455,393**	**452,766**
Shares in affiliated undertakings	313,238	313,238
Amounts owed by affiliated undertakings	142,151	139,525
Other long-term assets	4	3
Current assets	**32,114**	**35,820**
Amounts owed by affiliated undertakings	31,355	34,480
Cash at bank, cash in postal cheque account, cheques and cash on hand	175	202
Prepayments	**584**	**1,138**
Total assets	**487,507**	**488,586**
Equity and liabilities		
Equity attributable to equity holders of the parent	**308,135**	**308,334**
Subscribed share capital	454	454
Share premium	276,855	276,455
Legal reserve	45	45
Other reserve	720	720
Profit brought forward	10,700	10,701
Profit for the financial year	19,361	19,959
Non-current liabilities	**99,800**	**175,200**
Bonds	99,800	175,200
Current liabilities	**79,572**	**5,052**
Bonds	78,903	3,903
Trade payables	452	180
Tax and social security debts	217	689
Other creditors	–	280
Total equity and liabilities	**487,507**	**488,586**

[1] Figures according to Luxembourg GAAP.

MANDATES OF THE BOARD OF DIRECTORS/ MANAGEMENT BOARDS

Martina Merz

— Member of the Board of Directors (Chairwomen), SAF-HOLLAND S.A. (first appointed on April 24, 2014 until April 2019, Chairwomen since April 27, 2017)
— Member of the Supervisory Board, Deutsche Lufthansa AG, Cologne, Germany
— Member of the Board of Directors, NV Bekaert SA, Kortrijk, Belgium
— Member of the Board of Directors, AB Volvo, Gothenburg, Sweden
— Member of the Board of Directors, Imerys SA, Paris, France

Bernhard Schneider

— Member of the Board of Directors (Chairman), SAF-HOLLAND S.A. (first appointed on June 18, 2007, Chairman since March 27, 2009 until April 27, 2017)
— Managing Director, KRONE-Verlag Gesellschaft m.b.H
— Managing Director, KRONE Media Aktiv Gesellschaft m.b.H.

Dr Martin Kleinschmitt

— Vice Chair and Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 25, 2013, Vice Chair since April 27, 2017, extended until April 2019)
— Chairman of the Supervisory Board, SAF-HOLLAND GmbH
— Interim Chief Financial Officer (CFO) SAF-HOLLAND GmbH (between January 1, 2017 and February 28, 2017)
— Member of the Management Board, Noerr Consulting AG
— Member of the Executive Board of Schaltbau Holding AG, Munich, Germany (since August 2017)
— Chairman of the Supervisory Board of G&H Bankensoftware AG, Berlin, Germany (since March 2017)

Detlef Borghardt

— Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on October 1, 2011, extended until April 2020)
— Managing Director, SAF-HOLLAND GmbH, Chief Executive Officer (CEO), President Region APAC/China
— Managing Director, debo invest GmbH

Jack Gisinger

— Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 27, 2017, extended until April 2020)

Anja Kleyboldt

— Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 26, 2012, extended until April 2019)
— Member of the Supervisory Board, SAF-HOLLAND GmbH
— Head of Projects, Arnold AG, Friedrichsdorf, Germany

Sam Martin

— Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 28, 2011, until April 27, 2017)
— Member of the Board, Metal Flow Corporation, Holland, Michigan, USA

Carsten Reinhardt

— Member of the Board of Directors, SAF-HOLLAND S.A. (first appointed on April 27, 2017, extended until April 2020)
— Beiratsvorsitzender, Tegimus Holding GmbH, Mannheim, Germany (since December 2017)
— Member of the Board, Grundfos Holding A/S, Bjerringbro, Denmark (since October 2016)
— Member of the Board, Rosti AB, Malmö, Sweden (since November 2016)
— Member of the Board of Directors, Rosti Automotive plc., Leamington Spa, U.K. (since February 2017)
— Mitglied des Beirats, WEZAG GmbH, Stadtallendorf, Germany (since October 2016)
— Operating Partner, Michigan Capital Advisors, Bloomfield Hills, Michigan, USA, since January 2017
— Member of the Strategic Advisory Board, Braemar Energy Ventures, New York, NY, USA (since August 2017)

Dr Matthias Heiden
— Managing Director, Chief Financial Officer (CFO), SAF-HOLLAND GmbH (since March 1, 2017)

Arne Jörn
— Managing Director, Chief Operating Officer, SAF-HOLLAND GmbH (between October 2016 and February 28, 2017)
— Director of category B, CASTMETAL FWI S.A., Luxembourg

Alexander Geis
— Managing Director, SAF-HOLLAND GmbH, President Region EMEA/I

Steffen Schewerda
— Managing Director, SAF-HOLLAND GmbH, President Region Americas

Guoxin Mao
— President Region China, SAF-HOLLAND (Xiamen) Co. Ltd./ Corpco Beijing Technology and Development Co. Ltd. (since July 2016)

AUDIT REPORT

To the Shareholders of
SAF-Holland S.A.
68-70, Boulevard de La Petrusse
L-2320 Luxembourg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of SAF-Holland S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRSs) as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

— the consolidated balance sheet as at 31 December 2017;
— the consolidated statement of comprehensive income for the year then ended;
— the consolidated statement of changes in equity for the year then ended;
— the consolidated statement of cash flows for the year then ended; and
— the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, for the year then ended, are disclosed in Note 7.8 to the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Goodwill impairment In the consolidated accounts, goodwill is recorded under the "Goodwill" balance-sheet item as a total amount of 54.1 million EUR (5.4 % of the balance-sheet total or 18.0 % of equity). The Company's data pertaining to the "Goodwill" item and explanations regarding the impairment test can be found in point 6.1 under "Notes to the consolidated balance sheet" in the notes to the consolidated financial statements. In order to determine whether any impairment is required, the Company tests goodwill for impairment once a year or as required. The impairment test is carried out at the level of the cash-generating units to which the respective goodwill is allocated. As part of the impairment test, the book value of the respective cash-generating units, including goodwill, is compared with the corresponding recoverable amount. As a rule, the recoverable amount is determined based on the value in use. Thus, the regular basis for valuation is the present value of future payment flows of the respective cash-generating units. The present values are determined using discounted cash-flow models. The starting point is the Group's approved medium-term plan, which is updated with assumptions about long-term growth rates and takes into account expectations of future market developments and assumptions about how macroeconomic influencing factors will develop. The discounting is done on the basis of the weighted average capital costs for the respective group of cash-generating units. The results of the impairment test performed by those charged with governance indicated that no impairment was required. The result of this assessment is heavily depending on the assumptions of those charged with governance about the future payment inflows of the respective group of cash-generating units, the discounting rate applied, the growth rate and other assumptions, and is therefore subject to considerable uncertainty. Against this backdrop and due to the complexity of the assessment, this fact was of particular importance during our audit.	During our audit, we took into account, among other things, the methodical approach to carrying out the impairment test applied by the Company. After reconciling the future payment inflows used in the calculation with the Group's approved medium-term plan, we assessed the appropriateness of the calculation, in particular by aligning it with general and sector-specific market expectations. We also assessed whether the costs of Group functions were being considered appropriately. Knowing that even relatively small changes in the discounting interest rate applied can have a significant effect on the firm value determined by this means, we paid attention to the parameters used to determine the discounting interest rate applied and took the calculation method into account. To take forecasting uncertainties and the effects of changes in the discounting interest rate into account, we considered the sensitivity analyses produced by the Company and performed our own sensitivity analyses for all groups of cash-generating units.

Key audit matter	How our audit addressed the Key audit matter
Effect of SAF-Holland USA Inc.'s plant consolidation on the adjusted EBIT In the 2017 financial year, the Group incurred a total of 13.2 million EUR in one-off restructuring and transaction costs, of which 10.9 million EUR related to the plant consolidation and restructuring of the North American plant network. The Company's data pertaining to the adjusted EBIT can be found in the "Sales and earnings performance" section of the consolidated management report and in Section 4 (Segment information) of the notes to the consolidated financial statements. In January 2017, the SAF-HOLLAND Group announced that it was taken consolidation measures and restructuring its North American plant network. The most significant measure was the amalgamation of production, reducing the number of assembly plants in the US from seven to five. In the 2017 financial year, the SAF-HOLLAND Group spent 10.9 million EUR in restructuring and transaction costs in relation to its plant consolidation measures in North America. This primarily comprised relocation costs, value adjustments to tools and facilities, and severance payments. Most of these costs were recorded as cost of sales, and are therefore included under EBIT. The SAF-HOLLAND Group added one-off restructuring and transaction costs to the adjusted EBIT, which it uses for controlling and analytical purposes. The EBIT adjustment in the form of the one-off restructuring and transaction costs was of particular importance during our audit, as it poses a risk in terms of those charged with governance unilaterally exercising discretionary powers. Furthermore, the adjusted EBIT is communicated to the capital market as a significant indicator of operating profit.	We took into account the determination of the one-off restructuring and transaction costs as part of the US plant consolidation. Furthermore, we critically analysed SAF-HOLLAND's adjustment of these costs. Consequently, using the knowledge gained during our audit and the information provided to us by the SAF-HOLLAND Group, we examined whether this adjustment was appropriate.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report, the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon, which we obtained prior to the date of this auditor's report, and the Corporate Social Responsibility Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Corporate Social Responsibility Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements
The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
— conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
— obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the consolidated Management report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Statement, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as “Réviseur d’Entreprises Agréé” of the Group by the General Meeting of the Shareholders on 27 April 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 years.

Other matter

The Corporate Governance Statement includes the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative,
Luxembourg, 15 March 2018
Represented by

Patrick Schon

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the sales and earnings performance, net assets and cash flows of the Group, and the Group's management report includes a fair review of the development and performance of the Group's business and position, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Luxembourg, March 15, 2018
SAF-HOLLAND S.A.

Martina Merz
Chair of the Board of Directors